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Bloomberg Transcript

# Captial Markets Day

## Company Participants

- ***<Q>
- Christine F. Deputy, Group HR Director
- Clive Bolton, Managing Director, Savings and Retirement
- Colin Simpson, Director-Investor Relations
- David Barral, Chief Executive Officer-UK & Ireland Life
- David McMillan, Chairman, Global Health; Chief Executive Officer, Aviva Europe
- Euan George Munro, Chief Executive Officer
- Hock Seng Khor, Chief Executive Officer, Aviva Asia
- Mark Andrew Wilson, Group Chief Executive Officer and Executive Director
- Maurice Tulloch, Chairman Global, General Insurance; and Chief Executive Officer, UK&I GI
- Monique Shivanandan, Group Chief Information Officer
- Nitinbhai Babubhai Maganbhai Amin, Chief Operations & Transformation Officer
- Scott McFie, Head-Systems Thinking
- Thomas Dawson Stoddard, Chief Financial Officer & Executive Director
- Unverified Participant

## Other Participants

- Alan Devlin, Analyst
- Andy Hughes, Analyst
- Farooq Hanif, Analyst
- Gordon Aitken, Analyst
- Jon M. Hocking, Analyst
- Oliver Steel, Analyst
- William H. Elderkin, Analyst

## MANAGEMENT DISCUSSION SECTION

### Colin Simpson {BIO 15894636 <GO>}

Good morning, everyone, and welcome to Aviva. My name is Colin Simpson, Head of Investor Relations. I'm here to help. So if you've got any questions or concerns, please send me an e-mail. For those of you in the room, Wi-Fi details on the screen and if you do ask a question, please say your name and company before asking. Could you also just take a moment to check whether your phone is on silent.

Now, let me introduce the first of all speakers, Group CEO, Mark Wilson.

## Mark Andrew Wilson {BIO 7102576 <GO>}

Thank you, Colin. Good morning, everyone, and thank you for joining us here in our offices in the city, in the heart of London of course. Now, I should also welcome the people, we've got a lot of people in the webcast this morning as well, so welcome to them. And thank you for those of you who were able to join us last night. It was a nice venue and I understand quite a number were rushing home to watch the World Cup. Quite an interesting result, but I guess it just goes to show, doesn't it, that and different environments, different teams perform well. And I guess that's somewhat like business isn't it?

Now of course, we're in the UK and speaking of sport, one of those quintessentially British sports is of course clay pigeon shooting. And although I must confess to have never participated in such a sport, I was on the plane recently, I was watching a documentary as we went to the Olympics and was featuring a British gold medalist, Peter Wilson. As far as I'm aware, he's no relation. Now, what was interesting was in that the double check shoot there was a whole sequence involved in it. It was about a sequence of aim, fire, reload, aim, fire, reload, and of course once you fired both barrels of a shotgun, you need to reload it, adjust your aim and do it all again. And I think that's exactly where Aviva is. We are at the stage where we have just reloaded.

Last year, we took our aim on some key issues such as improving the capital base, selling underperforming units, reducing our expenses by £400 million and of course, addressing that very problematic internal loan. And I hope by the end of today, you will also see we've hit the target with some of our management team.

So over the past few weeks and again last night over dinner, I've been asking a few investors and some PMs what they wanted from this Analyst Day, this investor conference and the answers were quite varied. So, I think, many of you wanted to know our overall business strategy. Some want new cost targets, some are focused on our Aviva investors strategy, some want to understand the outlook for cash flow. And I think all of you wanted to get to know our management team better.

Now today, we have a very full agenda. I think it never – (00:03:12) never rest values, but hopefully addresses all of these areas and a little bit more. But from my perspective, I have four key objectives. First, I want to give you clarity in our business strategy and also show you that this is entirely consistent with our investment thesis of cash flow plus growth that we spoke about last year.

Second, I hope you will leave here thinking that the core underlying franchises of Aviva are very strong and that we have differentiating strengths, including our growing digital capability and our analytics. And we'll talk about some of those throughout the day and at the lunch sessions. And third, I want to get new exposure to my management team. I believe we have the best team in the industry. And last, I hope that you will agree with me that we have much more to do to achieve our potential, but a very good chance of achieving it.

So on to the agenda. In this next session, I will cover the overall strategy and I'll talk about some of the new targets. The second item today, for many of you it'll be the first introduction to Tom Stoddard, our new CFO. I think Tom has made an extremely strong start in the business and is already making an impact and he's a key partner for me in this turnaround. Tom will cover the key financial issues as he sees them and also the key potential financial solutions. Now, we've had many requests over quite some time for people to talk to you on asset management. And today for the first time, he will cover the strategy for Aviva investors, followed by David Barral on UK Life. Now these two sessions of course go hand in hand, particularly with respect to the changes in the UK market on annuities and other areas.

Maurice - Frank (00:05:12) will take you through the global GI strategy with a key focus on the UK Life, yeah, it's our UK General Insurance business, which links in well with UK Life, Maurice. Our new IT Head, Monique, will introduce you to a quite a range of demonstrations that will act as proof points throughout the day for what we're saying, particular on our digital strategy and hopefully some of those things will surprise you. The afternoon moves from cash flow to turn around and growth with David McMillan and Khor Hock Seng talking about some key markets in Europe and Asia.

After the afternoon break, we'll change the venue and the tone. This is an important session. It's quite an interesting session. I won't spoil the fun now, but it will give you a sense of how we manage our culture, how we're developing the culture, how we're managing the people through this change and our HR Head Christine Deputy followed by Nick Amin who will talk about productivity and introducing to a unique thing that we call systems thinking, it's an Aviva version of systems thinking and it really is one of the gems for change management in the group.

So we have a packed agenda. So, we are going to stick to our timing. You will have plenty of opportunity to ask questions throughout the day in different sessions and I will also lead the final Q&A session at the end of the day. But I apologize for advance for keeping us on time as we certainly have a lot to get to.

Now one of our board meetings recently, one of my directors recently suggested to me that I needed to balance my presentations and talk about some of the successes and not just the issues. So here's I think the obligatory slide in progress for 2011. Yes, the results are trending in the right direction on the metrics and we've certainly done more than what we said we would. But the real question going forward is can we also deliver what we say we will in the next couple of years? Can we make a large difference to the business and the people and the culture and the cash flow and all those things in the next two years?

So, I want to take you through our group strategy. Now last year, we articulated the investment pieces of cash flow and growth and we will stick to that. But I said, we'd come back to you with our overarching business strategy once we looked at it in detail and looked at the market and decided what direction we'll be going to (00:08:24). To determine that business strategy, we must first understand the involvement and this slide focuses on key market developments and basically these are the key inputs we have into our strategy. We believe there are six key influences on the market as shown on the slide here. Now I will let you go through these at your leisure as some of these such as the aging population and the shifting wealth demographic, I think, have been well documented by other commentators. So, I will just focus on to that impact Aviva and where we have competitive advantage.

First, winning through data. Now, data in my view is the new asset class. How we use data was key. In our predictive analytics, we believe are market leading in a number of our key markets, and particularly UK and Canada. But more on that later.

Second, something we call My Life, My Way. It is only customers who can control their experience or they'll go somewhere else. We're witnessing currently the distant mediation or the removal of middle men of our world in all industries. And in our industry, customers are telling us they want simplicity, they want convenience, particularly in core markets, and in our core markets, we are, I believe uniquely positioned to give it to them.

And this leads us nicely into our business strategy or as we call it our strategic anchor. Now our strategic anchor is really about what we do? How we do it? And where we do it of our strategy? So, what makes us different? What's our competitive advantage? What is our business strategy? And this of course works in tandem with our the investment thesis of cash flow plus growth, they are aligned.

One is the strategy and the other is the outcome for investors and again more on that a little bit later. First go to this, so first we have something we call true customer composite. Now we are the only true composite of any scale in the UK and I guess I should define composite, I think there's probably different definitions of them, but composite is where a customer can buy life insurance, general insurance, health insurance and asset management all together in one place. This is about a customer-focused proposition and it is about simplicity, it is about convenience, it is about multi-products delivered through multi-distribution.

The second part of the three legs of our strategic anchor is digital first. If it is a choice of where we will invest, it will be in digital first across any channel, across any process, across any part of the business. And the last leg of this is something we call not everywhere, this is important. We will be focused. I'm not interested in planting flags or being in 100 countries, we will have a small number of core markets, where we can have scale and where we can have profitability and only where we can have a distinctly definable competitive advantage.

We are the British champion. This is our home base with no intention of changing that. We've been here for 318 years. We are the largest player here in the UK and the safety and stability that this provides works well across many of our target markets and in many of our segments.

So, let's look at this in just a little bit more detail first on slide 6; so, the true customer composite. Now historically the benefits of being a composite were clear, certainly from a financial perspective, there were capital benefits, risk and diversity benefits. However, the operational benefits were at best elusive. So, the real question is what has changed. And the answer I believe is the market has changed and in particular distribution trends.

So let's take the UK as a good example. Historically, when you distributed products through intermediaries such as brokers and IFAs, they didn't want you to package products at all. Why, that was their job. They would take a piece of a (00:13:00) and a piece of LNG and a piece of partnership and a piece of (00:13:03) and so on and blend them all together in a package for the customer and that's great.

However, distribution is changing, and these graphs on the UK market I think demonstrate this point well. Entering the intermediated sales have declined as a number IFAs and brokers in the market have declined. Now the IFA market is a very good model and we're good at that model and we'll continue to be strong supporting intermediaries. And I might add we're also very strong distributing through banks and other partners and we will not step back from this especially at a time in the UK when banks are reinvigorating their insurance sales which is very good for us, particularly on the risk side.

However, there's also a very large and growing section of the market that wants to deal with the well-known brand directly and a lot of them find digital, the best medium of interaction. Now, my life my way before (00:14:04) looked at this. Now, to be clear, we have a strong track record in dealing direct and then digital with our customers.

For example, it may surprise you to know that we sell about 60% of our UK motor business through digital or direct. We have a strong digital and direct franchise that'll probably surprise you, and we're going to take you through some of this, particularly at the lunchtime sessions today we will show you some of the details associated with that.

My point here though is that being a composite has historically had no real operational advantage as it was too difficult or almost impossible to cross-sell. And my hypothesis is that in the digital world, a digital dis-intermediated world that has all changed and we can now start to prove this.

And our advantage, I guess, in particularly our home market here in the UK is that we are the only true customer composite company. Now the potential benefits for us are obvious. Obviously, you have the risk diversity, which I think is well known and being shown pretty clearly in the market with recent changes with the budget and economic changes and things happening country-by-country or weather.

So, I think the diversity point is not lost on anyone in terms of our risk profile is lower. But we have just under 13 million customers in the UK and we have no real cross-sell to those customers, to be exact, 1.2 policies per customer. Now part of this is because of the way we've historically structured our business, it's been (00:15:43) and there's been little crossover between the two, that isn't that difficult to change. And you will see later today how we are addressing this in some of the early results we're getting. And this leads nicely on to digital.

So, what is my vision on digital? Well think for a moment like a client of a (00:16:07) and if you aren't you should be. But our research shows us that our customers want one statement, one premium, one log-in, one set of underwriting, one phone call number they call and we can deliver it over time.

It's only recently we got a single view of the customer for, I might add, £11.5 million. We were able to put all of our systems together to talk to each other. And just a few years ago that would have cost us well over £150 million in three years. Technology has changed to such an extent that the legacy systems aren't so much of a problem.

And the interesting thing is though that as simple as having one statement and one premium those, sort of, things sound, it is not something that is done across the insurance world. I guess partly because most insurers have become mono lines over these decades. So, there's really I believe a competitive advantage in our core markets.

But digital means doing digital first. Now last week we had Euan Munro launching the new AIMS product Aviva Investors Multi-Strategy Funds, I might add, I'll put my pension (00:17:22) so I'm your initial investor. And we had the Town Hall when Euan was launching these and I asked a question in the Town Hall, if I could buy it online.

Not yet was the answer, to which my response was why not, to which I think there was silence and if we're thinking digital first, of course that should have been the first thing we thought about but it wasn't. Now our new IT head, Monique, who you'll hear from later decided to do something about it.

And I got an email, I admit it was late that night, but I got an email late that night that said, it was online by the end of the day. So, we could buy it by the end of the day and my point is here, if you're thinking digital first that's what I mean and not everywhere. The data on this slide, I think is compelling. It's compelling financially and compelling about focus.

The point is that despite selling off businesses and gaining more focus, we've been able to broadly maintain the earnings therefore an increasing ROCE and ROE and isn't that what our job is about. I think historically it composites lacked focus, so they become dis-intermediaries, scale really had problems, but I think with that closer focus as we have now; hopefully (00:18:52). We have gone from 28 to 17 countries.

I've said before that Aviva is a profit making machine, the issue has been turning that into cash and that remains entirely true today. So, we will be ruthless on allocating capital both technically across business sales and strategically across countries. We will, when necessary, sell one business to invest in another. So the, not everywhere is important. We are not focused on regions – to be clear, we're not focused on regions or geographies rather specific markets and specific (00:19:36), that in my view in this world is a far more sophisticated way to allocate capital and head our strategy. Just to be clear, it's not about markets or regions. It's not about regions or geographies, it's about markets for sales (00:19:50).

So given our mix of markets, the question I'm often asked and I was asked this question last night at the dinner, who are our peers. UK life companies, UK general insurers, UK businesses with Asian operations or (00:20:07) market operations or indeed European composites. And the answer is none of them.

We have a large business in Canada, yet it doesn't make us Canadian or indeed it doesn't yet give us the multiples of Canadian general insurers. Our risk profile is also fundamentally different. We have very little business and long-term guarantees that come with operating places like Switzerland, or Germany, or Japan. We have no variable annuities whatsoever. And most of our general insurance business is short tail that gives you fundamentally different financial characteristics and behaves differently under mechanisms such as Solvency II.

We are however diversified and can't withstand shocks in any single market and I think this was demonstrated well by the recent annuity changes in the UK or the floods in Canada. We are not French, German, Italian or Swiss. And so, we have different cultural and financial dynamics, although some may be celebrating being German this morning I guess, but, we are fundamentally different in all these aspects.

What is clear, however, is that we are listed here in the UK and uphold the corporate governance principles that are so well associated with this country. So, I would contend that as such we don't have a comparable peer group. And as such, we are a peer group of one. Now, I realize that doesn't make valuation that easy or fit into models that easy. But I guess that is the art of being a good analyst or investor.

So on business strategies I only want to touch only briefly in the business unit strategies, as this will be covered in the following presentations. And UK Life it's about cash flow. I think, you've heard me say that before. We also have a strategy to react to the recent regulatory changes, which frankly just expedites the work we started early last year.

I believe (00:22:20) investors needs to build its third-party offering. Obviously, it needs to improve its cost income ratios and it needs to take a far bigger role in the Group in terms of earnings. In UK, general insurance it's about using data and analytics and packaging products together. Packaging increases your margins.

In Canada, we're expanding our product, geographic and distribution offering. So, we are expanding product and distribution in Canada as well. In Europe and Asia, it is about focus. We are not everywhere. You'll see evidence of our investment thesis in cash flow and growth in the strategic anchor throughout all these presentations this morning.

And now onto key issues. Early in 2013, I laid out the key business issues. You know them well, cash flow, the internal loan and expenses. And in keeping with why Aviva reloaded the theme here, here is my current list. There are eight of them and I have grouped them under two bases (00:23:34), cash flow and growth. Consists in the game of our investment (00:23:36) thesis.

So the first one 2012, we set out plans is to cut £400 million of expenses out of our cost base by the end of 2014, and it's clear we'll more than achieve this. But as I have said before, I want to move to a cost/income ratio, so our business can balance volume before earnings and expense to - which obviously optimizes (00:24:05) the margin.

Now, I have a very simple and clear mantra we use internally with our sale Heads and CEO country Heads. Every business also must improve its cost/income ratio every year. Now, today, we're setting out a new target of reducing the cost/income ratio to below 50% by the end of 2016.

Now to put out cost target into a little bit of context here, I think we have demonstrated quite adequately our ability to get hundreds of millions of pounds out of our cost base. Cutting expenses is frankly not particularly difficult, if you do it well.

So, the question is going to be, can we take, say, £100 million of cost base out of our company this year (00:24:56)? Maybe, but I want to give this organization the opportunity to achieve our efficiency target through growth. I'm talking about growth, which includes (00:25:07) margin, which is far more sustainable.

So, second, distributable cash flow. Yes. I accept (00:25:17), we have made some progress in the cash flow of the Group, but the distributable cash flow after holding company expenses is still not in my view inadequate, when you consider the earnings power we have and the capital base we have. It's entirely inadequate.

Now we have a simple target here to double our holding company excess cash flow to £800 million by the end of 2016. Now, Tom is going to cover that and a lot of detail in a minute. Third, the Life back books. These are our cash machines, but they're like a beautiful steam engine being run on dirty coal. With the right management, these things - these engines can have much greater output.

Now, a few months ago, we separated the key back books off into their own selves (00:26:13) and we will manage these with cash. Now, I'm not providing you any target here today as frankly we haven't finished the work to quantify it. We do know the size of the deposit is large, we do know we're inefficient at managing their back books and we do know the output can be high, but we haven't got all the answers yet, because we're just working through it.

And fourth, and this is not new and you know my view on our external leverage. Our external leverage is too high, and the servicing of that debt decreases profits and it also restricts our financial flexibility. But unlike the internal leverage, this is not a regulatory issue, but we think is suboptimal.

Now, my position frankly hasn't changed, and we will reduce this over the medium-term as opportunities arise. But with the arrival of Tom that allows us to look at this strategically to find the optimum level of that debt. And, again, Tom will cover that.

Now, the second part of our investment thesis is growth. Cash flow first being growth (00:27:23). I think point five highlights that we need growth to fuel future dividend growth and that I will not compromise as long-term health of the company for short-term expediency. But equally, the growth cannot compromise dividends and I'm very clear on that. The solution of course is to reallocate capital to the higher growth businesses, particularly those growth markets in Europe and Asia, where we have a definable competitive advantage.

Now item 6. Moving on to item 6. This refers to UN's (00:28:05) fund management operation. For us, for our substantial scale, the earnings from fund management are entirely inadequate at less than 4%. And to drive earnings and asset management, we need more external fund flows. And, again, Euan will take you through the strategy there.

If we have a strategy of a true customer composite, we also need to (00:28:32) cross-sell in a substantive way and this is point 7. And the easiest way to do this is, products per customer. And the quickest way to do this is through our digital channel.

And last, it leads me on to last point. We need to grow our digital customer base. We plan on having 2 million customers operating through the MyAviva platform over the next 12 months. MyAviva is the platform, where we have all of our products together.

And, finally, in my introductory remarks, I'd like to focus on my team, which to me is really what today is all about. And when you do a turnaround, and I know a lot of you in the room have been involved in turnarounds, you need to blend the top talent within the existing organization and promote people as we're done with top talent from the market to see that change, you need both.

Now, everyone says they have a good team and I'm very conscious that the delivery of results for my team will be the only judge and that's fair enough. But, we do have key leaders in each of the key business lines and you'll meet most of them today and we have key new talent also in the functional areas.

Now some of our team you will know, and some of our team, you won't. And today, I'm confident you will see the quality. For example, Christine, she's worked in consumer multinationals such as Starbucks. Monique came to us from Capital One in the U.S. Euan, as you know, has Standard Life and our newest hire is of course is Chris Wei, who's currently tending his garden (00:30:10), the CEO of Great Eastern out of Singapore. But we also have lots of depth and talent that was promoted from within this business, many of whom you already know and we'll also hear from today.

So before I hand over to Tom, let me summarize the key messages for today. Our core business strategy or our strategic anchor has three elements; True Customer Composite; Digital First; and Not Everywhere. We have strong underlying franchises each with a clear strategy and we have identified a number of key issues to address, to deliver results to our shareholders. And I believe we have the right team to get there. You will have to make your own judgment.

So far, we know we have made satisfactory progress over the last year or so and I think it now is the time to reload.

So on that note, I'll hand over to our new CFO, Tom.

## Thomas Dawson Stoddard {BIO 15071280 <GO>}

Thanks Mark. Good morning, everyone. It's a pleasure actually to meet you all finally. Since I'm new to most of you, I thought I'd start by telling you a little bit about who I am, why I'm here and what I see as priorities for Aviva. I've come to Aviva from Blackstone where I headed the Global Financial Institutions Advisory business. I spent over 20 years advising on corporate finance transactions working with or opposite most of the major insurance groups around the world. Professionally, I'm educated as a lawyer and I started my career practicing at Cravath, Swaine & Moore in New York.

I first met Mark in 2008 when I was advising AIG on its rescue and recovery. I got to know Mark quite well as AIG developed its plan to monetize AIA. These were obviously pressure-packed times which tested my analytical skills and judgment under fire. Having seen me under those conditions, Mark asked me to advise Aviva and its board last year on capital and liquidity which ultimately led to the dividend cut and elimination of Scrip Program. So while I'm not from the UK, I have spent plenty of time here advising Aviva and others on strategic matters, which still begs the question, why would I want to give up being a partner of Blackstone to come to Aviva as CFO. The industry environment is challenging to say the least. In fact, I think it was only a couple of weeks after I accepted the job that the government announced the changes to the budget. So regulatory changes endemic, most notably Solvency II, but really coming at us from all angles.

Meanwhile, interest rates are too low which makes it hard for us or anyone else to make money and balance sheets are still recovering. At the same time, big changes loan in terms of capital and accounting standards and so our reporting systems and MI are all influx. So no one said this would be easy, but if it were - were going to be easy, it wouldn't be interesting to me. What interest me about Aviva is the choices we're making around strategy with multiple product lines, multiple distribution channels and multiple countries. For someone who considers himself a problem solver, there's plenty for me to do here. The payoff will be in helping to transform Aviva into the British champion that it really should be.

So before I dive into Aviva's issues which you're all very familiar with, let me start by giving you a sense of some of my initial impressions after being here just two months now. So, I've got three big observations. First, Aviva's people have been more excited about my arrival than I had anticipated. And despite all the change that's already happened here, I've been surprised by the number of people inviting me to sponsor continued improvements. Second, many people here are not quite sure what to make of me and my style which is relatively direct, open and collaborative and certainly not hierarchical. And third, I'm continually astonished by the number of things left to fix despite all the change that's already happened. So, as a problem solver, I know I'm just going to love this job.

So I'll give you just a couple of quick examples. Although we have Aviva Investors, one of the things I noticed is that we've not had a Chief Investment Officer for our Group Insurance Operations. So, that's something I've addressed and I'll talk about a little bit later. And secondly, as I've been studying our capital structure, I realized that on a cash basis, our borrowings are not tax efficient. I'll address that too, but that will take longer. So, as a group, let me just say, we're far from optimized. It's partly a result of history, but we certainly can be more efficient going forward. My observation is that in addition to our focus on pre-tax operating income, we need more focus on the bottom line, on EPS and on after-tax cash flow. After, after, after is what I'm after. Okay.

So, turning back to this slide, you all know what the issues are for Aviva. Consistent with Mark's introductory comments to CFO, I need to find ways to invest and (00:34:59) change to support the strategic anchor to improve profitability, reduce debt leverage, and accelerate cash flow and growth. So, the rest of my slides will basically follow these four things. As we go through them, please recognize that I've joined Aviva fully onboard with the current strategy, vision and culture, so I'm not proposing any confusing new changes in direction. However, I have been delighted and surprised by the number of people at Aviva who are anxious to get on with it and continue to improve. So, together with my team, my response has been to launch about a dozen internal initiatives.

I clearly don't have all the answers yet. I'm still learning and asking lots of questions, my to-do list continues to grow. One of the questions I ask our people is, where do you think we have competitive advantages today? That is where do we really create value? And the responses I get are all over the map still there's no doubt that Aviva has made progress over the last two years, and as you'll hear throughout today, it has pockets of exceptional performance.

Yeah, there's also no doubt that Aviva remains inefficient and constrained. So my role is to encourage the group to stay focused on where we can win, while we continue to build muscle and capability. So with that background, let me dive into more of the specifics on our financial strategy. But first, let me congratulate those who perceived me, two years ago at Investor Day, our Chairman John McFarlane set forth Aviva's plan to focus, strengthen and perform.

Since then the team has done a remarkable job repositioning the company despite a very difficult M&A environment. We've exited or restructured most of the 16 non-core red cells identified back in 2012. We've established individual business owners for each cell and put those cell owners through their paces (00:36:36) quarterly in front of their peers and senior management. Having witnesses the – this is the (00:36:40) sort of semi-public internal inquiry is really quite intense.

And we've defined new cells and expanded the scope to include three legacy cells, primarily underperforming blocks of business here in the UK. So where does that leave us now? Well, the picture is better, yes. But I'm still not very happy about it. As you can see from this slide in 2013, we've had 22 cells with attractive IFRS and cash returns, but we also had half our capital tied up in underperforming cells. Some of this is where you would expect in our turnaround markets in Italy, Spain and Ireland or in legacy blocks of business in the UK or France. A smaller amount is in growth markets where we're still sub-scale, regardless we need to get better performance from our capital.

So as new CFO, I'm taking particularly hard look at our cash generators especially in the UK. Furthermore, in addition to the IFRS and cash metric shown here, I'm focusing on economic value added under our current models, as well as trying to anticipate how Solvency II will affect all these comparisons.

I'm also looking at our cost allocations and budgeting with a critical eye. My view is that Aviva's had a history of profligate spending and can improve its capital budgeting further. So suffice to say, my initial read is that we're not getting enough cash from our cash generators. This is not totally new news, as you'll hear later in the day that we have initiatives underway to improve our back books. But I'm pushing for the kind of elevated analytical rigor an investor would expect with higher demands for cash generation especially from our home UK market.

The higher cash flows of team I'll (00:38:12) come back to in the end. Some of our cash flow we will need to reinvest into the business as we focus on customers, automation, and controls. Again, this should be most notable at first in the UK as we grow Aviva Investors and deliver on the True Customer Composite and Digital First strategies. From the financial perspective, I see this as a virtuous cycle where stronger customer ties should help us improve persistency in our back books thereby generating more cash flow.

And it will strengthen the Aviva brand, which is an important source of competitive advantage for us. At the same time, the benefits of automation and better customer experiences should reduce risk and make the business easier to monitor and control. So as an aside, while I'm talking about customers, you should note that we pay an enormous amount in commissions, marketing and other customer acquisition costs. While we've been managing these costs in our business units, we're only now just beginning to think about them strategically within the context of our aspirations. Accordingly, what we've achieved in the spend should improve over time as we realize the benefits of the True Customer Composite and Digital First strategies. Whether we're working directly with the customer or through agents, brokers or other intermediaries.

Let me come back to the point about being focused where we can win. In my view, we must prioritize better. 00:39:30 To give an example, a couple of weeks ago, our strategic envelope of planned00:39:34 spending initiatives landed on my desk with 350 separate projects totaling several million pounds. I couldn't 00:39:42 believe it, 350 projects. So I've called a time out (00:39:46). (00:39:48) and instead insisted that we focus on cash flow and our 00:39:52 real priorities. Of course, we will continue to invest in improvements, but not in everything and not everywhere.

So turning now to profitability, by now, it should be pretty clear that we've achieved the £400 million expense reduction plan for 2014 and not surprisingly, much of this comes from lower head count and most of that has come from the UK and the 00:40:14 Group Centre. The downside of these expense cuts was its impact on morale, which Christine will discuss later today. What 00:40:21 I can say as a 00:40:21 newcomer to Aviva that the actions taken in the second half of last year restored 00:40:25 morale, have had 00:40:25a positive impact as has the improved performance of the company.

Note that (00:40:31) not all the expense reductions have been people related. We've also saved significant amounts by reducing spending on consultants, outsourcing and property. Our IT spend, which is featured 00:40:41 heavily in a lot of your analysts' commentary is now down to £640 million in 2013. This is better, but we've got more to do here and Monique is leading new thinking 00:40:49 in this area.

So going forward, we're trying to drive improvements in productivity, so that our operating expense ratio improves every year. We've already improved significantly pushing the ratio down from 58% in 2011 to 54% in 2013. Our new target is to get below 50% in 2016. To do this, it will be important for us to grow revenues, so this is both an efficiency and a growth exercise.

You should note (00:41:19) that the benefits of our cost savings to-date have been partly offset by the headwinds of declining volumes in UK GI and lower long-term investment returns in our life businesses. This is something we really need to try to arrest. And as Maurice will discuss later, we expect growth trends in UK GI to turn upward.

Otherwise, the slide speaks for itself. So in addition to group ratio, we're also going to show metrics – traditional metrics relative to each sub-sector. This should help you follow our efficiency as our business mix changes. And it should also help you understand what's happening when short-term effects on operating income such as the weather in Canada this year distort 00:41:55 our overall group ratio.

Okay. Now, this is big. Later today, you'll hear David Barral talk about our UK Life back book project and you'll hear from and Nick on some of our process redesign efforts, which we call Aviva Systems Thinking. The back book project is critical. We have size and scale in the UK, but are simply not realizing the benefits you would expect from that scale. And then if you layer on some overhead from the group center, the fully cost of results (00:42:22) look even less exciting. 00:42:23

So we need to rethink our approach and get much more serious about performing to the level of our best industry peers. This is one area where I'm trying to raise the sense of urgency and asking that we go beyond mere incremental efforts. So, as David will describe, we've already reorganized to 00:42:38 focus on our UK back book and we expect to get better results. However, I'm still doing my own due diligence on this and I remain open-minded about additional actions we might take.

A similar back book opportunity should exist in both France and Poland. Now, again, as you hear later, we've been benefiting from Aviva Systems Thinking in our UK Life and other parts of our businesses. This has helped us eliminate waste while improving customer experiences. And so, we prefer this kind of bottom-up approach over the blunt top-down cost-cutting we did last year.

So, switching now (00:43:14) to take a look at our balance sheet, it should be clear that Aviva has been on the defensive 00:43:18for several years now, and has not been able to drive value creation effectively. We've been heavily focused on building economic capital rather than on investing to earn a return. And the low interest rate environment has not helped. So, one of the things I've done since joining Aviva is to try to bring more attention to the interaction between Aviva Investors and our insurance businesses. Up until now, we've had no Chief Investment Officer for the 00:43:41 group's insurance operations. So to address this, we've taken a couple of steps.

Effective July 1, we split the role of Chief Risk and Capital Officer in two, with John Lister as the CRO, reporting to Mark rather than me. This is the right risk and control framework and will enable John to have the greatest impact on the company.

More to the point, Jason Windsor has now taken on the new role of Chief Capital & Investments Officer. I've asked Jason to oversee investments, ALM, treasury, reinsurance and capital projects with a business focus that we've lacked in the past. Among other things, I've asked Jason to make sure our insurance businesses benefit from the insights and expertise available to Aviva Investors, getting a better balance to optimize our risk-adjusted returns.

Euan Munro and Aviva Investors will still manage the actual investing process under the relevant mandates, but Jason will make sure that they have a louder voice in our group ALM 00:44:32 process.

To be clear, we're not so much re-risking 00:44:36 the balance sheet, as we're simply trying to harvest more from what our investment professionals do best. I believe some of our UK competitors are ahead of us in this regard and make more effective use of the asset side of their balance sheet.

You can also see from the slide that we created and funded an internal reinsurance mixer to improve our capital efficiency and we believe we can do more to optimize our reinsurance strategies generally. Once again, I believe some of our European competitors are ahead of us in this regard. So, there's room to optimize and improve further. So, this really just sort of scratches the surface. All the items 00:45:10 listed on this page are potential upsides that 00:45:12 should help us drive returns and cash flow positively.

This next slide shows how Aviva's economic capital position and centre has (00:45:22) liquidity improved, while its debt leverage remains a work in progress. Economic capital surplus of £7.8 billion at the end of the first quarter, having more than doubled since 2011. So I'm comfortable with our current levels of capital on an economic basis and on an S&P basis. As far as Solvency II goes, it remains too 00:45:39 early to be precise on exactly where our capital ratios will land. And since we already manage 00:45:43 the group on an economic capital basis, we expect to be okay.

Needless to say we have an extensive Solvency II program, entering into the homestretch, but we still have quite a lot to do before we can go completely live at the end of next year.

But meanwhile, the inter-company loan will be reduced according to the agreed plan with the target still at £2.2 billion at the end of 2015. Liquidity of the Centre (00:46:07) stood at £1.5 billion at the end of the first quarter and has benefited from divestiture activity, primarily the closing of the sale of the U.S. business last year. We will use some of this liquidity to help reduce the inter-company loan.

Meanwhile our external debt leverage remains high and this is an area of focus for me. Back in the beginning of 2013, as an advisor, I helped formulate this (00:46:29) objective of reducing debt leverage over a course of (00:46:31) the medium term, which sounds suitably vague at the time and it (00:46:34) was. Now here I am a year-and-a-half later as the new CFO and I'm by definition living in the medium term. So I know I'll be judged by this measure. I know we need to reduce our debt leverage. I'd like to get it to a level where as CFO I could turn the 00:46:49 incremental borrowing capacity as a useful corporate finance tool. Right now, 00:46:53 we're constrained. But I want to be smart about how and when we reduce debt.

So in a measured way, I'll seek opportunities to bring our external debt leverage down, while also reducing our after 00:47:04 tax cost of capital. So this year, we've already paid down £240 million of external leverage, which puts us ahead of our current plan. And two weeks ago, we pre-financed 00:47:12 some of our upcoming redemptions by issuing €700 million of a new 30-year non-call 10 tier 2 hybrid at a cost of 3.9%, which is much better than we did last year and better than our internal plan. So, this did not reduce our leverage, but it's a great example of what I think is a smart transaction, it (00:47:29) will improve our cash flow and it adds to our financial flexibility.

As we go forward, I need to make sure we optimize our debt structure which is not optimal today from a capital tax and cash flow perspective. It'll take you some time to determine the optimal level of leverage, where it should sit in the organization and the path to get there. So, if I can find smart ways to make quick progress in reducing debt leverage ratios, I will, but as I will show in the next slide, I think reducing our after tax cost of debt financing is perhaps more important at this moment. So, as you can see here, our plan 00:48:04 remains to reduce tangible debt leverage below 40% in the medium term until I come up with something better.

Now frankly, I prefer a different measure of 00:48:13 debt leverage, especially since this one does not 00:48:14 give any credit to our liquidity, but I've resisted the temptation to change it. You all can do your own math. Ultimately, I suspect we'll transition to a measure of debt leverage relative to economic capital, but I'll leave that for the future. On this (00:48:28), the slide indicates we still plan to get our debt ratios in a range consistent with an S&P rating of AA over time.

Now turning finally to my favorite topic at Aviva, as my new colleagues will all test (00:48:44), 00:48:44 I'm obsessed with Aviva's ability to generate excess cash flow available to service financing.

So, having advised 00:48:50 on dividend policy last year, should be no surprise that I focused first on cash flow and liquidity at the holding company. In the past, I sense there has been confusion as to our dividend capacity. So I want to try to make this clear.

Debt is not new, but I want you to understand how I think about it. So this slide shows how net cash remittances from the business units have grown with management's heightened focus on cash flow. Note that these remittances are after investment in new business in those units. But despite the growth in remittances over the last two years, it's really only now that the turnaround is moving toward transformation, with cash from operations sufficient to cover the cost of the dividend.

In the past, Aviva typically supported dividend payments by borrowing, issuing scrip or selling businesses. So for comparison with other companies, this excess £400 million is not a gross cash flow number. This is a net number representing net cash flow from operations at the holding company level after investment in new business at the subsidiaries, after borrowing costs, before shareholder dividends. So it's after, after, after, but before shareholder dividends.

Anyway, stepping back, it should be clear what the recipe is from here. First, we need to drive profitability and cash flow from the business units higher, north of the £1.3 billion of remittances for 2013. Second, we need to reduce the spend at the Centre. Third, we'll benefit from reducing the inter-company loan and the internal interest expense associated with it. And fourth, we need to reduce our external leverage and the cost of our external debt.

I want to point out that we've not come close to optimizing the current after tax cash cost of our borrowings, which gets me quite worked up, but will be addressable.

So taking this all together, it should be clear that we can move our sustainable excess cash flow at the holding company much higher than where it is today. Our plan is to double our run rate to £800 million by the end of 2016.

Now the remaining (00:50:47) risk to hitting our plan, including business performance and capital traps at the subsidiary level, but I'll be terribly disappointed if we cannot exceed our 2016 ambition. Nevertheless, you should recognize that we've based this cash flow plan on our economic capital model and we're assuming that there are no unexpected curveballs from Solvency II or otherwise.

Now, I need to do a brief detour here on OCG. Since OCG is based largely on Solvency I concepts and is generally not the binding (00:51:15) constraint for us on remittances, I personally find it to be an imperfect guide to cash flow.

So, internally, we tend to focus more on the absolute level of cash remitted from our business units largely based on our economic capital model. In any case, we remain focused on improving remittance ratios. So as we adapt to Solvency II, you can expect this over time eventually to replace OCG with a new measure of operating value added on an economic basis. But that won't be for some time.

So to tie all this together, here's a summary of where we are with our financial plan. It should be obvious from the preceding slide that growing excess cash flow is key to our ability to reduce leverage and pay a growing dividend. So over time, relative to operating EPS, we should move from about a 3 to 1 dividend cover last year toward a more normalized and balanced level of approximately 2 to 1. But this will depend on our progress and growing cash flow and reducing the internal loan.

Our excess cash flow should increase more rapidly than operating income over the next few years. So at this point, it's still too early for me to give you a dividend formula tied either to earnings or cash flow. So in any event, coming back to one of my initial observations, there is a lot of work for me to do here and I think I have a huge opportunity to make an impact on Aviva. I'm excited to help restore this great company and accelerate cash flow and growth. I'm also thrilled to be working with a great executive team Mark has assembled to lead the way forward. Thank you.

So, I'll (00:52:48) be happy to take questions. And after that, we'll have a short break and then, Euan Munro will pick it up to talk about the good things happening at Aviva Investors. So questions.

## Q&A

### A - Colin Simpson {BIO 15894636 <GO>}

Yes, let's just start here.

### Q - Oliver Steel {BIO 6068696 <GO>}

Oliver Steel with Deutsche Bank. Your excess cash flow target looks incredibly low, if I may say so. I don't know if you want to talk through some of the individual numbers, but I'm going to suspect even if we just take the internal loan – the reduction, I mean, if you're going to increase the remittance ratio or if you're going to increase the amount remitted, even the internal loan interest is going to drop away. You're talking about savings on the external costs, you're talking about reducing the cost ratio. Do you think that cash flow figure looks conservative or why should we not think it conservative (00:53:46)?

### A - Thomas Dawson Stoddard {BIO 15071280 <GO>}

Well, I think if you go back to history and look at where we've been, we still have to get there. So, it's £400 million this year, it was £300 million or so last year, it was less than that before that if you go back and look at the numbers. But I think you're exactly right, you're starting at sort of the easiest place. If we get the internal loan down to £2.2 billion, that internal interest burden gets cut in half or more. So that's sort of the easiest thing for us to do. So, I sort of take that as a no brainer. Then there's some hard work around actually, the operations in terms of reducing Centre costs and getting the businesses to perform better. But we've gotten better cash remittances from the business units and I'd expect that to continue. And then, one of the other ones that's within my control is the cash - after tax cost of the financing and that's something we're going to keep chipping away at, it's going to take me some time. There're some things we'll do internally in terms of how we manage capital that will help with that. I don't want to characterize that £800 million as being stretch or conservative. It is what it is, but as I said, I'd be terribly disappointed if we didn't get there.

## Q - Oliver Steel {BIO 6068696 <GO>}

I just had (00:54:52) one quick follow-up to that.

## A - Thomas Dawson Stoddard {BIO 15071280 <GO>}

Sure.

## Q - Oliver Steel {BIO 6068696 <GO>}

To what extent does the £800 million include sort of releases of trapped capital as opposed to just sort of everyday cash flow?

## A - Thomas Dawson Stoddard {BIO 15071280 <GO>}

Yeah, I'm looking at this as a run rate operating number. So there may be things that we do along the way to release trapped capital. But as I've said to my colleagues on the management team here, I'm not counting those towards sort of the run rate we're trying to get to. We may use things like that to reduce debt leverage or otherwise, redeploy that capital to get a better return. And as Mark said, capital allocation is becoming a much more competitive sport here to be, and there will be places where we pull capital out of businesses in order to reallocate elsewhere. But I'm thinking about this in the context of our financing capacity and our ability to pay dividends. So if we simply get some one-offs out of pulling capital out, that's not going to work. We really need sustainable operating cash flow.

Yes. The second row back there. Yes.

I apologize, I don't yet know all your names, so I'm going to be reduced to pointing, so please bear with me.

## Q - Farooq Hanif {BIO 4780978 <GO>}

Thanks very much. This is Farooq Hanif from Citigroup. Is your 2 to 1 now an official dividend policy and how quickly do (00:56:07) you get there? That's question one. And question two is, what are your thoughts on minimum levels of holding capital?

## A - Thomas Dawson Stoddard {BIO 15071280 <GO>}

Okay. So let me take this in turn. First, in terms of dividend policy, to be clear on my statements, we're not setting a dividend payout formula, because effectively, you can see that we really need to do quite a lot of work here on improving our cash flow. So I can't give you a formula yet tied to either earnings or cash flow. I'd also say that there's going to be some changes to IFRS over the next few years. And so, again, we ultimately will be much more focused on economic capital and our economic capital value add. So again, we're in a transitionary timeframe. I can't make that a specific policy, but I will also reiterate that our cash flows, our operating cash flows should improve faster here than our operating income does. So that means that our payout ratio will be moving up over time.

And then, your second question is about holding company capital. Do you mean liquidity or capital?

## Q - Farooq Hanif {BIO 4780978 <GO>}

Liquidity.

## A - Thomas Dawson Stoddard {BIO 15071280 <GO>}

Liquidity. We have an internal risk appetite around liquidity, which we monitor internally, I don't know that we talk a whole lot about that publicly. That's something that we watch very closely and I've got my eye on. And I think of them as joined-up in terms of our cash flow and the amount of liquidity we need to hold.

## Q - Colin Simpson {BIO 15894636 <GO>}

A question (00:57:33).

## A - Thomas Dawson Stoddard {BIO 15071280 <GO>}

Yes, right in front here.

## Q - Colin Simpson {BIO 15894636 <GO>}

Good morning. (00:57:39) Can I just follow up on Oliver's question on the cash target? Could you just confirm that in terms of the original remittance ratio targets you had, it was still over - in the 80s or over the 80s (00:57:52). And has anything changed on the OCG from previously in terms of what's happened with the budget on annuities or (00:57:58) to actually color your view on how much cash you're getting back by 2016? Thanks.

## A - Thomas Dawson Stoddard {BIO 15071280 <GO>}

Nothing's happened on OCG that's affected my views here, and we're still focused on getting our remittance ratios up above that, those kinds of levels as we've discussed in the past, so that hasn't changed.

Yes, over here.

## Q - Andy Hughes {BIO 15036395 <GO>}

Thanks very much. Andy Hughes, Exane BNP Paribas. I have a couple of questions if I could. And the first one on slide 17, where you showed the improvement in the amount of capital, which is in the very low segments where they've (00:58:32) gone from 75% to

50%. I'm surprised it wasn't lot better than that given the sale of the U.S. So how much actual improvement in organic businesses have gone out of the red zone or the gray zone as it is now into the other segments? Is there any way of quantifying what's actually – how much improvement there has been in those four (00:58:53) segments? And the second question, I guess, was about the deleveraging, so does the deleveraging happen from the build-up of trapped capital effectively rather than explicit paydown or reduction in the amount of normal deaths and your plan is (00:59:05) obviously £800 million of cash doesn't leave you a lot of spare room to delever the group? Thank you.

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

Okay, thanks. Those are both good questions. Again, I wasn't here two years ago when we sort of started on the path with the red cells but we have exited 10 of the 16 red cells, and that has created improvements. At the same time, the economic environment is tough and so that has an impact on profitability as well. As we look at the sort of the underperforming cells, I'd say those are not red cells equivalent to what we were looking at two years ago where they were really destroying value, these are businesses that are sort of not quite where they should be in terms of how we think they should be performing. So if you take our UK back books, obviously we've got a project there, and we're looking at that very, very closely. We need to get better returns out of that business. I mean, it's just simple as that. It really doesn't have anything to do with what's happened in the U.S. or elsewhere.

And then your second question in terms of capital ratios, look, I think there's several different ways to get there, some of it can be from retaining earnings, some of it can be paying down debt. I think job number one is to get the cash flow improved, and that will give us much more flexibility in terms of how we attack debt. We're looking at it as a debt leverage ratio, but I think part of that means that we've actually got to go out and attack some of the debt itself and reduce the absolute level of debt.

## A - ***<Q>

(01:00:39), basically the cash flow, well, it remains – this will depend on the economic conditions, especially when the – if the balance sheet is going to be re-risk in terms of ALM which is I think one of the things you may have been talking about in your speech. So, when you set the £800 million target, were you thinking about a adverse economic environment at that time, or is it as in line with today, so if the market conditions deteriorate, you could miss your £800 million target?

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

Well, look, this is all subject to the economy. So, if we have severe events, obviously we have to think about what we did in those specific time frames. I am thinking about this more as an operating target relative to where we are and relative to where we should be over the cycle. I think this is just good hygiene. We need to be more efficient, we need to be more capital-efficient, we need to get that run rate of cash flow up.

In terms of how we're thinking about it, I'd also like to be clear that what I'm saying is we're not trying to re-risk the balance sheet at this point. What we're trying to do is get sort of better interaction between the asset and liability sides of the business. If you look as I'm looking at very critically at our ALM process, it's tended to be much more focused on building up capital as we have over time. And so, it's very much driven by the liability side of the balance sheet and the asset side is more of an afterthought. We're trying to sort of change that balance so that we've got a better balance here and we're getting better return per unit of risk as opposed to actually taking more risk.

Next question here.

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

Jon Hocking from Morgan Stanley. I've got three questions, please. On the debt, can you comment about how much of the debt at the moment you're getting tax deductibility on please? Secondly you can you talk about interest cover, maybe if you could give us some idea about where you are now in interest cover, what the aspiration will be in terms of interest cover going forward?

And then just finally, (01:02:33) close blocks you've mentioned, and to what extent is that just sharpening up the release of capital within the sort of normal ownership structure and to what extent would you consider sales or reinsurance or securitization of those portfolios? Thank you.

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

Jon, can you just quickly give me your questions again (01:02:48) all three of those.

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

Yeah. So, first one was how much of the debt interest is tax deductible at the moment, and second one was interest cover, and the third one was some non-traditional solutions to returning capital at (01:02:56) the back book.

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

Okay. So, first on the tax deductibility, I don't want to comment on that too closely. What I'd say is that we've got a good tax team that manages to preserve our tax attributes and does quite a good job on that. In terms of the timing from a cash flow perspective, in terms of how we can use that, that's something we've got to look at more closely. You can sort of think about our overall amount of debt and our overall interest costs and look at the cash burden here and sort of do some of that math yourself to get a good sense of that. Second question?

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

So, it was just life close blocks.

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

Life close blocks. There again, we're focused internally. This is a self-help project. So that's sort of where we start. If we come up with better ideas, whether it's acquiring someone else's close block to create efficiencies or securitizing or doing something else around ours, we'll consider all that. So, in my mind, I'm very open-minded about what the options could be. But we're starting with self-help and what we can do on our own. And I think your third question was about interest coverage ratios. So, I'd say right now that we're sort of borderline getting them into on an S&P basis, and I'm looking at my new Treasurer, Simon Rich, in the back sort of within AA-type ranges, we're sort of on the border there, and we're trying to get them further into those ranges.

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

Just to follow up on the back books, are you talking about all the back books you have in the UK or some of them you've designated as back books where you can try and start capitalizing (01:04:28)?

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

Yeah, why don't we hold that off? David Barral will talk more about our UK back book projects, and then he can give you sort of more the operational flavor for that.

Other questions? Great. Well, if there're no more questions – Colin?

## A - Colin Simpson {BIO 15894636 <GO>}

We've got a short break right now. So, if you could be back in the room by 9:45 actually.

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

Good morning. For those that don't know me, my name is on the board there. I'm Euan Munro, the new Chief Executive of Aviva Investors. So, I've been with the business now since the 13th of January. So, in a few small days, I'll be here six months. So, I thought I'd start with just giving you an introduction to Aviva Investors and what we do something of the scale, something of the successes actually, and also something of the failures of the business historically. So, in terms of Aviva Investors, it's a business, an asset management business with some substantial scale. Clearly, it hasn't been growing very much over the last few years, but it still is a business with over £240 billion under management. Large volume of the business is in fixed income, although we cover a span of asset classes, including illiquid asset classes such as infrastructure, so some interesting areas we delve into.

The bottom chart I think will be the biggest surprise to maybe the people in the room. It was a biggest surprise to me because when I looked at the commercial success of the business, so lack of growth in assets under management, and the pure profitability, I assume that the investment performance must be poor and that is not the case. So, like most asset managers, we have some internal objectives for the value that we will add to our clients, and we will try and achieve more than 66% of our funds being above their target. So, obviously dumb lock, we have here with (01:06:32) 50% of your funds above target, 50% below, we want to do better than dumb lock, (01:06:39) so we target 66%. And we've actually got over one year and over three years almost 80% of our funds above target, including the weighted one at the end shows one and three-year weighted basis, 81% of our funds better than their objective.

I would argue - that's across a wide range of capabilities that there is evidence of scale and capability within Aviva Investors platform. So that's a good start if you're an asset manager, you want to feel you've got investors under you thatunderstand their market, they have deep areas of expertise, and they've got the ability to make winning investment decisions, and we do have that.

I think part of the problem has been - we haven't been able to excite those (01:07:26) we do. And sometimes that was failures - organizational failures, so the fact that we've had a series of interim chief executives, including an interim chief - a group chief executive for some time that kind of position doesn't encourage (01:07:40) come in and buy your funds. When they're worried about the strategic importance of the business, that also can act as a barrier as people (01:07:50) perhaps Aviva Investors is not (01:07:53) core to the strategy of the group.

And with everything that was going on at management level and also the fact of the very, very small contribution of Aviva Investors made to the profitability ofAviva Group, it was a natural question for people to ask how strategically important is the business. I'll just pick up one number there that may again surprise people. Aviva Investors achieved £1.4 billion of value for clients, that's value we recreated, a monetary amount, above benchmark for our clients last year, and bearing in mind that 80% of the assets that Aviva Investors manage is managed for other Aviva entities. We were contributing to the broader Aviva Group. Now, some of that £1.4 billion would go through to end customers and performance on unitized funds, but in some way that should appear (01:08:42) on the balance sheet and its profitability and other lines of business.

So, when you're thinking about Aviva Investors, you can certainly think of a business that perhaps lost its way from a management perspective, doesn't manage to excite (01:08:58) investment propositions, but don't think of a business that doesn't have good fund managers, it does. It has good investment capabilities. It's got a broad range of asset classes (01:09:07), and it's - one of the reasons that I came actually was that breadth of capability because in my view, the investment market is going to be moving to be entrusted much more in outcomes, and we'll come on to that in a moment. And if you're going to build solutions that span asset classes, it's good to have a broad waterfront of capabilities, and it's obviously essential to have good skilled fund managers.

This slide just shows how the different areas that an asset manager can benefit a composite insurance company, and the asset management being part of a bigger group. So internally-driven value, these things in the gray area, these are the areas that we were already operating in. So to some extent, margin from managing in-house assets. Although Aviva Investors has under-delivered in terms of its profit contribution to the group, when you're substantially managing captive assets, the amount you pay to your asset managers to some extent discretionary, and the cost base on Aviva Investors, it did come down, and needed to come down, but we are not a high-cost producer, but we're paid quite well fees.

So we are living on quite - well, quite narrow margins, but those are margins that are not going to someone else, they're going to Aviva Investors. So we do have some margin in-house. The other thing is, if you hire another asset manager, there would be an additional £50 million or so of VAT that you have pay on top of the same level of fees (01:10:48).

This one became quite important around the time of the budget resilience in the industry. When I was talking about the strategy of Aviva Investors to the board (01:11:01) up two charts: One was the chart of a business that – just retirement that focuses solely on annuities. And the share price of just (01:11:12) retirement as I'm sure management are aware collapsed by about 40-or-so-percent and then never recovered because they didn't have strategic options. The annuity market was obviously going to be substantially smaller. But what were they going to replace it with?

Well, the share price of Aviva like many other insurance companies went down on the day, but then recovered quite smartly as the market went through the fact to actually we did of (01:11:38) strategic options. And if people were going to perhaps not buy an annuity, but going to draw down propositions or into funds, we had both a platform which David will be talking about when he talks about the UK Life business, but we also had content already. So we have a range of volatility in managed funds that could be appropriate for draw-down as good as anyone else in the industry where they'll come on later, we were also in the process of building even better funds for being on that kind of platform. So the market pretty quickly worked though, that actually having an asset management business as part of the composite, which actually is of important strategic value for Aviva as an entity.

The final one that we'd always had an opportunity to try and extend the lives of Aviva Investors and bring third party funds onto our platform, we hadn't executed it particularly well, but 20% or so of our assets are for external clients. And we obviously need to make that draw and excite those investor (01:12:41), but those were all things that were already, if you like, going on.

I think in the pale blue section of the table where you've got the broad areas that we can be making substantial improvements and which do require a more collaborative approach across the overall Aviva business. So, powering up Aviva Life propositions, we do have the opportunity and you'll be hearing in the session with myself and David this morning talking about some of the things that we're planning to do to work together to bring really interesting propositions perhaps to people that no longer want to buy annuities.

And so we can definitely help by putting interesting things on the platform. If we do that, Aviva's share of the wallet will increase. What I mean by this? Well, Aviva does have a rapidly growing front fund (01:13:37) platform business, a small element of what we do. But Aviva Investors funds are only 13% of that platform. So we haven't been able even within our joined-up Life business or joined business hasn't historically been joined up enough to sell more than 13% of Aviva Investors propositions. And that's partly Aviva Investors' fault because its propositions haven't been exciting enough. And we want to get that up towards 25%, and there needs to be two elements of what – we need to come up with better propositions, you'll hear about that in a moment, and obviously the Aviva UK business needs to push those things harder. And I think it will benefit them having high quality stuff on the platform.

I think this is an area that we can do a lot more. You've heard today from Tom about the new role that Jason has. And I think one of the things as an asset manager you are trying to do is you're always trying to think about investment returns and how to maximize return per unit risk. It's quite a different thing to try and maximize return per unit capital that requires specialist skills to understand the consequences of Solvency II on investment decision making. And so putting our expertise in terms of what is likely to bring a great return over the next two to three years together with what's right for the business and what are the capital consequences of those decisions, I think we can do better to drive the asset side of the business.

And I think in terms of working with other parts of the group in customer engagement, I think the work we're doing on digital is going to mean that some of our simple-to-explain investment propositions, and I hope you'll see how simple they are to explain and understand. Some of those things can be made available digitally. And I think that will be really quite exciting and quite compelling to the end customers. One of the things again I think is a real encouragement and something that I'm glad that I came to Aviva to benefit from is Aviva is a very, very strong consumer brand. My challenge is to make an investment brand, that certainly is not there yet, but I think with being able to access direct with the digital platforms customers we might be able to build that trust, and again, to think of Aviva not just as an insurance brand, but also an investment brand.

Okay. In terms of the positioning of our strategy, we are going to focus around outcomes. The reason for this is when you look at the investment landscape, when you look at what is actually facing the men, the women on the street at the moment is many of the props that they've had have been gradually swept away. So someone like myself in my mid-40s, I've got (01:16:31) plan somewhere in the background really think the salary I once had. People 10 years older than me will have 20 to 30 years of defined benefit contributions were linked to salary. They may also have money and smooth funds (01:16:44) like with profit funds where some of the volatilities been taken out of the market.

People 10 years younger than me and coming through the system, they will typically have no element of their pension retirement that is linked to a salary they've once had at some stage in their career and the career average. So effectively they will have a fund and they will have to make that fund to deal with all of the vagaries of the capital markets, and they've got to deal with their own longevity. So the uncertainty facing people coming through trying to save for a reasonably prosperous retirement is absolutely colossal.

And I think we're already seeing some changes in how people approach how they invest their money. (01:17:31-01:17:41) not so much interested in throwing out all into the most fantastic stock picking fund, we're actually trying to think about how can I safely grow this asset to deliver specific outcomes. And I think one of the – the area we're looking at is the value proposition and this really comes to some extent has been appropriately tested. But I suppose it came from initially my bias having spoken to investors for about 20 years customers of different types, and all kinds of institutional pension plans, wealth customers, retail customers that they only had really (01:18:23) different outcomes that were important to them. Most of them had multi-asset portfolios. Sometimes they were advised by an IFA or by an investment consultant, but they were all hoping that those multi-asset portfolio, something spread across many different fund managers with various advisors coming in, they're generally hoping they will achieve one of these four things. So, rather hoping that fund was simply going to be bigger next year than it was this year and bigger again the year after and so on, so they had an absolute return objective, or maybe they were saying, I really want to grow my assets and beat inflation, because the whole point of saving is the first gratification. The whole point of saving is to be able to afford more in the future, because you've assorted a way in the past.

And sort of saying, let's raise target and inflation plus objective, increasingly and I think this is a real blockbuster needs at the moment is income. So, people looking at their bank accounts are getting absolutely nothing in terms of income from it. If they do want to go into income propositions are currently offered often a single asset class.

So, if you want to generate a return of around 5% and a fixed income fund, you will be an European high yield, European junk there in order to get that level of income. Then we believe that spreading that income objective across a wide range of asset classes much more high with diversified, we can provide good levels of income with much lower levels of volatility to our customers. And so, income is a key need.

And then finally, liability. So, for those who have perhaps, this is more an institution need really, but for institutions that have historically written substantial liabilities, so defined benefit plans, insurance companies, they have funding needs, which are very sensitive to movements and long-term interest rate. And we can design and build investment strategies that will exceed liabilities incrementally over time, but we'll move in sympathy with those liabilities.

And so, quite simply, what we're going to do is given the background that we have and given the skillsets that we have, because Aviva investors quietly has been busy investing and driving value for its customers, as being a bit introverted and showing, how it can actually help in these scenarios, so we're going to coming out, directly speaking to customers and targeting these outcomes that are important to them.

And I think many of you will be aware that, in my previous role at Standard Life Investments, we built and the designed an outcome-oriented fund, the target is LIBOR plus 5, the GARS fund. And in the UK that grew to be – I think it was the biggest retail fund in the UK. But around the world, in France, you had someone doing something very similar, so as we were coming back in France, the hedge funds that was targeting a similar outcome, in North America you had great value in Bridgewater and he was building his outcome-oriented funds.

And I think when you look at the success in different geographies of funds, it targeted a target return, many of those funds grew in the same environment and had the same thought as me in the mid-2000s. The market was recovering from an environment, where people have lost a lot of their wealth following the dot-com bust, and the principal thought in people's mind was how can I grow my wealth, as I'm having these massive drawdowns.

And I think people addressed that and executed it well, built good businesses. I think the principal thought at the minute is people have built wealth, many people that are approaching retirement, and the principal thought is, how can I draw an income from this without taking unacceptable levels of risk and we're going to be there with an answer to help them. And I think it could well become the biggest thing that we do.

So, focus on outcome. We've got eight different objectives here that we're going to be targeting. So, you can see re-orientating towards outcomes is the first one we've successfully launched. The target return fund last week and that's up and running and we've got some large money and I've got some of my money and I'm sure that we'll try it, some might say interest at some stage, but we're under no illusions that it takes time. It takes time people sit back, they want to see a track record develop and I understand that. And I think the fortunate thing is that Mark understands it as well.

And so, I don't expect them to be to be terribly patient and I was joking at the coffee break, I've already my public slap on the wrist already by not thinking digital first and I'm sure that the pressure will come to get those external assets. But we do understand that there's going to be in the short-term, an awful lot of focus on short-term performance, or will not reflect our long-term orientated investment strategies. And we're comfortable with that, but a track record will need to be developed, but the media interest, the consultant interest is all very encouraging.

And so, we'll see the next one we'll launch is the income fund and that should be later this year in the fourth quarter. The inflation fund will follow next year and the liability plus is already up and running and we have some large liability plus clients and we have some interest indeed from big institutional clients to put in place liability plus proposition for them. So outcome is going to be a major element of what we do.

You can't build outcomes without building on strong capabilities, underlying capabilities. So it's not credible to say we've got a multi-asset strategy if we don't have debts in the range of asset classes underneath. And thankfully, we do and we showed you the performance numbers at the beginning. And one of the things though that we hadn't done particularly well as Aviva investors was we had lots of people in different parts of the world that were tended to be orientated and focused towards running and supporting a geographically specific insurance company.

So, we would have a team in France that mainly looked after the French insurance company and were feeding their ideas on the interest rate curves and Continental Europe into a global investment process. Likewise, we had teams that were specialists in areas like sterling credit. Nobody wants to buy sterling credit, they want to buy global credit and we've got credit experts in sterling and euros.

In Asia, we've got - I mean, in North America and we had successfully built a global high yield capability by getting these people to work together. And that's been a really strong success for us. But we hadn't done the same in our investment group. So, what I've done on the fixed income side is we've globalized that put under a single head. And actually in fact the team are massively energized about the opportunity to share ideas and collaborate globally.

And again, from my experience in running global teams, that kind of collaboration across the globe feeding ideas and that is – fundamentally, my view asset management is a creative business. And creative businesses benefit from lots of different perspectives from people with different cultures and different mind-sets approaching the same problem. And we're already seeing the benefit of this that – the Strategic Investment Group meetings that I Chair, which is important for feeding ideas and to the AIMS range of funds.

So, globalizing the investment process concerned as – what's the benefit of that. But it will be a major benefit and it will increase our value-add. We need to open up whenever markets and proper fulfills, I'll talk a little bit more about this in the future, as we as we go through slides, but we will have brand, strength in certain geographies, but there are some big markets for example the North American market where we don't have brand strength for Aviva's brand strengths not strong. But we do have the opportunity to partner up and distribute through quite labeling arrangements.

And again in my career, I've done that quite successfully in a number of different geographies for example the U.S. and Japan and we're looking for the right partners to distribute our propositions. We need to build our investment distribution capability, I'll talk a little bit more about that when I come to the addressable markets for us.

We can – we talked about more and David and I we're talking about how we can help the other elements of the business to Power Up. So, we've got ideas that we can increase the return on our general insurance businesses by bringing some of our expertise there. We've got ideas about how we can put better propositions on the platforms in Aviva France and in Aviva UK for example. There is a lot of self-help stuff at the bottom.

The year before, I started Aviva Investors, 1,200 funds were closed down. We were running far too many funds and we had made the business so complicated for ourselves and it created an environment, where the control environment wasn't in the right place and it was simply just massively inefficient. So, we've already had a bonfire of funds. We will (01:28:56)continue to press down on that and make sure that we reduce the number of funds under management, so that we have got a better controlled environment, a simpler to run environment and that will make our ability to focus on the outcome-orientated (01:29:15) solutions all easier.

So the ambition is to have a simpler business that we're running for the rest of the Group, and that was to actually to (01:29:24) get in the vanguard of a controlled environment, having come from as many of you are aware well behind we're going to be moving right into the vanguard there.

Here we've (01:29:38) talked a little bit more about the propositions and how we take them to the market. So, in terms of working with the rest of Aviva, I do think being very excited and we're going to see at lunch time the digital capability that we have. I actually do think that digital will give us a colossal opportunity. When people engaged digitally, they are not wanting to see 1,000 funds. And when you look at the platforms that our industry has tended to put in front of people that's exactly what we do.

We say here are 1,000 funds. We are going to be able to say one effect (01:30:15) and we're going to Nick – David's (01:30:17) line here a red one or a blue one, a green one. We're going to be saying you know do you want – are you chasing return (01:30:22) inflation, are you looking for an income. There will be a lot of complexity behind that. We'll have to explain that. We won't be doing black boxes before Bill (01:30:31) could go through and see exactly where they are invested, and how they're invested. But effectively that point of engagement, when they're on their phone or they're on their iPad, we will have the opportunity to put (01:30:43) a very simple proposition in front of them.

And so, I think digital will be a real opportunity for us. And, of course, we are blessed with Aviva with having great access to retail channels through our insurance – our line of insurance businesses. And so again, touching on that point, hopefully getting a much greater share on the platform of the UK Life business and of Aviva France, and in working with the business as it expands into areas like Indonesia, and also working with partners like DBS in Singapore, hopefully able to distribute (01:31:22) what we do there.

So there is a great opportunity for us to leverage in quite short order. And I would hope that with the partnership model, some of the established long tail track records that tends to be a feature of my industry, we need to have a three-year track record before people start looking at you et cetera. Hopefully, that will go away to some extent.

We obviously will continue to market directly to institutional investors. So, we'll be doing what we always have done through the investment consultant community, taking our propositions directly to wealth platforms and (01:32:03) the pension schemes. And so, to some extent no change there. And by the way, we will sell both, our new propositions, our new outcome-orientated funds, whether that's a LDI or the return inflation and income propositions. But we will also sell our componentry, because the market isn't going to change overnight. The consultants will still be coming looking for best-in-class real estate managers – looking for a good high yield managers, looking for (01:32:31) credit managers and we will be there competing for that.

And the early indicators I'm seeing is, enormous consultant interest and the changes happening in Aviva Investors in terms of footfall through the business. So we've seen more consultants or we saw a more consultants in the first quarter of the year than we've seen in the whole of 2013.

We were looking for winnable new markets and the areas, where we can build strategic alliances, where we don't necessarily have the brand strength. And of course with my previous business with the (01:33:06) that was able to take that into North America through John Hancock (01:33:11), we were able to take into Japan with Sumitomo Matsui (01:33:14) and we've been looking for those kind of opportunities to take these simple propositions globally.

The great thing about these propositions is, they are so operationally leverageable, they sit (01:33:27) on top of our business, they cost almost nothing additional to manage and yet you can sell them globally and you can put them on the platforms. Those are a small number of funds. If I'm not careful I'm going to be eating into David's time. I've got a reputation for verbosity. I need to apologize for that. So I'll scamper through this. These are some of the things that we've been doing so far.

One is that my Exec Committee has changed dramatically. In terms of the additions we've made to the team just in the same way as Mark was taking some pride in the team he's built together. I'm colossally proud of the teams that I've been pulling together, which is substantially changed. So, we've brought in a new Head of HR, was (01:34:19) I brought in Mark Versey, he was the CIO of Friends Life and he's facing Aviva as a client, so he's (01:34:27) Global Solutions Directorate directly dealing with Aviva, making sure we've got the right propositions, engaging with Jason (01:34:36) to make sure that we can get better value on the balance sheet of the firm. So Mark is a huge addition to the team.

I brought in a new COO, we're in the process of a search for a CRO having a role of CRO (01:34:50) and there are some exciting candidates in the field there. So, we have substantially changed the Exec Committee, and I do believe we're building one that is compared with anyone globally in terms of moving forward. So effectively, we have done a lot of talks about the funds have being closed down, and then driving value through Mark Versey working with the rest of the business.

I'm going to skip this one. You've got it in your pack slide (01:35:19), I am already out of time. So, if I can summarize, we are moving from being a captive insurance asset manager with capabilities that were perhaps a bit siloed and a bit specialist, we didn't have the breadth. We had underinvested in distribution and probably a good job, we've underinvested in distribution because we didn't have very many really globally compelling capabilities and we had this hard to scale operating model built around legacy issues and there's no secret we had a controlled environment that went along with that.

We're going to be moving to a position where we've got a clear value proposition, excellence in areas of componentry leading to our ability to drive solutions that have meaningful significance for our customers. We understand on the simple, we'll be working across borders, our investment professionals in Singapore and then Chicago, working with the guys in London and Paris and Poland, and we will be able to develop propositions that stretch across asset classes. And we're working with the rest of the Aviva Groups to tackle customers both, in terms of the existing businesses and also an exciting new digital stuff that we're doing. And we just have a better controlled environment, that's simpler and easier to deal with and that's where we're going.

And I've not given any numbers to-date. I'm just going to throw one number here as I close. And I said at the start the profitability of an asset manager that substantially captive is to some extent discretionary, you would have seen that our cost of operating is around 12 basis points. We're not a high cost operating business, we still have some improvements we can make, but we're not a high cost operating business. We have fees coming in and are – what you would expect when you substantially look after your own assets. And so, we've been operating on a narrow profitability margin.

We don't need to double assets under management or anything like it to double profitability £10 billion to £15 billion into one of these outcome funds will double the profitability of Aviva Investors. And while I can't really here give targets and timelines, because it's going to be a function of our early success and it's going to be a function of how well we integrate as a Group, and all digital work we're doing. So our roots (01:37:52) to the market are many and varied and they're successful to some extent be dependent on execution and how quickly we persuade (01:38:00) people, but that we can execute on the strategy. I think is reasonable to expect that these new outcome or impacted (01:38:06) funds, which are high fee will be a major driver of profitability going forward, and we'll move the needle certainly Aviva Investors level and I believe also at the Group level.

And with that, I'll hand over to David

## A - David Barral {BIO 17035123 <GO>}

Thanks, Euan, and good morning, everyone. You'll see that the (01:38:39) and at group we take the diversification very seriously. So, you see that we'll get representation from both the West and the East Coasts. It's quite helpful as well that Euan and I are both keen on unification rather than independence, which is a strategic comment rather than a political one.

My name is David Barral. I'm the CEO of the UK Life business. I've been with Aviva for 15 years, and in financial services for 35 years this year. And obviously, during that time, I've seen a lot of market cycles and a lot of change that with 18 months and after the retail distribution review, two regulators getting into the (01:39:30) trade, the government's pension agenda and the Chancellor's recent budget announcement, Solvency II as well as changing customer expectations, certainly, the change is facing the industry that is radical as ever I've experienced.

So, I'd like to share with you in my session how I see the opportunity to improve the overall performance of the UK Life business in this environment, particularly the cash flow from the bank book as well as a strategy to grow the future franchise, including of course, a response to the post-budget retirement market.

First, a remainder (01:40:19) about the size, scale and position of the UK Life business today. We've got the top largest bank book by assets under management, but a multi-product provider with a number of leading market possessions. And more importantly in my view, we're second overall in market share by value of new business. We're also multi-distribution with clear strength in IFE and have strategic partnerships with some of the largest and better known banks and retail brands in this country. Something that may be a surprise to you is the size of our direct-to-consumer business which accounts for 19% of our distribution, mainly made up of annuities and protection. So we have large bank book, a large customer base, we're multi-product, multi-distribution, which I believe an important assets and give us a solid platform to build on.

Let's look at how we're performing. (01:41:31) earlier rather grudgingly at showing how the groups made some progress. I would describe UK Life as pretty similar. Our focus since

2012 has been very much in line with the groups and best of thesis of cash flow plus growth in that order. Since then we've increased the cash remittance by 50%. Profits been fairly flat, but we've grown the value of new business as well as embedded value. We've achieved that by rigorous capital management, disciplined pricing and significantly reducing our expenses as you can see. So we've made some progress in improving the performance of the business but clearly there's still much more to do particularly in improving cash.

Going forward, the strategy of the UK Life business is to continue to focus on cash flow. As Tom has already said, our bank book is a valuable asset that we can work much harder to generate more cash. That is a primary role. At the same time though I believe we have the future to grow the future franchise of the business and therefore future cash flows by focusing on specific areas of the market specifically retirement, corporate benefits for SMEs and protection.

The main thing is a bit odd for the Life guy to be up here with GI on a slide, but as you'll hear throughout the day, we believe we have a unique competitive advantage being the only true customer composite. This means we're the only company that's able to offer customers a complete one-stop-shop for all their insurance and savings needs, one can deliver simplicity and convenience for customers and additional value for shareholders. The protection is still an important area for us, but I'm not going to cover that in my session today. Steve Treloar will touch on this later in his demonstration of MyAviva. Instead I'd like to focus on retirement and corporate benefits for SMEs.

So let's start with the retirement market. I think it's fair to say that the changes announced and by the Chancellor in the budget were far more reaching than anyone could have expected. We were already working on reducing our reliance on annuities before the budget, so these developments have meant accelerating our strategy. Now clearly they have a material impact, but we do have a number of ways that we can respond to the new reality.

First, let's look at the facts. Our sales of individual annuities based on the weekly average before the budget compared to the average weekly sales over the last four weeks is down 34%. Now I've taken last four weeks because I think it's more representative of the budget impact beginning to work its way through. If you took the whole period since the budget, the reduction would be slightly less. So the reason for the fall is because customers are either taking small parts under £30,000 as cash or they're deferring their retirement decision until the 2015 tax year when the new regime becomes fully effective.

Now within this 34% reduction, external sales are down by 50% whilst sales to our own internal pension customers are down by only 14%, which makes sense bearing in mind the higher income offered by the built-in Guaranteed Annuity rates on some of our existing pensions. Interestingly I thing in both instances, there are lots of cases where independent (01:46:21) has been given are actually the most resilient. And our average case has size has actually gone up from £73,000 to £79,000 pounds after tax free cash.

So sales are currently holding up better than many commentators I think predicted and new business margins are broadly unchanged. So whilst it's difficult to accurately predict the long-term trend at this stage, it's my view certainly that any notion that the budget signaled to death of annuities is highly unlikely. Our best view at this point is that taking into account drawdown and other potential alternatives, the market is likely to settle next year at around 50% of pre-budget levels and that remains in line with the guidance of an approximate reduction of £100 million of value of new business. So we're being realistic and we're being prudent.

Now let me say a few words about bulk purchase annuities. In 2012, we made a decision to operate within a strict capital budget. Now rather than peeling out of the BPA market completely, which some people thought we did, we chose to focus on rating smaller schemes up to about £50 million, because we offered higher returns similar to individual annuities at that particular time. Since then (01:48:09) market for medium size schemes has adopted a more rational approach to pricing on a Solvency II basis and therefore we began to increase our appetite during 2013. This is a growing market. We've got a good franchise and we won't be (01:48:28) using our longevity expertise, medical underwriting, ability to source the right type of assets and of course it's a lot easier to put yourself in front of trustees with the Aviva brand behind you.

We've got 17 schemes into Q1 at good margins. We've now written a total of 30 schemes this year with a volume of £260 million, which is more than double over the same period. Demand from trustees continues to be strong as they look to lock in the value of current strong market conditions.

We're confident in the strength of our pipeline, get into the second half of this year and we'll consider writing slightly larger schemes where we can achieve our target returns. So, I believe we're being realistic, balanced and prudent about the impact from the budget. But maintaining a pricing discipline and a focus is very much on profit rather than volume.

So, let me now move on to a longer-term view of the retirement market. Even before the budget, it was becoming clear that retirement is no longer a point in time, but a transition for the vast majority of people. That said, the budget has created a new paradigm for UK retirement savings and it will take some time for customers to come to terms with the new choice and flexibility they'll have from April 2015.

I sat in a room recently with a group of customers coming up to retirement just in this room actually. And we were talking about the changes from the budget and there were two words that littered that conversation, fear and uncertainty. Fear of not having enough money or it running out; uncertainty about the choices and the complexity of all and fear about making the wrong decision.

So what the customers actually want? They want simplicity. They want certainty. They want choice. And they want help in making sensible decisions. And as you know 70% of the assets in this country are held by people aged 50 plus. And this is a growing part of the population. We have 6 million customers in Aviva aged over the age of 50 and 2.3 million in the Life business alone with a pension. So, we've got a large existing customer base, never mind the 23 million in the external market. So, what is it going to take to win in this market going forward?

Well, the first thing is it's not going to be a one-size-fits-all. So, you do need a range of components if you want to provide customers with a solution that can be tailored specifically for them. And we're already pretty strong here with various annuity options which we believe will still be attractive for many customers. An equity release of course can act as a supplement for that income. We also have an excellent IFA platform with all the necessary product (01:52:24), a wide choice of external funds, as well of course as Aviva Investor Funds.

We significantly enhanced the drawdown facility earlier this year. And as you've just heard from Euan, we've now launched the first of three Aviva Investor Funds specifically designed for the retirement market, which we feel very confident will attract a lot of support. So, we've got all the components to provide a compelling set of retirement solutions. We just need to work on the packaging. The one key ingredient we don't have is a direct-to-consumer investment platform proposition, and that's something that we're very keen to address.

So, given the increasing importance of investment platforms, let me update you on our current performance. You might be surprised to learn that Aviva IFA platform is about to pass the 4 billion mark, and it is growing very strongly, (01:53:32) inflows, about GBP 55 million per week compared to GBP 45 million before the budget. It's simple, it offers essential functionality without unnecessary bells and whistles. So advisors find it efficient and easy to use, and they love the convenience of accessing client information and reports online, including valuations on the mobile.

Now Euan touched on earlier, currently Aviva Investor Funds account for only 13% of funds under management on that platform, but a revitalized Aviva Investors under Euan's leadership together with the launch of the AIMS fund range, we both see an opportunity to increase this percentage over time to a best-in-class 25%, which gives us an enormous opportunity.

Now from a distribution perspective, our (01:54:32) remain a vitally important distribution channel for us. However, there are three factors I believe will accelerate the rapid take up of direct. First, IFAs cannot afford to serve the mass market; second, customers are simply unwilling to pay for full advice; and third, customers are increasingly going digital.

So, we're planning to launch a new direct-to-consumer platform early next year that will provide a simple, engaging digital experience for customers with easy ready-made packaged solutions or the ability to self-select depending on their level of confidence. And from the research that we've done with customers, we know that they're supported by help and guidance from a brand like Aviva will be a compelling customer proposition that will at least take some of the fear out of retirement.

As I mentioned in the beginning, we already have a substantial direct business within UK Life, so this is a natural step for us and it's also a way, I think for digital savvy IFAs to offer some of the clients a self-serve option alongside advice. So, in summary, the change to individual annuities clearly has had a material impact. But looking across a full set of retirement solutions, BPA and IFA, investment platform, drawdown, equity release, they're all significantly up.

In addition having just launched the first of a range of new Aviva Investor funds and looking forward to launching a new direct-to-consumer platform next year, I'm very optimistic about building this business from a position of strength.

I'd now like to move on and talk to you about another specific area of the market where we have an excellent franchise and are poised for further growth. As you know the UK Government has introduced a new law, designed to help people save more. Between now and Q1 2018, 1 million small businesses with up to 250 employees are legally the client to auto-enrolled; eligible workers (01:57:11) into a workplace pension if they don't already have one.

This places a huge burden on employers to set up the scheme and to demonstrate compliance (01:57:28) pension regularly. To give you some sense of that burden; the National Association of Pension Funds, somewhat ironically, under the title of New Rules for Pension Saving Made Simple, have produced no less than six guides to help employers to explain their duties; and the pension's regulator estimates that over 80% of those employers do not have an existing pension scheme. So, we have segmented that data further to identify those companies with above average salaries and a more stable workforce and we estimate that 660,000 would fall into our target market. This represents a significant opportunity for the Aviva for three reasons. One it's at heartland, we look at strong franchise right across Health, Life and GI.

Secondly, IFEs can afford to service these small employers for Auto enrollment, provide an opportunity to serve them directly. And thirdly, it's actually higher margin business, typically 50 basis points on the pension compared to 20 basis points or less for a large corporate scheme. And benefits of course, further from margin from using the Aviva Investor as a default fund, which is lately it's again for 80% of the fund flow.

So, the strategy is clear. We've got one of the leading Auto-enrollment tools in the market, which we're going to demonstrate for you a bit later. That makes it simple and cost effective for the employer to set up and demonstrate compliance with the scheme. This then gives us a great opportunity to leverage our true customer composite advantage.

And the testing that we've already done, we know that small businesses are temporary that get demands for other insurance across good life, good health as well as a range of general insurance needs and we know that we welcome the convenience of managing that through one relationship. So, our view is Aviva is uniquely placed to offer such a complete one-stop shop for SMEs and own the space in the market.

So, talked about two areas of the market where I believe we can win and we can grow a franchise to generate future profits. Now, I want to come back to how we unlock the value of the biggest asset, our back book. Now, this is a significant business in its own right and picking up in John's question earlier, we choose to define this by essentially so accumulation business, excluding the platforms such insourced and outsource, the essentially accumulation excluding platform. It's got about £80 million under management. It's got 3 million customers and it generates around £350 million in profit.

As I mentioned earlier, I think we've made some good progress in reducing some of the costs. But when I look how we compare on external benchmarks, on unit costs and lapses, we're worse than median which affined unacceptable, certainly as a skilled player. Given that the back book costs are around £300 million and the on average were around 25% of the top quartile, the opportunity to increase cash flow is substantial. So, if it gives us the appropriate priority and focus, we're formed a back book business sale. We've also recruited an experienced leader and strengthened the management team, who're adopting what I would call a forensic and systematic approach across three key areas costs, retention and capital.

Firstly on costs. Two of the biggest areas we've got to go on is automation and digital. We still have too many systems and labor-intensive processes. Technology advances and redesigning our processes using systems thinking, which I'll leave Nick and Scott to explain later, gives us the opportunity to automate between 40% and 50% of activity across 122 centers, completely eliminating many administrative tasks.

Similarly, with digital, today we still send over 40 million individual pieces of paper, including statements and other documents to customers. And those same customers spend an average of 20 minutes on the telephone, who have the biggest demand is for simple information that could be more easily accessed directly and more quickly online through MyAviva. So, the ability to radically improve the service for our customers, simplify the business as well as significantly reduce the costs as absolutely enormous.

Turning to retention, we've made some improvements here as well, particularly in working with IITs to avoid some of the excessive channeling and bonds a few years ago, as well as recapturing some of the older pensions onto the Aviva platform. But when I look at the benchmarking on lapses, we are at best median. Maybe we've got a single customer database allowing customers to see all the holdings in the one place under MyAviva. This is already driving a much higher level of engagement with 175,000 customers since March, checking the pension and bond valuations for the very first time. We're also investing in data analytics to enable us to predict customer behavior in new segments and most likely to lapse and engage with them much earlier.

And of course our direct-to-consumer investment platform, I mentioned, when its launched will give us a step change and been able to give the customers a much better offer, med policy and maturity.

And finally, capital. We're looking strategically a number of areas, including greater use of reinsurance and timely to leverage the group-wide diversification benefits, which of course in turn reduces our capital requirements. We're also considering managing UK legal entities and fund structures to simplify and optimize for Solvency II and we're looking tactically about what further opportunities we have to de-risk the balance sheet. So, I'm pretty confident that with a ring-fenced management team and a forensic focus, we can unlock substantially more cash from this back book sale.

So, in summary, we've made some good progress in the overall performance of the UK Life business. We have a clear strategy based on growing the franchise by targeting retirement solutions, SME corporate benefits and protection. It's the area of the markets where we believe we can win, leveraging a composite advantage and creating a simpler, more engaging digital experience for our customers.

So, there's no question that the budget changes have been disruptive. But from that comes opportunity with a strategy to respond to these changes and use them as a catalyst to grow our platform business, working together with Euan and Aviva Investors.

And although, I cannot predict exactly how the market will unfold, the one thing I am absolutely certain of and it's in our own guest is unlocking the value and the cash flow from what is our biggest asset, our back book.

So, thank you. Euan is going to join me up front, and we'll be happy to take your questions.

## A - Colin Simpson {BIO 15894636 <GO>}

Okay. You want us to send (02:06:54). Okay. First question here. So, if you say your name and where you're from, because I'm not familiar with everyone in the room yet.

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

Yeah. It's Jon Hocking for Morgan Stanley. I've got three questions, please. One for you, two for David. Euan, I know it's very early days, but could you give us some idea of the split you expect between direct retail, retail through this more traditional channels and institutions in terms of the new fund range you're developing? So, first question.

The second question on the UK. The UK direct investment platform you're going to launch next year, is that going to be Investment products, Life products, but also including GI and investment management, or are they going to be separate go-to-market direct solutions for the business? And the third question is, to what extent are you constrained by discretionary outsourcing deal in reducing the unit cost of the Life company? Thank you.

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

Okay. Well, I can deal with the first one. I think the institutional market is the hardest to predict. And that many of those assets effectively as Boards of Trustees that are in control. So, you have to win the approval of people with deep fiduciary responsibility and they simply can't decide to allocate money to an asset management business that doesn't have a bit of a track record and a bit of process behind it. And so, I think that might take a slightly longer.

So, in terms of the ordering of the money coming in, I would expect, it would be coming in initially on the wealth platforms and so on as some of these things switch on. We've had some quite good encouraging news in terms of people intending to rate the fund. The first of the funds we have launched right from the (02:08:43), so that's encouraging and that can drive some flows from wealth platforms.

Obviously, I'd be hoping our own digital platform, which is now making it available. So, I would say you can't buy the fund digitally at the moment, but you have to be quite determined. You got to go through and find I think we can make improvements to that. And once we have made those improvements and I would expect we can sell more in our own digital platform.

So, it will start with traditional wealth channels, other people's platforms. Maybe some people buying into as a diversification strategy away from funds that are similar in orientation and then moving eventually into the institutional space. So, I can't give you the break down, because it kind of depends on the timeframe.

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

Picking up on your question with direct-to-consumer (02:09:39). So, we will launch a direct-to-consumer investment platform that Aviva customers will access that will be through the one front door, which is MyAviva and you'll see the MyAviva a bit later. So, that will be the orange and meets (02:09:52) under the one place.

In terms of costs, the vast majority of cost is within our own gift (02:09:59), and we've got – (02:10:02) huge amount of opportunity both in terms of reducing our own costs as well as Tom mentioned, Group Centre costs and our own shared service cost quite frankly within our Life business. So the vast majority really as within our own gift (02:10:16). Okay. Thank you.

This gentlemen here.

## Q - Colin Simpson {BIO 15894636 <GO>}

(02:10:20) So, Dave on the cost question, obviously, in the Life business has got pretty big now outsize in the UK. So, £4 billion or £5 billion for the last few years and there is no reason to think that's probably going down if you go to the wrap (02:10:36), but the stuff that's coming in is coming in at a very low margin, because it is (02:10:41) online done, there is no need for any administration.

So, how you are going to cut the costs and keep them low as the business runs off quite quickly? I mean isn't – there are kind of this economy of scale thing going to make problems worse, so you're going to be kind of whacking a mole (02:10:55) and cutting costs for this – modest (02:10:58) economies coming through?

And I guess the second question which – here in terms of how much investment is required to Aviva Investors, as we cut off (02:11:06) money into the business in the past.

And as a Group, we'll have to inject money to Aviva Investors to achieve the turnaround strategy going forward? Thank you.

## A - David Barral {BIO 17035123 <GO>}

So, yeah, I'll go first. So, I mean the way we're looking at it is, we've got if you take the non-profit fund flow, it's actually positive already and quite strongly positive. So, if you take into account yield, what (02:11:33) profit stuff, sure there is still and - we're still in negative territory. We actually expect for that to go total positive by 2016. And, if you - in terms of how we are looking at the economics of it is very much about what I obviously (02:11:50) described in there, which is kind of forensic (02:11:52) ruthless focus on our existing assets and existing book and how we manage that and run it for cash flow, and then we're looking at the new kind of, if you like, (02:12:01) platform stuff on it.

So, how do we grow that and get it to the right kind of level of scale, and but managing that (02:12:08) cost, doing it in a much low cost environment. And, clearly, it's a capital-light. And so, once you kind of get it to the right place, it's actually kind of profitable (02:12:18) business and (02:12:18) capital. So we're splitting those two - that's where we think (02:12:21) the two things separate. But the reality is, going forward, those are lower margin. But as I say better capital-light product.

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

Yeah. The other thing (02:12:33) dealing with the margin if you forget for a moment about the split between the Life business and Investment (02:12:37) business. If they are coming onto the platform, and they're buying higher margin propositions from Aviva Investors, you get the benefit of the either Group.

So, someone said, they come on and they buy a vanilla balanced fund, they might get that, I don't know, for 30 basis points or something, certainly that would (02:12:54). Whereas if they come on and they buy a target outcome fund, that's 75 basis point. So there's a material difference, if we can excite people about the content we are manufacturing going on to the platform.

In terms of - just dealing with the second questions in terms of the need for massive expenditure. No. I think we can do a lot of this from a self-help point of view by simplifying our business - the existing business at the same time as investing for growth. There was substantial cost savings came out of Aviva investors, we simplified already. We can do a little bit more, but at the same time focusing on growth. So there's no major investment required.

Okay. This gentleman here. No, I'll come back to you.

## Q - Gordon Aitken {BIO 3846728 <GO>}

Thanks. Gordon Aitken from RBC. Three questions, please. First on your pensions business, I mean, (02:13:56) and you mentioned just there that their non-profit influence has been positive. What happens post-2016, when trail is turned off? And when do you expect those inflows to come off or maybe outflows?

And secondly on, Tulloch (02:14:09), you talked about medical underwriting, just how does it work in practice? Is it questionnaires or what do you ask? And just finally on individual annuities you said the internal sales are down 14%, can you just split that between those annuities – those GAOs and those, which are standard please?

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

Okay. So, perhaps I'll answer the first one and then we're fortunate we've got Clive Bolton that runs the Retirement Solutions business can maybe pick up in the detail in the second.

As far as the – yes, we were one of the last commission payers, and actually we took, I think what was a pretty bold step recently and announced to the market, which has been welcomed, despite have been tough (02:14:52) , which is we're removing commission by the end of this year, which is well ahead of when we're required to remove it from a regulatory standpoint.

And the reason we're doing that is because we think it's a better thing for customers and actually it's a better thing for us long-term, because although we take – we do take a hit from it. And then from a value and new business terms over the longer term it's actually positive to us in terms of the capital reserves for us (02:15:20).

So I don't expect it to affect our business at all, quite frankly. Our (02:15:28) are looking quite good. And I think the proposition we've got over there now is very strong. And it's going to be quite difficult I think for employers to move some of the schemes and when advisors on the basis of what they're getting charged (02:15:44) for. And we're already operating in a very competitive way, the service is good, the online functionality is good. So I'm reasonably, reasonably confident about our persistency there?

## Q - Colin Simpson {BIO 15894636 <GO>}

You're quite (02:16:01)

## A - Clive Bolton {BIO 4720574 <GO>}

Yeah. Thanks. This is Clive Bolton here. So, I run the Retirement Solutions business. On the point around use of medical information. This is particularly relevant to the small schemes, where perhaps up to 100 members, where the overall experience of the scheme and you can't rely on, so you have to add additional information.

So I think, this works in two ways. On one level, we give a survey of all the members. So we get the medical information through and we use or understanding and knowledge around how that medical information impacts to (02:16:33 cover. But also interesting, we increasingly see the option to apply that technique to perhaps a small and highly-valued members and particularly for the small – for the very small schemes, where they might dominate.

And we're feeling that. It gives us an advantage and I'll show you (02:16:55) some of the tech that we have developed over the last couple of years. In that area of small VPAs

(02:17:01). And just a point around the internal business, where we sell annuities to our own customers, (02:17:10) the guaranteed annuities account (02:17:13) just under half of our business.

And if you like the non-guaranteed part (02:17:19) for internal book. The reduction is around about 25%.

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

Okay. Thanks, Clive. I promised to come back to this gentleman, here.

## Q - Colin Simpson {BIO 15894636 <GO>}

Hi. Good morning. (02:17:36). Just two questions. Firstly, how many statutory funds do you have in the UK back book, and is there a target number that you want to merge down to? The second question is for Euan. How much do you think Aviva Investors can contribute to the group earnings in, say, three to four years' time. Do you have a target in mind?

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

Okay. Do you want to...

## A - David Barral {BIO 17035123 <GO>}

I mean on the specific number, I couldn't give you, no, but I mean, the biggest opportunity we've got is around UK annuity and UK – what we call UK Life fund and that's where we think there's the biggest opportunity basically to make it far more efficient probably just from a capital perspective. I don't know if there's – Euan do you want to make couple of (02:18:26), if you want to pick up in that?

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

I agree, David. I mean, they are the two major funds and Solvency II works best when you have few funds as you know, so that's what we are focused on over the next few years. You may have seen we've looked to bringing our Irish business into the UK. Having done that in GI, we're looking to do that in the Life business transfer that across. So, these things will take time. But if planned and executed around Solvency II, it will give this very large capital benefits, but also simplify the organization considerably.

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

Yeah. Just in terms of the contribution to profitability, we do have some numbers in mind clearly. I mean, I think within three years, we could easily double the profitability of Aviva Investors. And then I do think that we've publicly said, or Mark's publicly said, he has this 20/40/40 Vision by 2020?

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

Actually, I haven't publicly said.

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

Okay. Sorry, I thought that was fun. So, in terms of - I've not got a plan. What I was going to say is, I've got plan to get their organic, but we can make a good start, but if we're successful with our proposition.

## A - Clive Bolton {BIO 4720574 <GO>}

Sorry. This gentleman here.

## Q - Farooq Hanif {BIO 4780978 <GO>}

Thanks very much. It's Farooq Hanif from Citi. Quick question on the help in guidance that you can give them, B2C, is that purely electronic with the chart, so can some people speak to get technical advice? And going back to the kind of growth question in Aviva Investors, it seems to me that - you've got a lot of consultants trust, you've got the track record in the funds, just in terms of the external fund and growth, could you give us a bit more of a comment on how quick do you think we'll start to get funds, do we have to wait three years, for example? Thanks.

## A - David Barral {BIO 17035123 <GO>}

Well, I'll do the Life question first. In terms of - I was hoping, we don't have to wait three years. I mean, I think, what I would say is that unfortunately with these things, there's an extraordinary amount of attention going to be paid to the first six months of performance. I think anybody that run an investment process knows that great fund managers can have a bad six months. We just need to hope it's not the first six months, because that's going to push the traction and so, I mean, I'm absolutely confident we've got a great team, we'll be able to build propositions that deliver on a two to three year time horizon. But we're going to be watched very, very carefully over the next few quarters in terms of delivery.

If we do well, and might not be the right thing to do, in terms of people should actually be assessing investment processes over the long-term, looking at process, looking at team, but I think that - and we will see some flow, I think people will start switching, diversifying away from their incumbent fund managers. And so, I'm optimistic we'll see some flow. But, in terms of our planning, its backend loaded over a three-year window. So, I wouldn't want to raise expectations too high, but I do hope that whatever our expectations are, we'll be able to exceed them.

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

On the platform in terms of, I'd say it was (02:22:04) My view is, if customers, if they come to us directly, I think 10% will probably buy complete self-serve without needing any form of interaction. On the other hand, I think it's probably 10% and people will need (02:22:24) advice. We're in the middle, so 80% of our customers and I'm not talking about the market, I'm talking about our mid-market customers, I reckon will buy with some help and guidance.

Now, I mean that is clearly non-advised and regulatory to speak. It's not advice, but I want to get to a place where we can help them perhaps even (02:22:44) to take them through the process online, help them do it and make it as simple as possible. We'll give them the tools and calculators, but ultimately over their decision. So, we will give them the technical help. We'll effectively walk them through it. And no, we've got to agree that, you know where the regulators making life difficult on this stuff, but I'm meeting with them tomorrow to discuss this very subject. And basically they have to start shifting and help in the market, because customers really need it and we want to help the customers.

## Q - Colin Simpson {BIO 15894636 <GO>}

(02:23:13)

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

Yes. Absolutely, people are there to help customers through that process. Absolutely.

## A - Colin Simpson {BIO 15894636 <GO>}

We go to the very back. This gentleman has been (02:23:26) again for a while.

## Q - William H. Elderkin {BIO 3349136 <GO>}

Hi. It's Will Elderkin from Goldman. I have two questions, both for David I think. Firstly, you've put up a slide showing I think over the last couple of years your expenses are down 22%, I think operating profit up 1%. Can you just walk us through the big movements on the revenue side and revenue margin? And then, how those are likely to develop over the next couple of years? And then secondly, can you give us a sense of what the minimum efficient scale or breakeven scale of the two platforms you have up and running on?

## A - David Barral {BIO 17035123 <GO>}

So, on the first point, in terms of - sorry, just remind me the first one again?

## Q - William H. Elderkin {BIO 3349136 <GO>}

You put up a slide showing, cost down 22%, profit up 1%.

## A - David Barral {BIO 17035123 <GO>}

Yeah. So, the costs were down, but profits only up 1%. So, I mean, the two biggest movements on that is one, we lost an I-E tax advantage, also some of the cost savings don't yet flow through, which we should do over the course of next year. And quite frankly, we traded some profit to reduce volatility on the returns. So, we effectively hedged. And those were the kind of the three key things that kept our profit roughly flat. The actual underlying profit, so the underlying businesses were up.

Yeah. Okay. Okay, yeah, I just realized.

## Q - Andy Hughes {BIO 15036395 <GO>}

Thanks, guys. So, it's Andy again, Andy Hughes, Exane. Three questions if I could, quite quick ones. I'm just trying to understand following up on the point, the point that you've kind of made about ALM and working the assets differently going forward. What does this mean for the UK business? Is it annuity assets or investment differently that's going to drive higher returns, or is it reversing the decision to reduce volatility that you perhaps made in the past?

I guess the second question is, why would someone buy an Aviva Wrap as opposed to any of the wrap on the wrap market is it going to be cost or price or what do you see as Aviva's role in this market given as already quite few companies out with very low cost products. I think, they've gone in the retire ready or every school product. Okay.

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

Okay, yeah. Okay, that's great. Tom takes the ALM question in a moment, but I don't think it's much on the UK Life.

## A - David Barral {BIO 17035123 <GO>}

Yeah. I mean, as far as the platform concerned I mean, on the direct-to-consumer space. Quite frankly, I would say to Harker, he is nobody is kind to share. So, as far as I'm concerned it's all to play for, why would they choose us. They would choose us because it's most simple, most engaging online experience and with a brand look that was - if we can get some guidance we talked about, we know of certain rooms with those customers to better hands off to help them through.

So, I'm very confident. And the another thing is that if we can package those solutions and bring to make it easy for example I mean the funds that to start just launched, it's particularly when we get to an inflation plus fund with low volatility that's what our customers, we know that's what customers want. So it's making us wrapping up and packaging it and making it easy for customers to buy that's why I think it will differentiate us.

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

I think just the point I was going to make was, I made in passing when I was talking about the fact that a lot of platform providers think they're having thousand funds is really helpful, and it just doesn't. And I think that simplicity, but also having high-quality content. So, I think a lot of people mistake simplicity as being cheap provider. I don't think, we want to go there. We will be simple with fantastic content and that nobody has really cracked that.

And do you want to deal with the capital question, Tom, in terms of?

## A - Thomas Dawson Stoddard {BIO 15071280 <GO>}

Sure. In terms of ALM, I'd say that this is not limited to UK Life, this is really across the board. So, if I had my Canadian CFO here, we could sort of give you examples of some of the things that he would like to do, I think just more broadly around additional asset classes and strategy.

Again, this is not sort of an intent to just re-risk the balance sheet and it's not limited to just annuities in the UK. This is something that's really broad based. So, it's our GI business and what we're doing investing there to get more return. It's what we're doing in France, Canada, everywhere. And UK Life is part of that. We'll look at new asset classes, et cetera, but, as Euan was saying, this is about sweating the balance sheet harder, not so much, it's just sort of increasing risk and things that we already do.

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

Okay. Any other questions? Okay. Let's turn it over here.

## Q - Alan Devlin {BIO 5936254 <GO>}

Thanks. Alan Devlin, Barclays. Couple of questions for David. First of all, on BPAs, you mentioned BPA is a growth market, do you think your BPA market grew to more (02:28:34) offset the decline in the individual market, given the macro trends in the economy, given interest rates equity markets, et cetera? And would Aviva be willing to put - reallocate the capital from individual market to the BPAs if margins were attractive?

And then just secondly on the auto-enrolment, is the auto-enrolment business improbable today? And how do you expect to acquire (02:28:55) 600,000 customers which will be potentially direct consumers? How do you actually go about acquiring those customers? Thanks.

## A - David Barral {BIO 17035123 <GO>}

Okay. So, on the first point in terms of annuities BPA, I mean the fact is we were only going to go after the BPAs, our target returns and that's the first thing. So it's not where we're trying to balance the volume. Clearly, we do have capacity, given that the individual annuity market has come down. Whether we actually managed to close the gap completely, I don't know, but that's where the market is growing. There's no question that the economy has improved, companies are really keen to divest their own balance sheets and we have seen a very active market for particularly in the small to medium size.

In terms of auto-enrollment, if you would just turn it simply for purely auto-enrollment alone, that can level (02:29:54), you probably wouldn't bother. The fact is that when we take the whole package over, so we've been able to do auto-enrollment, we have been (02:30:03) able to get further increments on the back of it and then have been able to leverage own advantage, because we're already beginning to sell group health, group life, group income protection even to these people.

Never mind the GI saved (02:30:15), we think we've got something here that is very profitable and we can do that right. How we're going to get them direct? Do you know what? So far, we are inundated at the moment without even trying of people coming to us asking us for them to help, them because the market has not got the supply of a base to help them in it. So, they're coming to us and by the way, they have to work quite hard at the moment to our system to find us. So, we haven't even tried yet and we're getting a huge number of inquiries. So, we're pretty confident we can get to them okay.

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

Yeah. Okay. This gentleman, he has been trying to come for a while.

## Q - Colin Simpson {BIO 15894636 <GO>}

(02:30:55) Morgan Stanley. So a couple questions for David, please. Three more response to the PRA voicing its concerns post-budget on a couple of aspects of the UK Life market. So number one, the impact of increasing competition on the remaining annuity flows that you will see post-budget. And then, secondly concerns around new product design to sort of replace those retirement products where the insurance companies will know the risks they're taking on. So, I was wondering if you could just maybe respond to both of those points.

## A - David Barral {BIO 17035123 <GO>}

So, I mean if you saying it is the – what's our view on where FCA are in relation to how do we feel about it, I mean we start from a point of view, what's the right answer for the customer. What is it the customer is trying to achieve as it a way of being able to kind of meet that need from a practical point of view? So, a good damn thing might be people have said (02:31:51) annuities might be an answer. Well, I mean I know the experience that certainly the first flush of those were far too complex, too expensive and didn't necessarily justify the cost in terms of benefits to customer. We're looking at what – trying to solve the underlying problem.

So, customers want a guaranteed income and they don't want to let their money. So we think it may be cleaner for example to take an AIMS fund that may have been in inflation plus (02:32:18) for example when outcome that is franchised and then looking at how can we put on top of that our longevity guarantee, our longevity insurance. How do we protect that customer from having to live (02:32:31). So, we're trying to make it clean, simple and as I said I'll be discussing this as well tomorrow with the FCA, but I think to be quite frank, they're looking to us. They don't advance us, they're looking to us to come up with those kind of solutions and then, of course, (02:32:49) that's a good outcome for customers and we're pretty used to doing that.

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

I think PRA was also talking about I think the effects of that moment.

## A - David Barral {BIO 17035123 <GO>}

So, actually they made it more customer focused, but maybe the PRA specifically was more worried I think for the regulatory for its control and solvency issues might be linked to that.

## Q - Colin Simpson {BIO 15894636 <GO>}

Oh, yes, no question.

## A - Thomas Dawson Stoddard {BIO 15071280 <GO>}

We find both the PRA and the FCA and recently we've talked them through our strategy and I think they are quite, quite comfortable, in fact quite impressed with some of the thinking that we've done. I think the PRA shouldn't be surprised that in propositions of the future or how (02:33:27) less guaranteed elements to them, because any industry that has to hold enough capital to withstand the one in 200-year event is going to have to charge quite a lot, for any promises it makes.

And I think that in the future, we will be investing, as if we had made such a commitment, but we will not necessarily be underwriting every element of it. So, I think it would be a much more selective underwriting of risks that people just simply can't afford to live with, which interestingly some things, as you move it down to associated (02:34:02) economic order, it becomes much more critical to have a guarantee for less affluent people than for more affluent people.

So, in our target, where we would think (02:34:12) some elements in there, but we have to – the regulatory needs to be aware of the consequences of all of the regulations and they are.

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

Okay. I think, (02:34:30) the break. Okay.

## A - David Barral {BIO 17035123 <GO>}

Will do that one.

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

And we'll like to that. Okay. We'll have a break now for half an hour...

## A - David Barral {BIO 17035123 <GO>}

And back when – back when?

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

15 minutes ago that round two (02:34:38).

## A - Maurice Tulloch {BIO 17683736 <GO>}

If I could just ask everyone to get back in their seats. We'll stick to our on-schedule thus far. I don't want to blow that. It's interesting, I was listening to my colleagues and listening to my (02:34:58) colleagues talk about diversity. And some of them is born in Scotland, I had to work on my accent, I wasn't never quite sure, I was East Coast or West Coast, but I can tell you, I'm sure glad that with the arrival of Tom and Christine and Monique, I'm actually going to represent the East Coast of North America here today. It was great to see everyone last night, see a lot of familiar faces and also meet some new folks.

For those that I haven't met, I'm Maurice Tulloch. I've been in Aviva for 22 years, most recently as CEO of our Canadian business, prior to taking on the role as CEO of our UK and Irish businesses last September. And I've had to alter my focus from frost quakes and snow loads and earthquake risk to things such as tidal surges and subsidence and groundwater and industrial deafness.

However, the principles of insurance remain the same, pricing, underwriting, claims management and cost. They still remain key. And additionally, I've recently taken on the responsibility as Chairman for Global General Insurance for Aviva. And when I see, it is critical for our GI businesses that we have alignment and consistency across the group.

And during these last few months, I made a number of notable similar (02:36:19) appointments, including the appointment – Dave Lovely, Global Head of General Insurance claims, Colm Holmes, who is here today as our new CFO, and Sharon Ludlow, President of Aviva Insurance in Canada. And what struck me about those appointments is the attractiveness of this terrific company and this terrific brand to these world-class individuals.

If I turn to our business and look at our general insurance business at a glance, our insurance operations are large business in their own rights with 15 million customers, £8.1 billion in gross written premiums and £17.5 billion in assets under management. We're a profitable business, the combined operating ratio in 2013 of 97% and operating profits of over £760 million. And as a collection of businesses, we delivered over 40% of the group's cash flows in 2013 with dividends of nearly £540 million. We have a diverse range of businesses from number one, here in home market, number three in the Irish market and a number three position in the attractive Canadian market. The UK and Canada are established scale cash generators and our global centers of excellence and things such as predictive analytics, as Mark alluded to, underwriting and claims management.

Here, in France, we're a mid-sized player, but what gets me really excited is we're number two in the direct market and have immense potential to grow in that market. Our turnaround markets of Ireland, Italy are focused on improving profitability and cash flow and both business units are making great progress in 2014. And we've increased the important direct businesses in our growth markets of Poland. We're number three in the direct market in Asia with our presence in Singapore.

Both these growth markets have shown that it's possible to leapfrog straight to the direct model by injecting mature market technical skills and pricing in underwriting and coupled out with great market-leading direct techniques that we have in the UK, which I'll speak to later.

If I turn to our financial metrics across these six dimensions, certainly we've had some decent performance, but I think the overwhelming message for me is there's still much, much more we can do. And our focus in the last years has been on cash flow, reflected by increases of 42% to nearly £540 million and on our COR at 97% was satisfactory. It is worth noting that these did include two major floods in Canada within a three-week period, both of which are (02:39:10) events and that it impact overall of £130 million on our results.

But even including these extreme events, the stability in our results is reflected in our combined op ratio at 97% and it does reflect the balance and relatively low-risk, short-tail business in both geographic and product diversification that we have across our markets. Operating results reflect the low interest environment and particularly reduction in internal loan interest in the UK General Insurance, which did provide an £84 million uplift to 2011 results.

Our expense base has been reduced by 11% over the last two years. I would turn to this later, including very much the need for continuous improvement in our cost to income ratios, most notably in our UK business.

So, what am I going to focus on? I'm focused on the relentless drive to increase our cash flows, grow our efficiency and further embed analytics, not just in our general insurance businesses, but across Aviva. Let me take these in turn. Firstly, growth, in our GI businesses, our volumes of overall contracted by 5% as you saw in the last slides over three years, an entirely unsatisfactory result.

But let me be clear, this is a UK problem. Our other general insurance businesses continue to grow and what I consider a very healthy margin of 5% to 7%. And our UK decline is actually, not mean a three-year pattern, our UK business has declined over the past 10 years broadly, while it's had some ups, generally the business has gone from a high watermark of about £6.2 billion down to the current level of about £4 billion. And when I first got here last September and I looked at that and I looked at the attributes of our business with the brand recognition that we have with a leading multi-distribution platform with tremendous recognition from our distributors with effectively basically all of the major financial institutions being partners of UK, I was certainly puzzled by that. And I made a commitment to Mark that our UK business would start to grow within 12 months. That's a commitment that remains and the commitment that I'm very confident in achieving.

So, where will this growth come from? We're going to grow our direct retail personalized business in the UK, a business where we leverage our market-leading capabilities and also the unique composite advantages at the store (02:41:55) Aviva. First of all, we increase our attention to existing customers both through improved product offerings, ease of doing business and by increasing our avid product holdings, which is an area we have tremendous upside, given the breadth of our product offering and the strength of our brand.

In commercial lines, we have particularly strong and profitable businesses both here in Canada and the UK, both of which I believe also have growth potential. Secondly, we need to improve our overall efficiency, which ultimately leads to cash generation. We'll tackle that through our efficiency ratios and we'll also tackle that through automation. And one of the reasons that I brought Dave Lovely, who used to run claims at ACE, they've done just that in terms of automating claims.

Finally, we'll focus on driving analytics across our business. We already have market-leading capabilities within our Canadian General Insurance business and areas of significant strength here in the UK as well. Our strength has historically been in risk analytics, which are capabilities that we're looking to exploit across all Aviva business units. However, we're also now expanding our analytical capabilities beyond traditional risk into both customer and behavioral analytics.

So, actually, this next slide, this is actually the first time we've shared some of this data. So, I think that some of you might be quite interested. You've heard Mark talk about our focus on digital first. And we also have Steve Treloar here, our Managing Director of UK personal lines here today, who'd be walking you through demonstration at lunch.

But you know what? This is not just about our direct business, it's about enhancing our digital capabilities across our platforms, which will help us even better support our customers, partners, brokers and ultimately grow our business. For instance, we write approximately £1 billion of personal motor claims in the UK. And as was mentioned earlier, 60% of that is written through our direct business.

With respect to retail personal lines, lower operating costs are critical success factor. We've seen markets is falling (02:44:06) changing consumer demands around the world, most notably with the growth of aggregators in the UK accounting for nearly two-thirds of all new business quotes. And the way I look at it low cost is not an option. This is a critical business imperative in the highly commoditized world of retail personal lines. And this is evidenced by our recent experience in UK, which has shown that our direct business underpinned by digital capability analytics is providing a platform for growth and exceptional customer experience.

And against what's been a rather down-market in the last few years, our direct business has grown by 8.5% and our customer policies have grown by 15% over the past three years. And perhaps the most encouraging sign is our combined operating ratio, which has demonstrated a consistent result in the sub-90% (02:45:00) COR category. When I arrived, everyone warned me about UK motor, well, are you sure you want to go to UK, it's a vicious product line, no one makes money at it.

So, let me give you a few observations. Certainly it's the most competitive market I've ever seen in the world. But if you actually have a business model that's strong in analytics, is strong and cross-sell, you can actually drive up your retention and you don't constantly get stuck in the trap of a new business strain, if you have a low-cost platform, actually you can make money in UK motor. And I'd also say that as a leader, we continue to push for stronger and tighter guidelines and things such as fraud and I was most pleased a few weeks ago, Aviva didn't need to get any credits.

But when Chris Grayling came out and said that they would be sending directions to the court about being tougher on fraud and also more importantly exaggerated claims, which by the way are fraud as well, we took a little bit of a slight pat at the back at Aviva. I think it's also useful to talk a bit about, you know what, I could get a brand (02:46:10).

So, if I moved to Quote-me-Happy and GA building on the unsuccessful Aviva direct platform we launched, Quote-me-Happy in 2011 and General Accident in 2013, these have now grown to net written premiums of over £130 million. Both of these brands are run from the same contact center just south of here across the river and we employ at this (02:46:34) 30 people to handle over 340,000 customers.

The cost base is a correspondingly very low and our marketing is done online. Customers are able to see all their products in the same place and can validate their customer documents using a simple service app. It also means policyholders stay longer and buy more on our direct platforms as shown by the relatively better retention rates and our average product holdings compared to our broker business. One of the challenges certainly for 2015 will be increase our average product holdings, because certainly looking at those levels of two and our UK Direct business of 1.5 in our broker business while Direct is demonstrably higher, I'd still strike me as those are missing opportunities given the leverage of what we have in the composite here in the UK.

So, perhaps turning to one of the tools that's going to enable that. And this being one of our digital first proof points. The MyAviva portal was launched in February 2014 with the app launched in May of this year. This gives us a significant advantage in the UK market not just for our general insurance business but across all of our business lines. As the only true composite player in the UK, this allows us to leverage the rich customer data that we have here at Aviva.

It allows the customer to connect with us in a personalized way, their way, enabling them to have a single view of all the products with us. It gives us the ability to prepopulate quotes to enable us to save customers' time and ultimately retain them. It's simple, fit for purpose, it allows customers interact to us in whatever manner they so choose.

Data from eight sources have been fed into one customer data base, and whilst it's early in the first three months with over 1 million logins, 100% increase in our cross-sell and a 15-fold increase in our travel insurance. Now those last two stats suffice to say they were starting from low starting points. We anticipate the mobile tablet motor quotes will overtake desktop over the next 12 months. And this has potentially significant exports across our other business, such as France and Poland and especially Italy, which already has a similar app in Porto.

So, moving on to our commercial business. So, what about our broker business? You've must seen our recent UK and Canadian performance, and our need for mediation in parts of this book. While our commercial business is profitable, I believe we have a number of areas for improvement across the following dimensions.

Certainly taking our learnings from what we've done in personal lines, importing advanced analytics into our small and medium commercial business has huge upside. We've already started to see the results in our Canadian business. Enhancing our trading and our sales culture. One of the byproducts of all of the noise the last 18 months is, we actually, our teams lost the will to trade and our distributors actually started taking Aviva off their panels.

The recent survey results and I put some of them up, we're back now on top in the Insurance Age, Insurance Sentiment. And Datamonitor, an independent organization which recently did a survey with 250 brokers in the UK and looked at 10 different dimensions, Aviva came first in nine of those dimensions. So, we certainly have some momentum there.

It's also about stronger underwriting discipline, which is much about control as it is making sure that our traders write to the full Aviva underwriting appetite, an investment in technology. Commercial motor is being highly unsatisfactory, but action has been taken. And as you saw Q1, we're beginning to see the benefits from these actions.

We have taken our learning from embedding predictive analytics in personal lines and deployed that to our small and mid-market commercial books in Canada and the UK. Our journey in the UK started somewhat later, but we're starting to see the improving results already. Commercial line is an area of focus for Aviva. Approximately 40% of our Canadian and UK gross written premium is in commercial lines.

Let me also focus on another area of our business that we don't often talk about, that being our large commercial. Large commercial, we started in the UK back in 2011, and since then we've seen that book of business grow 20% to £525 million and at the same time, we've seen the combined operating ratio improved to 94.5%. We continue to pick our underwriting segments where we can demonstrate that we have the underwriting capability, skills and knowledge to succeed.

Second area I wanted to talk about was that of cost efficiency. Total expenses in general insurance were down 11% in the last two years to just over £1.2 billion. And while that may seem like a good start, that's what I'd probably classify it as a good start, because I think if you look at the relative efficiency of our GI businesses, expense ratios are still significantly lower in our Canadian business at 11.9% than here in the UK at 15.2%.

And I know while we've previously quoted the Canadian business at 15.3%, it's absolutely worth noting that that figure includes a government levy on proven taxes of 3.5%. So, hence why, I look at two numbers of 11.9% and 15.2%.

So, in conclusion, we have much more to do in the UK and a critical success factor in general insurance business is efficiency as it forms a direct import ultimately into your pricing models.

Automation. Automation is also another way to improve your overall efficiency. And I think there's exciting opportunities to leverage our analytics talent to revolutionize the claims processes across our general insurance operations and improve efficiency. We currently have 3,500 people working here in the UK in our claims operation. And IFA 1 was incredibly proud of what they did when they had to respond to 60,000 claims this winter, which are phenomenal response and one that certainly put us at the top of most panels in terms of that response.

If you look at the old process here and it's probably not that old, this is only about 12 months to go. And this is a simple physical damage claim. And on a simple physical damage claim when someone's had a fender-bender with a car, there could be as many as 52 touch points with Aviva. And I remember us walking through one. And at the end, the claims analysts said, what do you think the customers score us on an NPS. And I assume that's scored via two or three. They scored us a 10. And the reason they scored us a 10 is because most of our competitors also have 52 or 53 steps in interactions.

We changed that. Our new processes, it's actually five steps. And that was, and you're going to hear from Nick later. That was a result of systems thinking. That was a result of letting our claims people to know the processes and systems best work in a manner that's conducive to what our customers' expectations are of us, when they bought that promise.

But furthermore we've said, we're not going to rest there. We can use the analytics to understand talking about the customer, the number of claims they had, the nature of the claim, how long they've been a policyholder and perhaps some claims can be settled in one contact, whether that be online, digital or whether that'd be a phone call. And we're now settling 20% of our claims in that manner.

We continue to invest in new technology for underwriting, claims, policy administration and billing. Our integrated platform we're moving to Guidewire. We have already deployed capability for all of our Canadian personal lines claims in March of this year with commercial lines administration and billing scheduled for early 2015. And the UK commercialized administration and claims has been deployed with further commercial lines rollout as planned.

Other markets, under review for rollout and the common solution include Poland, France and Singapore. Guidewire will drive indemnity savings predominantly through claims, underwriting leakage and efficiency gains. And most importantly, we're not going to have multiple systems, Monique will absolutely keep me to that promise.

This is a little bit about our journey in terms of our analytics and what we've done. And as I said, we've really have two centers of excellence in Canada and the UK. And what I've tried to show is the correlation between making those sort of improvements and what ultimately ends up happening to your combined operating ratio. So, you sort of see the UK motor and the Canadian personal motor.

And I can certainly spend a lot of time going through all of these, but let me just make a point. This is not just about backroom theoretical exercise around pricing and R&D, this goes straight into live pricing. The advent of real-time pricing means that if our analysts find something new on a Monday that can be live in impacting our prices on the Tuesday. We're agile and responsive. We made 96,000 analytical and informed adjustments on a

UK retail car loan in 2013. And this year, we've already made 74,000 adjustments to unlock millions in the value.

The opportunity of thinking this way and behaving differently isn't just restricted to our general insurance operations, albeit I've got five that I'd like to see use more analytics, but it's also something we need to roll out across all of our Aviva business units.

And sometimes the best thing is actually not just to talk about the analytics, but do actually talk a bit about the proof points. So, if you look at these charts and what you've got is the UK and Canada. So, in the top half of the screen we've got the Canadian example. So, I've looked at personal motor and personal property.

And the analytics journey started in around 2006-2007. And you can see during that time, remember general insurance is a game of inches. People often get incredibly excited about 100 basis points about performance. I think for those that were doubters in year one and year two about analytics, they're no longer doubters when you're now in year six and year seven, and you have consistent outperformance.

And I think if I talk about one of the big strengths in the UK certainly and it came out of absolute quintessential need, the 2007 floods. It was just started during the flood mapping. And we've been able to take the topography down to the point that we can get sort of 15 centimeters of digression. We know the soil type in terms of sand or gravel or clay or urban jungle. And historically in this particular illustration down at the bottom left, we would have had that area in yellow, we wouldn't have insured anybody because traditional data would have taken us down to a postal code. But actually, what we found is by refining a refining, it's really only in the red area that we don't want to insure. And you can actually see there's a number of green dots which actually represent Aviva policies where we renewed those policies and we're more than happy to do so.

If I move to behavioral analytics, because I did say while we've done an awful lot in risk, there's two areas that I think we still need to move forward in. So, the one part of behavioral I'm going to talk about and I could have talked about propensity renew, we could have talked about lifecycle in terms of from content to homeowners, to single car, to second dwelling, to kids, to kids leaving school and making the next best offer in a digital world intelligent, not just you've got these three and we'll lock in the fourth, but in this case I'm going to focus behavioral on what I think is a bit of a problem here in the UK and that's fraud.

Fraud, last year for us we repudiated 15,000 fraud claims. We reckon that saved us about £110 million, and we believe that it costs each household an extra £50 a year through increased premium. And whether it's organized fraud which stage accidents, which sell seats in cars or whether it's the exaggerated claim which is why we're so pleased with Chris Grayling's announcement. You're going to see a great demonstration at lunch. We've got Gord Rasbach here from our Canadian business, and that little sort of spider web was actually called a social network, where it connects everyone in a certain vicinity and connects them based on everything from geo-mapping to cell number, to when they bought the policy, to the physiotherapists, to the chiropractor, to why did they drive past

100 chiropractors to go to a special one or perhaps that special one is billed us inappropriately in the past, I'm not saying all chiropractors do that, but in general insurance you do have to be somewhat a healthy skeptic.

It's also defending injury claims and being fair to our customers. Listen, I'd love to have NPS scores the same as USA&A in the mid 80s. I tell you what, ours have been in the mid 40s, which are pretty darn good for a general insurance company. It's amazing that the old adage of slip and falls in the bathtub, in our business they don't happen in the bathtub. There's no witnesses in the bathtub. They generally happen in the produce soil. They generally happen perhaps in the local pub.

And we need to make the right judgment to treat those customers that have legitimate injury quickly and fairly. But those that aren't whether that be whiplash to slip and fall, we will nil settle and we've nil settled approximately 40%. Listen, it's also about knowing your customer when they join in verifying who they are and that's about sort of upfront of the underwriting process.

So, in conclusion, I want to leave you with three messages about our general insurance operations. We have a terrific set of businesses. I think they're primed for growth. They've been growing pretty consistently outside of the UK. As I said earlier, it would take me a year to start growing this great franchise given all the wonderful resources and remain on target for that. I still need to focus on efficiency that can be achieved in a number of ways. We achieved by automating processes, can be achieved by growing the top line and will also be achieved by reducing some costs, which I believe are redundant.

And the third area is analytics has been proven to show in two of our businesses that we can lower our loss cost. And I fairly believe that we can continue to expand that not just in the UK and Canada, but the broader Aviva and also our other general insurance businesses.

So, thanks very much. At this time, I'm happy to take any questions. I just take a drink too so. Yeah, Jon.

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

Jon Hocking, Morgan Stanley. Two questions please. Could you talk a little bit more detail about the strategy to grow commercial lines, particularly in the UK? The raising environment still seems quite tricky. Can talk about how you can execute that even given we're righteous at the moment?

And then second question, you mentioned in the beginning of presentation about the digital direct product is allowing you to sort of basically leap the lifecycle. Is that a hint that you might look at going into new markets with the direct offerings? I think, previously the group said that it want to be in markets where it's got big excel data repositories.

## A - Maurice Tulloch {BIO 17683736 <GO>}

Yeah. So, two good questions. So the first one, commercial lines. Let me break it down to sort of three segments. And actually the first segment, I'll actually get into your second digital bit. So, I look at commercial lines, there's a micro segment, I think, is ignoring here in the UK. So, first of all, commercial lines, if I exclude Lloyds is about a £10 billion market. The micro markets 35%, or call it £3.5 billion that's kind of the high speed economy here in the UK. I think that's incredibly underserved. Those premiums are £1,200, £1,300 and under. So, frankly, distributors making 15 or 20 points don't make enough money. It's not worth a while. So, I think that segment to crack it, we need to go completely digital.

Now, when I say that that doesn't preclude my distributors getting that tool. They may certainly get that tool though at a lesser commission. If I move to the midmarket, this is the strength of Aviva. Whilst we're about a 11% market share overall, midmarket commercial, we're about 15%, 16%. We're very, very dominant. That market is absolutely controlled by the brokers. And I think where we sort of lost some of our momentum was really our underwriters stopped trading. So, to see three independent surveys put Aviva right at the top of the heap gives me huge confidence around growing our commercial business. And certainly, we've seen a couple our competitors in this space sort of snubbed their toe.

For me, in general insurance, I don't get too excited. If growth gets above 7%, I generally put the brakes on. So, just I'll damp off the expectations. It'll be in the sort of 4% to 6%, maybe 7% growth. Our Canadian business, which didn't have those same few challenges is currently growing at 7%.

Lastly, if I take what I call large commercial, and let's define it. And it is probably easy to define what it is. This is not AIG in Zurich territory. I'm not doing nuclear or hydroelectric or aviation. And for us in large commercial, we stick very much to segments. So, we're the first two would have been very much about analytics and technical pricing and underwriting in the large commercial. This is about having underwriters that understand property, who are terrific property writer here in the UK. In the Canadian market, we're terrific in forestry. Actually, in our French business, we're terrific in agriculture and part of the global GI operating model is to understand we have got those centers of excellence.

One of the things we're really strong in candidate surety and yet we do very little surety here in the UK. Why would I try to build a surety team here in London? I just need to expand the remit (03:06:06) of the Canadian team and vice versa for agriculture. So that's probably the commercial view.

The second question on digital and expansion. Massive opportunity here in the UK. David's got 6.5 million customers. We got 9 million customers. But another way to look at it, we probably, and we don't know the exact number – we probably insured about 70% of the UK at some point over the last 15 years. We actually have a good database just in harnessing that. So, for me, in my sort of core UK retail personal lines and small commercial, I've got a digital thing I can have just through better cross-selling.

I mean, right now, you look at the 1.5 APH in broker and 2 in our direct business that's very low, but we're our own worst enemy. We don't even have common renewal dates. Get it with retention, we uplift our retention. This is North America's example about 10 points, but it's almost worthless if you don't have common renewal date. So, simple things about common renewal dates is tremendous, starting to take particularly in our direct business where we have 2.6 million customers, starting to work into all of our touch points using analytics to understand the next best offered intelligent manner. I think that's huge opportunities, if I take your question even further about expansion outside of the 7% in a digital manner, certainly part of our true composite, it's there, it's a possibility. If we were to do it, we'd only do it where I thought we could make profits, where we could leverage an existing partner and frankly look at lines that weren't very volatile so.

Great. Andy?

## Q - Andy Hughes {BIO 15036395 <GO>}

Hi. Andy Hughes at Exane BMP Paribas. A couple of question, if I could. First one about noise. Obviously, you got a slide there showing (03:07:55) claims there. 2014, one company talking about a massive increase, claims management company after the last big reforms in the volume if these things we're going to see in H2. Could you talk us through basically the 85% decline rate and how you set your reserves for these things?

## A - Maurice Tulloch {BIO 17683736 <GO>}

Sure.

## Q - Andy Hughes {BIO 15036395 <GO>}

I mean are you reserving on the basis of 85%? What happens if there is a big uptick?

## A - Maurice Tulloch {BIO 17683736 <GO>}

Sure.

## Q - Andy Hughes {BIO 15036395 <GO>}

And the second question was about the direct business. Are these numbers you've got here the 90% combined ratio, they include the home business or is that just the motor?

## A - Maurice Tulloch {BIO 17683736 <GO>}

Okay.

## Q - Andy Hughes {BIO 15036395 <GO>}

And if so, why have you not really grown it quite aggressively, it was 90% in 2011 and 90% in 2013? What's limiting, are you struggling to grow the direct business? Thank you.

## A - Maurice Tulloch {BIO 17683736 <GO>}

Okay. Great to know. Thank you for the two questions. Actually industrial deafness, there was a new problem when I actually came to the UK, which probably led me to be a healthy skeptic when I first heard the term. I think I'll start with the important thing and I know you likely know this, probably (03:08:52) maybe not everyone else knows this. But when we set up the claims portal, for claims to be reported into insurance companies, part of Jackson/LASPO was the claims portal, restricted lawyers' fees and I don't know, if it's £350 or £400, fees per lawyer, probably £350, £350. Industrial deafness claims actually fell outside of that claims portal. And what we started doing our basic data and analytics, we had 12 to 13 law firms that the vast, vast majority of these claims were coming from which was also very suspicious.

Those claims outside the portal don't have a capping. So generally, how it happens, we've actually run a couple of sting operations where we've had Aviva people pretend to be ex-employees that I won't say, which manufacturing plant or manufacturing plants. And generally the offer plays out, there is a bunch of questions did you have hearing protection, were you educated? And even if they say yes, I was - I did have hearing protection, (03:09:47) you educated, how often was it changed? It doesn't matter the same - the conclusion at the very end is we can get you £4,000, signed this which generally entitles the lawyers to £1,000 or £1,500.

So knowing, how they originate, knowing them outside of the portal, knowing that they come from 12 or 13 firms, I took the approach that the vast majority of these claims are fraudulent. Now when I arrived, the team was already doing a great job, so I'd give them full credit there. And we're probably repudiating in the high-60s, sort of similar to the industry, I think the industry is sort of mid-60s. That's now up to 85%. I've got a team that's full time focused on this. I'm also starting the lobby against shutting this down because I think it's fundamentally wrong.

And what we have to do is always decipher, there are people who legitimately have lost the hearing, working in a manufacturing plant and they should be treated fairly. But when one comes to these 12 or 13 firms and there has been this sort of questionnaire and the lawyers are already clipping the ticket for £1,500. I've got a problem with it. 85% is good. I'm not going to set any guidance on what it should get to. But I would love a day where the ones I got paid, the ones that legitimately had hearing loss. So, that's the first one.

Second question on the direct. It did include the home results. What I would say is the motor results standalone are still incredibly good and perhaps I can get you the number of last year. I want to say there's still 90%, 91%, 89% in that ballpark, but let me get you an exact number. The growth has been good. You got to remember that growth is a revenue growth, in a market where average premiums are down, depending on which one, but I think the (03:11:32) one was 14%. So, that's with negative momentum in terms of the average premium. And I'd also say that between last October and this march, on our quote me happy, we thought that the market had overshot the benefits of the Jackson and LASPO. And Steve Thor (03:11:51) and his team pulled this off the first page unless we absolutely love the attributes of the customer. I think you can see moving forward, particularly as we address further cost efficiencies, as we further refine, but at some point, our desire, that will be our growth platform (03:12:09) in motor, largely because the cost base. I know you're a customer on that platform. So, thank you for that.

I guess I shouldn't have Barrie (03:12:19) just disclose personal information, I'm sorry.

## Q - Andy Hughes {BIO 15036395 <GO>}

It doesn't have still enough from page and very appreciate by the...

## A - Maurice Tulloch {BIO 17683736 <GO>}

All right, all right.

## Q - Andy Hughes {BIO 15036395 <GO>}

On the reserving for these things, you've seen 85% in reserves?

## A - Maurice Tulloch {BIO 17683736 <GO>}

Oh, yes. So I missed any ones. As a – how would you view reserving at Aviva? So certainly we've a reserving committee that moves every single quarter we meet. Last year, the assumption was at 70%. I believe our point actually is going to look – it doesn't look at the repudiation factor every quarter, but to look at that, but certainly given the repudiation has gone up to 85%, we probably have some benefit, but we continue to reserve these as they come in and as we put up reserves and we actually look at trends and I should say in the trends we used to get about £200 a month, we're now getting £800 a month. That's actually come off. It's sort of probably peaked last August, September at about £1,000 a month. So actually we've seen our enforced kind of level off. I do know this claims management firms out there that are generating a lot of these, but then they're looking to make money. So Aviva is doing a better job of repudiating, they'll point their supply elsewhere.

## Q - Andy Hughes {BIO 15036395 <GO>}

Okay.

## A - Maurice Tulloch {BIO 17683736 <GO>}

Great. So I just – tell me your input.

## Q - Colin Simpson {BIO 15894636 <GO>}

(03:13:37), Morgan Stanley. Just another number question actually because again this can be confused on slide 58. You're quoting a UK personal motor combined ratio north of 96%.

## A - Maurice Tulloch {BIO 17683736 <GO>}

Yeah.

## Q - Colin Simpson {BIO 15894636 <GO>}

So just want to understand, so we've got the debate between what's the direct home and direct motor, and then it's 96%, but you're talking maybe about 40% you booked, must be doing than something probably about the...?

## A - Maurice Tulloch {BIO 17683736 <GO>}

Yeah, look I can get to the exact reconciliation, but our broker personal motor book runs around 99% that's about 42% and I'd have to strip out that 90% and take out the home, but that's broadly it directs around 90% and the broker starts around 99%, 100%, so that would be 95-ish and (03:14:23) 96%, that probably the home's impacting it. I don't think we have those numbers in the pack, but we can reconcile it for you.

Okay, great. Well, thanks very much. I'm going to turn it over to Monique.

## A - Monique Shivanandan {BIO 18664579 <GO>}

So, good afternoon, everyone. I get to introduce one of the best parts of today, I think. It's our chance - it's an opportunity for you all to touch and feel some of the great examples that everybody has been talking about today. We have colleagues and associates from around the world that are here today to present to you some of the great capabilities that we've felt. But first let me give you a little background on me. I am part of the North American contingent. So I think there's a bunch of us that are here, but I'm actually, to Mark's term, on a reload. So I was here in 2006 when I was at British Telecom and really just love the UK, so I actually came back for a little bit more of this, but some might qualify as a little bit of madness.

But let me give you a little brief history, I've been in technology for about 25 years. I spent the first part of my career doing consulting like probably many of the technologists from the industry today. In about 2000, I got the itch to go to the other side. It took Tom a little longer. So I came up - when I joined what is pretty consistent, I joined my customer which was Bellsouth, which is really now AT&T which everybody knows is one of the large phone companies in the U.S. I was a CIO for the Consumer Division there and I also was the CISO when I was there.

In 2006, I got a great opportunity to come over to the UK and I brought my family and we moved to British Telecom, and I was the CIO and Managing Director for the Retail Division, excuse me, the Retail Division of BT, I shouldn't say (03:16:18) what I did right. So I was the CIO and Managing Director of Retail Division where I was really responsible for not only the IT but the product for our consumer customers. So some of you might enjoy BT TV and BT Sport, yes, customers, a few. So I built the platform that that sits on, the broadband numbers, the 75 I understand it's up to 75 megabyte speeds in your home. So those kinds of products were where I was really focused.

Then in 2010, I got a great opportunity to move back to the States where I was the CTO of Capital One. And many people know Capital One as the what's in your wallet is the idiom that they use. But what most people don't know is they're the largest digital direct bank in the U.S. by maybe 5x, 10x our next competitor. And so there was a real focus on how do we really deliver the best digital proposition. And so as CTO, my responsibility was really defining and implementing our strategy around data, digital and partnerships with those companies like Google and Yahoo! and Twitter, and how do we create a proposition for our customers that really delights them in working with us as a bank. And as you know, in 2006, banking wasn't incredibly popular.

So I joined here and it's quite exciting and I think what you can say with each industry I joined, it was at the beginning of its digital disruption. So it was at the beginning of the curve where digital was taking over the industry and I think it's the same here. Insurance in generally – in general is not at the top of the digital curve and that to me is an awesome opportunity. As you listen to my peers talk about what Aviva is focused on, there's really three things, three themes really that I heard and maybe I'm a little bit – I hear what I want to hear, but it was data, digital and automation, sorry automation. So when you think of those three things, technology is right at the core. And so for me, that's just super exciting because I get to roll up my fleece with all my business partners, and we're going to get to really do a lot of fantastic things for our customers. So I'm really looking forward to that.

My first impressions – I've been here three months, and my first impressions are very similar to Tom's. We have a team of people that are just so excited to get on with it and get going. We had people talk about a fantastic digital foundation. MyAviva is the best portal in the UK, it has a mobile app, it has a million customers in three months with no advertising. Just think about that. That's absolutely incredible.

We did data, we have a culture of data analytics that is immense. Maurice talked about it, David talked about it. We did data before data was cool, right? And if you pick up a magazine now, that doesn't talk about big data. We did it before it was cool, it's going to be so easy for us to leverage the sea of data that's available to us to really provide better analytics, better customer services, and in general better products. So we also have, which is actually kind of surprising, I'm not a real UK geography, I'm not real knowledgeable about the different cultural attributes of the UK geography.

But when I went to visit the team in Norwich, I had heard that maybe Norwich wasn't the most advanced region. So anyway, so I went to visit and I had expectations, I'm a real – there's two types of delivery in IT, there's a waterfall delivery and an agile delivery, there's actually a lot of articles about that now too. And so when you – I'm a real agile bigot and I believe that's the only way we can work, that's the only way we can reach digital speed that everybody was talking about. So I went to Norwich and my team told me we have some great agile teams there. A little bit skeptical, but very helpful. I went in the office and I've toured agile teams, and I've seen some of the best agile teams in the planet and I would put these guys up against them. It was pretty incredible. They have – are there any technology folks? They do. They do some of the best delivery that you could possibly imagine. So I'm super hopeful that we'll be able to deliver all these great products and services that my colleagues have explained this morning and they're going to explain this afternoon.

So with that, let me explain to you how this is going to work today. So we have colleagues here from Canada, Poland and the UK. We have four rooms as you go along this floor that really provide you with demonstrations and they are going to present a lot of the things that my colleagues have already discussed. So if you go to the first room, which is the (03:21:24) room and there'll be people to direct you, so I'm not going to even try. That's where we have the Aviva Canada team. And there's actually, we set up a Fraud Command Center where you can see how the team looks at social media, how they look at data that they have to really look for those proactively look for where fraud might occur before they actually happen.

Around the corner, we have our colleagues and associates from Poland and they're going to show you how we do a virtual branch. And when you think about technology, it will help you from being able to get consultative support at any time you want, but still avail yourself with that face-to-face relationship. So we show a virtual branch which really shows how a customer can communicate with a advisor, but not have to get in their car and drive to the branch, but really at home in their (03:22:13) with their socks and really have a nice conversation about the portfolio.

Around the – in this room, (03:22:24), you've heard a lot about MyAviva, so he's going to present our MyAviva portal. And that's really UK, so it has life, it has AI, it has GI, so you'll be able to see all the products and services and all those great things both the e-commerce application and the mobile device. And then finally around the corner in the Dining Room 1, we have the AME platform that David introduced and it really is slick, how easy it is for a commercial entity to really allow their employees to get insurance.

So, everybody has a number on their badge. Yes, there are people with signs around there. And so find the person with the number on your badge and they will take you to the place, they're about 20 minutes to each demo. They'll walk you through if you get lost, they'll be loads of people around. Lunch is outside. Yes. Lunch is in the room, thank you. Lunch is in the room, so you can grab your lunch in the room and really enjoy. Ask a lot of questions, it's just a small sampling of the great things that we have. But it's a really good description of the directions that we're really moving. So, thanks so much.

## A - David McMillan {BIO 17298829 <GO>}

Let's get started. It's great to see the Chief Executive doing (03:23:46) duties. They are cost cutting for you. Well, good afternoon everyone and welcome back. I hope you enjoyed the demonstrations over lunch. I must confess it was quite frightening to see the city's finest minds failing the initiative test with the Lunchbox. But I hope what it did do for you over lunch was give you a real flavor of how we are bringing big data and digital alive in Aviva. So this afternoon, Khor Hock Seng and I would talk to you about Aviva's international businesses starting with Europe.

Then many of you know me already, but for those of you who don't, I've been the CEO of Aviva Europe for 18 months. I have been Chairman of Aviva Healthcare globally for about two weeks, and altogether I've been with the group for just under 12 years. Now, if I go back and think about Aviva Europe three or four years ago, it was a sprawling mass of businesses with flags planted in too many markets. It had a topline culture where market share was prioritized over shareholder returns and the dividend payments were also extremely poor.

In 2011, our European businesses generated £160 million of dividends and used in the process about £4 billion of capital. So, return of just 4%. Now, we've made some progress since then. We've doubled the returns, but there's still a lot more to do. So today I'm going to talk you about the journey we've been on and also more importantly the opportunities that lie ahead.

So as Aviva Europe, well in Aviva's definition of Europe, both England and Scotland are out. Now that's definitely not a political comment, it's just the way that we choose to organize the business. We also use the Eurovision definition as well in Turkey as in. So, what that means is we're focused on five continental European markets, France, Italy, Spain, Poland, and Turkey. All together, these markets have a population of about 300 million and an annual insurance premium of about £500 billion. Aviva Europe accounts for about a third of the group's cash flow and also about a third of the VNB in 2013. We have got 13 million customers and about £100 billion of assets under management. Strong positions in all of our Life markets and we are a composite player in three of the markets, France, Italy and Poland. And GI premiums account for about £1.6 billion of the total GI business that Morris described earlier, so that's just of that business.

Over the last few years, we've been pretty busy refocusing the portfolio. And if you look at the gray coloring, if you can see it on the chart, you can see the businesses we've exited. So we exited Holland, Russia, Hungary, Czech Republic, Romania, and most recently, we announced the sale of a Turkish General Insurance business. Now we've exited these markets because they've either been subscale or poorly performing or in some cases, both. We've also strengthened the European management team over the last few years. We've appointed new CEOs in France, Poland and Italy, and we've also appointed a new company CEO in Turkey GI to manage the exit process.

And I'm very pleased that I've got a number of the CEOs with me today and we've also got the CFO here from our French business. So let's take a look at the European portfolio in a little bit more detail. I'm going to spend a little bit of time on these slides because I think it's quite important for you to understand what we've actually got. So firstly France; strong and consistent cash generator. It's the second largest market in the group after the UK and it accounts for own 50% of Aviva Europe. Now, although it's a mid-sized player, our French business is one of the most profitable insurers in the market and a key driver of this is its distribution strength with over 50% of our profit coming from channels we own or control. For example, we have 900 tied-agents and this is the fifth largest tied-agent sales force in the market.

We own a majority share in UFF, which is the largest IFA network in France. And of course, we have a strong and long relationship with AFER, which is the largest savings association in Europe with 750,000 customers. In short, France is a well-diversified and reliable business, which offers good opportunities for organic growth. Now, moving to Italy and Spain, our two turnaround businesses where we unashamedly place our focus on capital efficiency and cash. In both markets, we're top 10 Life players and it's also fair to say that we punch above our weight on protection. We're number four in both markets in 2013. We are also a well-respected bancassurer in both markets and as most of you know bancassurance is the dominant channel in Southern Europe. In Italy, we have relationships with three of the top five Italian banks, UBI Banca, UniCredit and Banco Popolare.

And in Spain we have JVs with four of the regional Caja's. So turning briefly to the financials, and I think it's fair to say in 2013 we've had a reasonable performance in terms of the financials, with the progress - solid progress across all of the metrics. But let me be clear, I don't think it's yet time for us to get out the flags and the bunting. We have rocky (03:30:54) which is below expectation on a number of the sales, Tom pointed this out earlier. Our cash remittance is subpar. Our operating earnings growth is at best anemic. And I believe we've only just started the journey in terms of operating expenses reduction. So turning to strategic agenda, Aviva Europe is, was, and remains a turnaround opportunity. Our priority is to deliver cash flow and growth for the group. We have a very clear strategic agenda to achieve this, which you can see on this slide. These are the key initiatives we're focused on. And what I'm going to do over the next few minutes is take you through a number of these themes in a bit more detail.

So let's start with structural overhead. As many of you know we've adopted kill complexity as one of our group values. Now I can assure you that Aviva of three years ago with a fat group center, fat regions and cost heavy businesses was not a good recipe for simplicity. So I think we've made some good progress since 2011 simplifying the business. So we've eliminated the European Regional Office which had 400 people in 2010. We're now running Europe with seven people. And as I said earlier, we've exited some of the smaller markets as well as reducing costs within the markets. In total, the European expense space have reduced by £180 million, but I think more importantly, we're created a business with shorter lines of control, greater transparency to the group and faster decision-making. However, in some respects all we've done is to pick the low hanging fruit in Europe.

The real price for me on the expense side is in streamlining the individual businesses. Now, I know a lot of you in here are very numerically focused, and I think it's fair to say that our industry in general is obsessed with efficiency benchmarks. I know my CFO certainly is. Personally I think you learn a lot more about the efficiency of a business from putting yourself in the customer's shoes and actually walking the processes. And this is something I do regularly. Most recently with our French business, our French Direct business last week and what I see when I do this and it's consistent across all of our businesses with the possible exception of Spain, which is a little bit more efficient. What I find is convoluted processes, low levels of automation and fragmented systems.

Now on this slide you can see in yellow, the markets where we will target further efficiency improvement, and that is pretty much in all of our countries and all of our business lines. Now, we've started the journey of simplifying processes, we're rolling out systems thinking, digital, and automation across Europe. And you'll hear a little bit more about this from Nick Amin and some of his team a little bit later. In my view, Aviva Europe is a target-rich environment for efficiency improvement. Let me give you a little example. Let me share some of the works what we've been up to in Italy over the last few months. And I'm not going to be surprised if you can't read this slide. I think it probably gives you some of the picture.

Our starting point in Italy can only be described as the Byzantine legal vehicle structure. As one of the most complex structures I've certainly ever seen in my 20-odd years in the industry. It's clearly inefficient and it's also one of the reasons why Italy hasn't been paying its way in terms of dividends over the last few years. That the team, the Italian team under its new CEO, Patrick Dixneuf have made an excellent job executing on these eight transformation initiatives down the right hand side and this allowed Italy to start paying a dividend in 2013, albeit a small one for the first time in many years. Remittance levels in

Italy are still unacceptably low, but the actions we have taken will start to end through and be in the numbers shortly.

Turning now to our earnings growth agenda. Now culturally, we've been shifting the European businesses away from a preoccupation with top line and market share towards value and capital efficiency. I think the introduction of VNB to the group as a key metric has been a big catalyst in refocusing the European businesses on what really matters. Last year our VNB underlying was up 26% with good momentum across all of the businesses apart from Spain, and this time our growth has come with a heavy focus on the quality of the business we write, so every pound of new business we write, is very, very heavily scrutinized. And you can see that coming through in the chart on the right hand side where we look at VNB as a ratio over capital intensity – over our capital employed – capital strain, and you can see this is 2010 that ratio has gone up by a 21 percentage points.

So let's look under the bonnet of this a little bit more so we can see the difference in performance across the product lines. So we've made some good progress improving the profitability of our savings businesses. We've been reducing with profits guarantees across our businesses, but particularly in Italy and Spain. We've exited a number of value destroying businesses and product lines, most notably the Eurovita business, which we exited earlier on this year in Italy, and we've also been growing Unit Linked by approximately 60%. With regard to Unit Linked, we've had a particularly strong performance in Poland and even more so in France, where Unit Linked-VNB has doubled year-on-year. However as you can see from the chart our protection performance has been quite disappointing with year-on-year growth of only 2%.

There is a recent Swiss Re estimate or a study that was done recently by Swiss Re that estimates the protection gap in Europe has reached €10 trillion. Now, I don't know if I believe that number, but what I do know is there is going to be significant growth in the protection market in Europe over the next three to five to 10 years. And I think overall, we are well placed to benefit from this growth. We already have strong positions as you can see on the bottom right in four of our markets, and in all of these markets we enjoy very strong margins. Protection for me will be a major strategic focus in the years ahead, particularly in France. Now, a number of the presenters have mentioned the composite opportunity during the course of the presentations this morning.

And I just like to bring this to life a little bit more with an example from France. As you can see on the slide in France, we have over 3 million customers served through multiple channels and sub-businesses. As I said earlier, distribution is a key strength of Aviva France. So, there is a real substantial opportunity for us to sell all of our products through all of our channels to all of our customers. To give you a few examples of that, we have 900 tied agents in France; only 60 of them are currently selling protection. We have 750,000 are AFER customers, which are largely savings customers, very limited penetration of GI and protection. Offering the full range of products digitally to all of our customers can unlock real value for us in Europe. Finally turning to our emerging markets of Poland and Turkey, which I skated over earlier; Poland and Turkey are two of the fastest growing markets in Europe and they're both significantly under penetrated.

Life penetration in Turkey is only 0.2% of GDP and in Poland it's 1.9%. This is set against penetration rates in the more mature markets in Spain of 2.6% and 9% in the UK. So I hope you can start to see the scale of the opportunity we have. Now, we're seeing a degree of headwind in both of these markets. But I think if you look to the long-term, these markets represent significant growth opportunities for Aviva. In Poland we're the second largest insurer in terms of profit after PZU and I think you saw in the Polish demonstration some of the depth of capability we have. With the largest direct sales force in Poland, and we have the only bancassurance JV in the market with the BZWBK, which of course is owned by Santander.

In Turkey, we have a JV with Sabanci, one of the leading conglomerates in the country, which gives us access to Akbank, third biggest bank in the country and again we have the largest direct sales force by a distance in that country. So, I think we're well placed to grow with the macro growth in these countries. And also as Mark says quite regularly to us, capital allocation is a competitive sport. My expectation is that Poland and Turkey will both be winners in the competitive sport of capital in the years ahead. So, let's bring it back to cash. In 2012, Europe's remittance ratio was 60%. It was better than some of the other parts of the group. But clearly quite low relative to some of our international peers. Last year, we took it up to 70%. But there is clearly more to do particularly in Italy, growing dividends to the group remains a key priority for myself and my management team.

So just to summarize so Aviva Europe is a large business. It's a significant part of Aviva Group and it has some very good assets. We've been on a journey over the last 18 months and now it's time to really accelerate our transformation, or as Mark said, to reload. I see no reason why we cannot significantly increase our remittances across our markets. You'll start to see over 2014 and 2015 the truth being born from our transformation activities in Spain and Italy. And I think we have some clear growth opportunities. Poland and Turkey specifically, on protection, and GI more generally across Europe.

I'm quite confident that we will deliver on our plan. But I think what really excites me is the prospects we have over the next three to five years, the opportunity to become a true composite insurer in these markets, our commitment to building out our digital capabilities and I think that's how we're going to deliver long-term franchise value in Europe. I think we're well positioned for a macro recovery in Europe, but as I hope you've seen from the presentation, we're certainly not waiting on it and we're certainly not dependent on it. I think Aviva Europe like the rest of Aviva is definitively a self-help story. So thank you for listening. We're now – I'm now going to hand over to Khor Hock Seng who will take you through our Asian businesses and then the two of us will get together for Q&A.

Thank you.

## A - Hock Seng Khor {BIO 3993330 <GO>}

Thanks, David, and Good afternoon, everyone. I'm Khor Hock Seng, the CEO for Aviva Asia and I've been in – just a bit of background. I've been in the insurance industry for more than 30 years now and have worked with several multinational insurers before joining Aviva last year in March. It's my pleasure to be here to share with you the exciting opportunities that we see ahead for Aviva Asia. My presentation today will cover three main areas. First, I will talk to you about our current footprint in Asia and also our strength and capabilities. Second, I will discuss with you our financial performance, recent financial performance. And finally, I will highlight our strategic priorities in the region. Asia plays a key role in Aviva Group's growth strategy.

While it is clear, if you could see from the chart, Aviva is not everywhere in Asia. But we are strategically positioned in markets that offer immense potential that is Greater China and Southeast Asia. While the businesses in Asia have yet to be – have yet to achieve the desired scale in many markets we have built a strong multi-distribution foundation for growth which I will share with you later. Additionally, our strong partnership in the region provides us with an excellent platform to operate successfully in each of these markets.

I will now move on to share with you our partners, which some of you may be aware and some may be not. Firstly, I think in Indonesia, what has surprised me, ladies and gentlemen, when I joined Aviva is the fact that while we are not yet the premier player in Asia, we have premier partners in all markets we operate in.

In Indonesia, Astra is the most recognized brand, with over 10 million customers through Asia – through the Astra's finance companies and AstraWorld online database. We also have an exclusive agreement with ESOPs, with its banks subsidiary, Permata Bank, the tenth largest bank in Indonesia. In China, our JV partner, COFCO is a well-established brand. In fact, one in three Chinese have used a COFCO product. In addition, COFCO Group has more than 10 million online customers through their online shopping platform.

In Singapore and Hong Kong, we have strong relationship with DBS, the leading bank in Southeast Asia. Our partner in Taiwan is First Bank, the eighth largest bank, with over 5 million retail customers. In Vietnam, our partner, VietinBank is the top bank, with the largest branch network in the country. While we made some progress with our partners over the last 18 months, as you will see in the next slide, there is still significant potential to be unleashed.

I would like now to move on to highlight our recent financial performance. As part of the investment thesis, our primary focus in Asia is to maximize the value of new business. We have gained momentum in 2013, with a 67% growth in value of new business. This momentum continues into the first quarter of 2014, with a growth rate of 100%.

In addition, I'm also pleased to say that Asia's contribution to Aviva's Group total VONB has increased from 6% in 2012 to 9% in 2013 and to 12% in Q1 2014. This achievement is primarily driven by our relentless effort in growing our multi-distribution channels, with full focus on product mix, emphasizing value growth over top line growth, and our continuous engagement and alignment with our partners.

As you can see from the pie chart on the right, we have a well-diversified multi-discipline platform in Asia. While we have achieved the initial momentum, there's still a lot of opportunities for further growth. I would now like to move on to share with you our key strategic priorities going forward.

Our first priority, ladies and gentlemen, is to fully capitalize on the distribution strength and customer reach of our partners. Currently, our partners large distribution network and wide customer base still are still largely untapped. To tackle this opportunity, we will build integrated distribution network to penetrate their customer base. An example will be the building of an integrated online health and wellness platform to the 10 million customers of COFCO. Second, we will optimize and expand our multi-distribution platform in all of them markets.

Our distribution strategy is not a one-size-fit-all, but is tailored to each market. I will come back to this point in more detail later when I share with you our strategic priorities in our key markets.

Thirdly, we will further develop our multi-line and integrated product offering, in line with our customer – through customer composite strategic anchor. A multi-pronged strategy is key for Asia, as we aim to realize the potential in both protection and savings market, as well as asset management. In addition, we will optimize our product mix to enhance our profit margin.

Delivering a superior customer experience is our fourth strategic priority. Aviva is focused at putting customer at the center of its business, and it is true in Asia as well. We will continue to enhance our tailored services and product solutions through better data analytics and digital platform that leverages on our capabilities within the Aviva Group.

Fifth, drive digital into the DNA of our organization. This strategic priority is very much aligned with the group's strategic anchor of digital first. We will embed digital technology into both sales processes as well as customer service touch points. A great proof point is the Aviva online portal that we developed in Singapore, which enables online inquiries and policy maintenance services across all our business lines. By driving these key five priorities effectively and across all of the opportunities available to us, we will be able to deliver Aviva Asia's full growth potential.

Now I'll move onto to show you in a bit more detail the opportunities and strategic initiatives in our key markets. That is Singapore, China and Indonesia. In Singapore, we are the number four.

We are number four in the individual life and health business with 10% market share. We are a market leader in group business, with a market share of 30%, and is number one online GI business. As you can see from third pie chart, we have a diversified distribution with strong positions in bancassurance and FA channels. Historically, as most of you may be aware, tied-agency has been the dominant channel in this market.

However, its leading position is feeding the FA and bancassurance channels growing at a much faster pace as shown in the other two pie charts. We are well placed in Singapore to capitalize on this trend, with our strategic priorities focusing on bancassurance and FA channel.

First we will expand our bancassurance distribution with DBS, supporting DBS to achieve their ambition to be the number one bancassurer. Our partnership has delivered a 52% compound annual growth in new business (03:53:32), significantly higher than the industry. To further enhance DBS' performance, we will continue to meet the recruitment and training of quality insurance specialists and provide them with the best-in-class mobile sales technology and a wide range of products.

Our second priority is to accelerate the growth of our FA channel. Not many of you say that we own the largest FA firm in Singapore. We also own an online investment platform called Navigator for FAs that administer clients account. Currently, Navigator has seen 2 billion funds under administration, which is 40% of the market. The growth of the FA channel leveraging on PIAS and Navigator, as well as onboarding of tied-agents enhancing our support and product range. (03:54:33) as I've mentioned earlier, we are the number one online GI player.

Although this market is relatively small at this stage, there's no doubt that the trend is towards more online business. We will capitalize on this leading position and integrate other products into this platform, so that our customers can do business with us in a convenient and simple way.

In Singapore, as you can see, ladies and gentlemen, we have great distribution platforms in the right channels, that is the FA and bancassurance channels and as well - and is well positioned in the digital space.

Now, let me turn to China. I have to say, our China operation was the most pleasant surprise when I joined Aviva 16 months ago. We have an outstanding geographic footprint. We are in 54 cities, in 12 provinces. This covers 800 million people and 65% of China's GDP. Another point to note is that our brand awareness of 9% is exceptional, given the size of the market.

Another point which I think will be interesting for all of you know is that, while our company name in China is called Aviva-COFCO, when it's translated into Chinese is [Foreign Language] (03:55:57), what it means is [Foreign Language] (03:56:00) is China, [Foreign Language] (03:56:02) is like China. And [indiscernible] (03:56:03) is actually England.

So you can see how powerful the name is, it represents two countries, that's our JV, that's the name of our company. So we can only be doing much better than where we are. But we are doing well. And the other point I have to mention is that we, of course, have a great partner in COFCO, and I think I'd mentioned that earlier. One in three Chinese have consumed the COFCO product and they have an online customer base of 10 million, that's huge.

The other hidden gem in our China operations is the fact that we are a very well-diversified distribution, as you could see from the pie chart. This does differentiate us from a lot of other insurer who tend to be more focused on very specific distribution. We currently have an agency force of 4,400 agents. We have 1,800 telesales rep that does direct marketing for us. We have relationship with 11 banks and five broker companies.

Now let me share with you our strategic focus in China. First, we all want to aggressively grow our agency force in Tier 2 and Tier 3 cities where we have strong local presence. Second, we will further expand the telemarketing channel with the implementation of an enhanced and integrated model. This channel is excellent for the marketing of protection products and it complements our digital strategy.

Third, we want to build a digital platform to leverage COFCO's 10 million customer base. I'm very enthusiastic about the growth potential in China for us, given our distribution platform and unique geographical presence.

I'd like now to move on to tell you more about our new JV in Indonesia. Currently no matter who you talk to in the industry, everyone is incredibly optimistic about Indonesia. It has a population of over 250 million, a fast-growing, middle-class and a very low insurance penetration (03:58:12). To be partner with such a strong brand as Astra allow us to become a top-tier life insurer in the country within a short timeframe. How will we do this?

Our immediate priority is to build the bancassurance distribution with Permata Bank, the number 10 bank in the country. Another core part of our strategy is to tap into Astra's massive customer base and the wide network of the Astra finance companies. Astra has 10 million customers. On top of that, each year Astra brings in almost 5 million new customers through the sales and financing of cars and motorcycles. We will, of course, utilize Aviva Group's digital and analytics capabilities to provide tailored products and services to this customer base.

As you can see, the potential for growth is significant and can be achieved in a relatively shorter timeframe. You can see why we are all very enthusiastic and excited about Aviva's opportunity in Indonesia.

And in summary, just let me summarize to give you my key messages today. Our portfolio is strategically positioned in Greater China and Southeast Asian markets, where we can deliver significant growth. We have strong partners with tremendous distribution capabilities and customer basis. We have established a well-diversified, multi-channel distribution platform to deliver tailored products and services to our customers. And we have a strong leadership team in place, with clear and compelling strategies to take advantage of the excellent growth opportunities in Asia.

With that, ladies and gentlemen, thank you. And we will now have the Q&A session together with David.



## Q - Farooq Hanif {BIO 4780978 <GO>}

Hi. Thanks very much. Question for David actually. This is Farooq Hanif from Citi. You talked in a little bit of detail about Italy and how much cash could be freed up from relieving the legal structure, could you sort of help quantify that a little bit? And going forward, just qualitatively, what's the biggest barrier now to cash? Is it Solvency II economic capital regulation or is it structural? So where could you see the remittance ratio going in the future? Thanks.

## A - David McMillan {BIO 17298829 <GO>}

Thanks, Farooq. So clearly you want a guidance, which of course I can't give you. Just to help you parameterize, so we have about $800 million of capital invested in Italy. Italy, we have the expectation that Italy in a short period of time will deliver a good return, dividend return on that capital.

## Q - Farooq Hanif {BIO 4780978 <GO>}

My question is also generally about the Europe, I mean 30% going to...

## A - David McMillan {BIO 17298829 <GO>}

Yeah. So – and in terms of the barriers, we've done most of the heavy-lifting in terms of restructuring the business. So we simplified the arrangements. (04:01:47) our general insurance business. So, general insurance business (04:01:51) years ago had a combined ratio of a 120%.

It's 94%, 95% combined ratio. The deal we did with the banks has reprioritized the products into, on the guarantee side, we've taken the guarantees down to zero. And we've also refocused the UniCredit relationship on protection. So all the pieces are now in place. It just needs to earn through the system.

Yeah. So sorry, I mean just in terms of Mark just reminded me, Solvency II with regard to the European businesses is likely to be positive for France and positive for Italy. And clearly that's dependent on exactly how the water flows under the bridge over the next year or so. And also how the regulators interpret things. But if you look at our product mix, it's likely to be positive for us over and above our current plans.

## Q - Farooq Hanif {BIO 4780978 <GO>}

Okay.

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

Jon Hocking from Morgan Stanley. Can I ask you a question about Indonesia and then have another crack at the Italy question for me. So on Indonesia, you were up running from May this year. Can you give us some idea about how you expect the ramp to work with Astra and sort of (04:03:15) and what products you've got live?

And just secondly on Italy, given the what you said about the historic problem with remittances from Italy, I can see that you'll fix the problem going forward. Is there an element of catch-up here where some of the remittances you might have had in the past are going to come out in the future, or has some of that being lost in the – as a price to reorganization in terms of the excess cash which is probably built up, but you didn't remit the capital back to the center?

## A - Colin Simpson {BIO 15894636 <GO>}

(04:03:45)

yeah. I think for Indonesia, (04:03:47) Astra, our key focus for now is to build the distribution to support the bancassurance which is Permata Bank,

And that's the first part. And then, following that would be the supporting the distribution, in fact we're doing concurrently, we're supporting the distribution to penetrate into the customer base of Astra, as I mentioned.

In terms of products, you will find that it would generally be more protection-based type products because of credit related as well as – that's the way the market is, is very protection based.

## A - David McMillan {BIO 17298829 <GO>}

So on Italy, clearly there's a – I think you're right in the sense, there is a degree of potential catch-up on Italy. Our Italian business is actually relatively well-capitalized from a Solvency I perspective, but equally we also expect on a go-forward basis, as I said earlier, the Italian business will pay it's way in terms of an adequate return on capital.

As you can see from the chart I showed earlier, we are also growing the VNB of Italy through a much more attractive mix of products. So there's a degree of – there should be a degree of one-off in Italy, but there's also we should expect Italy to pay its way in the way that everyone else pays its way.

## Q - Andy Hughes {BIO 15036395 <GO>}

Thanks so much. Andy Hughes, couple of questions if I could. First on bancassurance expiry, I think, DBS is pretty soon, but I think you talked about extending it. Is that going to cost money? And I guess the same one with the in France, you've got a distribution there which is expiring soon as well?

And then the second question was about I guess about Europe. (04:05:30) surprise me is the amount of unit-linked business you're selling in Europe. Is this something you really can do through banks or is it something you really needs your own distribution for? And is it something that's related to the state of the economy? So if the economy turns down, the people rush to traditional products again. Thank you.

## A - David McMillan {BIO 17298829 <GO>}

The second question first and then we'll do the DBS and SocGen between us. As I said in the presentation, a key strength and something I've been really pleasantly surprised with, since I've taken over Europe is the strength of the distribution in France. And such a high proportion of that distribution is controlled or owned, so unlike other parts of the group, we are not dependent on bankassurers. In 2012, our unit-linked mix of overall savings in France was around 15%. We've driven that up in 2013 to 22% and in the first quarter of 2014 is 25%.

Now clearly, we've been helped by buoyant market. But a lot of that has been biased (04:06:44) actually driving our distribution and getting our sales people and distribution partners to actually distribute what we want them to distribute. So, I think we may not be able to stay at that level in perpetuity, but I think we can – I think it's something that we can outperform the market over the longer term and that's what's really capitalizing our VNB in France.

So, on the French Bancassurance, to put it into perspective, this is a relationship we have with Crédit du Nord, which is a subsidiary of SocGen. It accounts for 7% of the French dividend to group. We have – we'll get into discussions over the next couple of years in terms of the renewal of that business, contract those out to the end of 2016.

## A - Hock Seng Khor {BIO 3993330 <GO>}

Okay. I think on DBS, of course, we have very strong relationship with DBS, as you can see from the business growth that we have been doing. So we are good partners and we're of course working with them on the renewals and so on and we'll try (04:07:57) on the best we can to ensure that the renewal is done.

(04:08:04)

Yeah. It expires end of next year. Yeah. Over here.

## A - David McMillan {BIO 17298829 <GO>}

Just behind you.

## Q - Colin Simpson {BIO 15894636 <GO>}

Thanks. William Hawkins from KBW (04:08:18). To the extent that Aviva Europe and like rest Asia contribute to the benefit of diversification at the group level, what happens to that benefit of diversification? Is it back stream down to you, so that you're allowed to grow more or is it kept in the center so effectively on a group basis your sort of high return operations?

## A - David McMillan {BIO 17298829 <GO>}

Well, I'll try to answer. I told might want to have a go at this. Diversification benefits within country are held within country and that's the same for the UK businesses as well, but group level diversification benefits are held at the group. Is there anything else you want to (04:08:53)

## A - Hock Seng Khor {BIO 3993330 <GO>}

That's very much a good summary.

## A - David McMillan {BIO 17298829 <GO>}

Okay. Anymore? No. Okay. We've got a...

## A - Colin Simpson {BIO 15894636 <GO>}

15-minute break.

## A - David McMillan {BIO 17298829 <GO>}

15-minute break, everyone. Okay.

## A - Colin Simpson {BIO 15894636 <GO>}

(04:09:10) We're not coming back into here after the break. We'll be going into another room. But you'll be guided into that.

## A - Christine F. Deputy {BIO 16997902 <GO>}

Good afternoon. And welcome to the Agora. Before I explain this phase that you're in which may feel a bit uncomfortable and different after recent spending our time in sort of a very corporate environment across the hall. Let me introduce myself. My name is Christine Deputy. I look after all things related to people here at Aviva. I've been with the group since March of 2013, so a little over a year-and-a-half, almost a year-and-a-half. Before joining Aviva, I was with a number of other companies. I worked for Thomas Cook, I worked for Starbucks, I worked for Dunkin' Brands and I worked for Barclays, okay. A number of (04:10:02-04:10:05) consumer driven and retail environments.

Primarily, what I do and what I have experience in, is working with organizations to create high performance and values driven culture that help deliver to the business, often turnaround and high growth, so all those experiences have been put to test in the last year-and-a-half here. So let me tie a little bit about the Agora. Now some would describe this as a bit of a mixture, some would say it's like a Quaker meeting room where you have conversation and contemplation, some would say it's a bit more like the coliseum. And let the lions come in. But this is a space that we've created in our organization to drive conversation. There is no hierarchy in this room. So when we have conversation, it's not just between you and I answering questions, but it's about you and you and you and you talking to each other, discussing issues. We created this environment as we started to engage with a very different dialogue with our employees and with our leaders, to start to open up and understand both where we are today and how do we move the organization towards a much higher performing environment. So let's talk a bit about the journey that we've gone through at Aviva around people, okay. Let's see, oh, you guys, you have the red button, you can go.

So, similar to our investors, our people were losing patience. If we look at our journey from 2008 to 2013, 2014, we had a very different conversation with our employees during this time. In 2008, we launched the Aviva brand and we started to speak about the fact that no one recognizes you like Aviva. We saw a strong reaction from our employees in a very positive engagement at that time, but over time that started to slip. Over that period of time, John McFarlane mentioned last night that we reduced the employee base significantly, not just through divestures and selling companies, selling businesses, but also through a lot of reduction programs, restructures, reorganizations. And through that period we saw our employees start to question and raise concerns. A high level of commitment to our customers, but yet unsure as to whether or not the organization was really committed to them.

In 2012, 2013, the employee engagement still looked fairly positive, but underlying that there were some significant messages that our employees were sending us. (04:12:56-04:13:08) There was a big drop in trust and leadership. And our most senior leader's engagement was starting to drop dramatically. In 2013, we saw the biggest drop of engagement and our employees started to say to us this feels really – this feels really difficult and I'm not sure that it's actually going to change. So, in that kind of environment, we needed to do the kinds of things that we've done around reducing roles. We needed to do the restructuring that we needed to do – that we did. But the question becomes how you re-engage the organization and re-engage the employee base to drive innovation, to drive collaboration and to deliver the kinds of results that we know we need to deliver going forward. So we started to work on building out the future and many HR folks in the financial services industry, my experience has been, they use primarily two tools. One is restructuring and redundancies in order to cut costs and the other is pay. Well if you can just pay people in the right way, then you can change the behavior of the organization.

From my experiences is that it takes more than that to re-engage an organization. 30,000 employees both in company-owned and joint venture environments need to be engaged in a way that is different and in a way that's sustainable for the long-term, so that they start to drive a consistent customer experience and they start to deliver those results. So we started on a journey last year as we were discussing the conversation around purpose and values, because our employees were very much asking for we want to know what the future – what lies in the future.

Yes I'm okay to make really tough decisions today but I want to know so what, so why am I doing this. So the significant amount of work as a senior leadership team and senior management team and actually frontline to talk about what the purpose and the values needed to be in the future. And they couldn't be sort of airy-fairy, nice to – just nice words to say. And I think if I can use the phrase motherhood and apple pie and come out with a set of motherhood and apple pie values and they don't really mean anything. But they needed to be something that was highly connected to the strategy that we needed to deliver. So many of you may have heard these values we've shared them quite publicly never rest, kill complexity, care more and create legacy. And we engage the organization not just by rolling them out and putting big plugs on the walls, but we spent time with 3,500 of our management team members around the globe. And sessions in Agora is just like that. To have a conversation over a three-month to four-month period about what that meant, what the purpose meant, what the strategy meant, what the values meant to them and what they were expected to do as a result of that it was a process of almost re-contracting with our employees about, okay this is what – this is what the future holds. Do you want to be a part of that? How do you want to be a part of that? What do you think we should be doing in order to deliver this?

And we really had a significant amount of reaction from our employees in the sense that they started to feel like, oh I have a voice. I actually – you want to know what I think; you want to engage me in this process. Now, we've also had to do a lot of other things; we've had to redesign the operating model. You know, what do the functional teams do, how do we look at cells. We talk a lot about cells, but how do we hold folks accountable who run a cell, who deliver on those areas. So we did a lot of work around that and engaged the organization there. We've had to invest in talent.

In 2013, we did – 70% of our senior management placements were internal promotions. But in 2014, we've actually done 70% of our – of our senior management positions have been filled with externals. So, we have identified the great talent that we can pull up into the organization and highlighted those individuals and given them an opportunity to contribute at a different level. But we've also identified that there are certain skill sets and capabilities that we needed to bring in from the outside in order to deliver. We also had to really drive a level of communication and management insight with our folks. So, instead of doing a one-time big bang survey, we actually quarterly survey our employee. We've had – actually we just finished our second Pulse survey getting feedback on how engaged our folks are; how they feel about the strategy; whether or not they believe what the senior management are telling them; whether or not they leaders, are doing what they say they are going to do? And as we get that feedback, we take action and we start to respond and come back to them with; you said this, we're going to do this. And we contract again and build that trust and that engagement with that front line.

This is incredibly important that they are the ones that are driving out of innovation that they're bringing that forward. Finally, we do look and have looked at rewards; how do we pay? How do we encourage? How do we drive performance? So things such as our five key metrics are the same key metrics globally. We start to think consistently that drives that collaboration and that measurement and we start to compare and contrast. So every quarter, we bring our cell leaders in and the senior management team has a conversation with them about how they are performing in comparison with each other; they rank and stack on every one of those five key metrics as well as people metrics as well as customer metrics as well as audit metrics.

And we have a conversation with them about how well they are delivering compared to their peers. So you could be at the top of the list; and that's a good place to be. Or you could be at the bottom of the list. And you actually may be at the top of some list and the bottom of other lists; but if you are, then we're going to ask you to talk about where you are, why you're there and what you're going to do about it. And that routine has started to drive that conversation and that accountability around the performance and the opportunities that we have.

We've also introduced a measure around behavior around values. So the values care more; what does that look like? How do you do that with your teams? And as a result of 360 feedback, we give you feedback around what your folks are saying about how well you're delivering there. Kill complexity: are you really killing complexity or are you bringing in complexity? All right? So all of those things become part of the measures. We're just in our first cycle with that. But we're seeing a very different conversations happen.

So these are a number of relentless and consistent messages that power through the organization and start to drive a very different kinds of conversation. They are grounded in our People thesis. Now, you guys are probably more interested in the Investor thesis, I can imagine that. But the People thesis is critical because it starts to give the groundwork to our folks as to why are we doing those things, why are we focused on what and how, because the things that we're trying to deliver are achievement, potential and collaboration. The component around achievement is about a transformation in this organization that effort is valued; we're going to recognize effort. But we're going to reward outcomes. It's not about how well you negotiate your budget, but it's about whether or not you can demonstrate year-on-year improvement, no matter what role you are in, whether you are a cell owner or you are sitting in a functional area, how are you improving whether it'd be a cost or top-line or a customer measure. So, achievement is a really critical component for us in helping refocus the organization.

Potential is about both the organization's potential and how we work together as well as the individual's potential. And we need it as I said to re-contract with our employees. We commit to them that this is a place that you want to be; that you can achieve your own personal goals by being an employee here at Aviva. And those personal goals, if you achieve those, they will help the organization achieve our goals as well. So talking about the fact that diversity is going to be critical for us going forward, that what and how are just as important; leadership and technical expertise are equally valued. There's a very different conversation than what we've had with our folks in the past.

And then, finally, collaboration. So, I think we heard a lot about as we – as we listen today to all of the leaders do their presentations around the fact that we really are driving this consistent message across the organization that through sharing best practices, we can accelerate the improvement that we can deliver. So, it's not good enough to do something really well in your market; it's not good enough to just do something really well in your cell. It's actually even better if somebody duplicates it in other markets. It's better that you can share it out there and get more folks doing that same thing, because then we can accelerate the speed of improvement, whether it would be cost efficiencies, or top-line.

So, how is the the organization responding to the behaviors and the activities that we've outlined? Well, I won't say that it's all rosy and wonderful and everything's finished and aren't we great and thought perfect. It's actually not at all. Our early results for our first – our first Pulse survey, our folks are telling us, yes, you guys are on the right direction; I believe the strategy; it makes me feel – like, I have a clear view of where we're going. I want more detail, I want to understand how I'm going to deliver on it, but I now feel that there is a future, I know what I'm fighting for.

We've seen a significant improvement and we're starting to feel proud to work for Aviva, up 9 points. Now, 70% is a good thing. It's not something, I'm super proud of; I want that much higher. But 9 point improvement over the fall is quite a good increase. We've also seen that folks' trust in leadership has improved. So, I don't have that statistic on here, but we've seen a significant movement forward around trust in leaders and in our most recent survey that we've just - we're just closing today or tomorrow, the early results show that our folks are starting to feel comfortable that their leaders can be trusted to do exactly what they say they are going to do.

Now, you may feel like, well gosh, you should absolutely have that. That should be a normal baseline. But there was a sense of, I'm not sure what's going on here; I'm going to turn around and you're going to restructure this business tomorrow; you're going to - you know, I don't know, you're going to change the strategy tomorrow. But we're starting to feel that the employees are starting to feel comfortable that we're going to stay the course and continue to move forward. And that's very, very positive.

We do see a significant increase around increased openness and honesty with our senior management. We still have a ways to go, but 10 points has been a nice positive movement in that area. And probably the area that we significantly - has an opportunity for improvement in the most significant way is recognition. And it's not reward. We're not getting feedback that oh, my pay is not right, or I didn't get a bonus. It's more about, I'm working really hard; I want to be acknowledged and recognized, and I want folks to understand what I'm doing. So, these are all the areas that we're working on.

The Agora is one of the mechanisms that we use. We - again, as I said, we bring it back to this Agora, because it really does drive a different conversation, a more relationship with the employees as opposed to this hierarchical experience. One of the things that we use - actually if I can ask; you've got a yellow ball - a Nerf ball there, if you want to (04:24:46) send it over to me. We also use these yellow balls. And what these are our microphones.

And so, I'm going to open it up just for quick questions if you happen to have any and I'm going to throw the ball around and see if anybody wants to catch. So, I don't throw it like this, like the rugby guys; I'll just toss it like the Americans. So if you have any questions for me about the culture or the people, the journey that we're on.

Yeah. Absolutely. All right. I'm going to try and toss the ball. Oops, there you go. And you could just hold it right there and you can...

## Q - Colin Simpson {BIO 15894636 <GO>}

I'm not just going to affect the (04:25:26) few boarded up, this is that so people can't get distracted.

No, actually, it's about getting the benches to stand because if you don't put it back on them they won't - you kind of can't create the environment. But we've also used the backs of the environment to have - to put graffiti on and allow people to kind of track the meetings (04:25:47). But it does keep everybody in and focused, and it really is a different kind of environment - because you can't really hide, can you? I can see everybody here. So if you're on your iPad, if you're doing something else, you're kind of quite visible aren't you. All right? Exactly. I know you're all feeling a little bit uncomfortable. Yes, I did - my very, very first job in my whole life was teaching school, but it does create - and what we found is actually when we had the sessions, there were data house (04:26:16) sessions the first time we did this; the folks became engaged in the space; they took it over. There were groups of people sitting on the floor, but it just took all of the formality out of the conversation and actually - we could actually start to talk about what the real issues were, and we brought a lot of issues forward. All right. Do you want to just pass over?

(04:26:37)

Well, yeah I put an organization forward (04:26:44) more in investment banking where you kind of have these programs, and the top managers will do them and that'll get signed up, but everyone else, but overall (04:26:52) many of these, they are sitting there and thinking, where can I kind of get a touchy-feely kind of my experience. So, how do you deal with that? I mean (04:27:02).

Actually, what we've done is, is that in our very first session, our CEO conference, when we launched a lot of the values and the horizon's work, we actually had - we had 200 leaders from the organization and we had 50 frontline folks come to the session and they participated in the session and they brought a very different conversation to the table because actually the funniest part with one of our frontline leaders was standing there and a group of 10 sort of senior leaders and everybody was debating, discussing a topic and saying, oh I'm not sure if I like this and it should be this way. The values, they didn't like. Oh never - never rest is bad, we shouldn't say that.

And this frontline person said, oh for goodness sakes, can't you look at the big picture? And they just called us on it and it was fantastic because they brought the customer with them into the room. And so what we did was - and we did launch the 3,500 leaders that participated in that first day and a half session. We didn't - first, it was led by us. So we had - this whole program has not been run by some big consulting firm; it's been run by us and delivered by us and our leaders across the organization.

And then secondarily, all of those 3,500 then ran half-day sessions. And we've actually had 26,000 employees participate in this experience. So we've taken everybody through June and there's another part of the program that was a full day component and all employees will participate in that between now and next year. So we are taking it all the way through the organization; because there is often - we call it - people call it the permafrost; I call it the mighty middle's. The middle of the organization where folks are holding on to the way things used to be, because they fought so hard to get to that place because they wanted those things that were part of that experience and they very often can hold information from the rest of the organization. So we drive direct all the way to the frontline. So whether it would be communications from Mark or from any one of us at the senior level, we do senior calls on a regular basis, but also we've allowed everyone in the organization to have firsthand experience with the content. Yeah.

[Question Inaudible] (04:29:09) we're doing around Investor day...

Oh actually...

...last week (04:29:13)

Yeah, so last week we had a senior call. All of our heads and – heads of and directors participated in a call with Mark and the senior executive team, where we shared with them that we were having this session. And actually today we have four of our front – not frontline, but middle leaders in the organization, I don't know where they all are; maybe they can raise their hands so we know where they are. Yeah, there is one. Yep, two. You guys can raise your hands, it's okay. We've got four of our senior leaders in the room today, and tomorrow we're going to have a call with all of our heads of and our directors. And those four folks are going to help participate and share the story of what they experienced during this Investor Day. So, really driving that transparency and having a very adult-to-adult relationship with our frontline.

How about you think it takes for the culture of the company to change? And do you think the culture of the company somehow replicates the psychology of the CEO with (04:30:12)

Well, (04:30:16). It's a good question. That's a good question. I worked with founder-led companies; I worked at Starbucks. I worked – when Howard was the CEO, and I worked with three other CEOs, and then I worked with Howard again. So I've seen organizations that are quite reflective of their CEO.

I think it takes 18 months. 18 months...

You think it takes 18 months for an organization to...

Yeah, to reflect the CEO.

...to reflect the CEO?

Yeah.

What I would say is – what I would say is it takes three years. I would say it would take three years for a culture to be fully transformed and embedded; that doesn't mean the organization is done. But I think the first year you start to establish the structure, you start to get some of the immediate reflection, whether it be of the CEO but also of the senior team.

Yeah.

We did – actually the work on the values and the strategy and all of that was done by the whole group executive. I think it's really important that we all own it at the same level that Mark does – this isn't just Mark's strategy. One person can't proliferate to 30,000, right, you've got to have an executive team that's going to do that. But what I would say is after the first year you start to get some routines and disciplines into the organization, but it's not until the third year that you get muscle memory. I know that will kind of proliferate without the sort of, really manhandling it. All right? But you think 18 months?

Yeah.

All right.

Thanks.

Good.

Thank you. Just wanted to have a staff feel about the changes taking place last year-and-a-half. Maybe two years, three years ago, I guess staff were told that everything is great. The company is going forward; it's a great place to work for. And now you have management team, some new, some old, who are saying things were actually quite bad two years or three years ago and being quite - not nice - a great place to be, but fairly shit (04:32:08) generally. And that's a sort of message that we picked up. So...

You don't want to start any - I have to say, coming into the organization, the -

(04:32:17)

Yeah. I mean we're going to have some - I told them I was going to put them on the - I wasn't going to put them on the spot. So you guys can think about it if you want to talk about it. What I would say is this that when - coming into the organization, one of the challenges Mark said, we need a People thesis, we've got an investor thesis. And I did a significant amount of work to understand what was going on underneath the surface of this organization. And what I would say is that we had a very parent-child relationship with this organization. We did not tell the frontline the level of transparent insight and information about what was going on in the organization. They were told, everything's fine, it's all doing really well, you are doing great.

And in many ways, many of the metrics gave those frontline folks that indication, because our consistent strength has been around the customer relationship and engagement with the customer and that has been - that is - and that's one of the things that pulls the organization forward. But as we went through the Agora's and we talked about that with them, there was a significant amount of pain that was shared in those conversations around, you let me down. We've seen the engagement scores at the senior management go to an all-time low in 2013 and then go low and then the rest of the organization the next year. that's exactly - that's, I can't hold this any longer and the organization starts to realize kind of what's been happening.

The only way I know as an organization to kind of heal from that is to deal with it very, very directly and we've been very open and very transparent with the organization since then. Sometimes messages that people don't want to hear; when we made the decision last year to change the redundancy policy and actually to say, this is the number of jobs that we expect we're going to eliminate over the next six months, We came out with that very clearly and there was a lot of reaction from the employees. But in the end it was the right thing to do because we had to tell them honestly; this is our intent. And as a result of that we changed – that was a real changing point for that conversation with our frontline and they now know that we're going to tell them what we're going to do as soon as we've made the decision to do it.

Okay.

David? (04:34:16) Yeah.

Just a couple of thoughts. I was reflecting on all that recent research about the characteristics of chief executives, and how many of them are actually pathological narcissists. So I was at it, but I'm not sure what you guys want as an organization to reflect the character of a chief executive. I think we're looking for something that's really, really enduring and that will go beyond the life of probably several. So, I mean the things happening around Aviva for 12 years, historically I think you've had a very soft performance culture. And I think our best people recognize the fact that we've got a soft performance culture. So the people that's tended in the past to survive and thrive are maybe people that are good at (04:35:13) or good at relationship management. What we've got now is a much sharper focus and I think people really, really – the good people really appreciate that. Other people actually start to vote with their feet.

I think the other thing, I mean the point that Christine made around a frontline staff actually knowing what's happening and starting to call it. I mean, as soon as we are there, we've been messing about with a composite for as long as you've been covering us as an analyst. It's a good thing, it's a bad thing, it's an opportunity as said. Our frontline staff have been – the ones that deal with customers, have been calling this forever, why don't we have a single view of the customer, why don't we have the ability to sell all of our products to all of our customers. And it's actually been senior leadership and middle management that haven't been delivering it.

## A - Christine F. Deputy {BIO 16997902 <GO>}

Thanks, David. It's not that far away. Why do we get a medicine of all, when we got a bit stronger, right. As Jason says, we've gotten thin, but now we need to get fit. All right. Just to follow up on that comment around the personality though, I do want to highlight, the organization did suffer from personality-driven culture.

So, if you are in Canada, you are reflective of that group, if you are in France, you look like that group, if you are in UK, you look like that CEO or that senior leadership and that is not a sustainable kind of environment that can really drive global performance over the long-term. And so, we really have been very, very focused on being much more consistent and much more enduring. And we believe that and know that that will create a much more sustainable performance culture over the long run.

I think to take off of what David said, and I know I'll be handing over to Nick, one of the big opportunities that we have and I think many organizations have is to listen more and speak less. And one of the things that we found in the organization was a program called Systems Thinking. We've talked a lot about it as we went through today. And what I'd like to do is, hand over to Nick, and he's going to share a bit about Systems Thinking today and we'll give you a bit of insight on that.

## A - Nitinbhai Babubhai Maganbhai Amin {BIO 17263805 <GO>}

Thank you, Christine. Good afternoon, everybody. I'm Nick Amin, and I have the grand title of Chief Operations and Transformational Officer for Aviva. I have been here about 18 months. So, about the time it takes to change a culture, it's going to take a little bit longer.

Before I do my role, I'm going to give you some background about myself. So, I've had the opportunity to work around the world both on the East Coast and the West Coast in the U.S., in Latin America from Guatemala all the way down to Chile, across Europe and Asia. So, I've been around the block. I've seen all the tricks. I know how to call it out. So, my roles across all those geographies have varied from functional roles, to general management, profit and loss roles, across many industries. So, consumer banking at Citigroup, private banking at Citigroup and insurance both AIG, AIA, CIGNA and a bunch of PE work through those geographies.

So, I spent before coming here 11 years in Asia, working right across the region, and in the last six years at AIA through the crisis driving execution around creating value and then ultimately listing that entity. I'm sure those of you who follow that will see the value that was created from the crisis to the listing.

So, I've been around the block as I've just said, seen a lot of things. What do I do here? So, I drive strategic execution and my focus is creating value. Now what does that mean? Well, I get involved with things that impact our results positively. So, I focus on operational performance improvement.

My focus on the improvement part a lot as my colleagues have found out. I get into the detail. The more detail, the better. And the reason is, I want to make sure there's no place for anybody to hide. Because if you're hiding something then, then I could take that create some value with it or change it to make it better. So, I'm a detail guy, getting to the detail and follow it through.

I also like – can we go to next slide? I actually believe life begins at the end of your comfort zone. You're probably finding this little set up a little uncomfortable, especially if you're sitting down here versus up there, because you got back support up there. So, I spent a lot of time pushing people as close to the end of their comfort zone. There's a good reason for that. If you live within your comfort zone, your comfort zone actually gets smaller and smaller over time, because you're comfortable.

Now why do I do that? Because I'm trying to get us to move forward with our execution, our agenda, our strategies and plans. Pushing things to the end of the comfort zone doesn't make me very popular. And it's not about being popular. It's about getting the right outcomes, the right results and moving forward. And I challenge my colleagues a lot. I challenge the status quo. I think it's very important to tell our employees what's going on and the results and the facts. Clearly, you're right we didn't do that previously.

So, my colleagues would say, since I've arrived, I've driven cuts across their businesses, across the group both in head count and expenses. And it'd be absolutely right. It was the right thing to do. We needed to do that. So, how do you sling down? We're going to get fit.

Now, together, we've created a stronger business. We have stronger P&Ls and clearly we still have a lot more to do. We focus on our customer, our people and our shareholders. So, what's next? So, clearly, we're absolutely committed to achieving what's been disclosed today in terms of the targets and the plans and the next set of issues. You've heard that in all the presentations that have been delivered so far. We're also going to transform our customer journey. You saw a little bit of that today in terms of the demos during lunch. There's a lot more behind that. And clearly, we need to pick the right ones to move forward and invest in. In some cases, we need to accelerate that investment and in some cases we still need to innovate. So, our focus around digital, automation and analytics is very, very clear.

Let's look a little bit about automation. Mark talked about, my life my way and the true customer composite. So, around this time last year, David Barral and Maurice and the various teams under that and myself worked on delivering the digital pieces that you saw and getting ready for the app that was launched. Collaboration was tough at that time. Today, it's a lot more easier. So, I come from retail banking where you see your relationship with that institution, they see the household, et cetera. We, as an insurance company, could not see that relationship. So, I, as a customer, have lots of phone numbers, lots of websites and lots of passwords for Aviva to do my transactions. Clearly that's history now. And we're moving forward in a much better way.

The focus around digitization, we're going to have to, from front to back and end to end, change the way we work. And that's clearly going to need some investment. The returns are pretty significant. The other thing I'm going to continue to do is focusing on simplification, simplifying our businesses still. We're not done, has a lot more to do. Not going to get give up at all on the expense efficiency.

Clearly, as you see from all of the presentations, we've got some work to do. If you look at the external benchmarks, we still have work to do. I think we put a goal out there of less than 50% on the operating expense ratio. Clearly, we need to continue our focus. So, what do I focus on personally? I think you've heard a lot about the back book. Clearly, the execution around that is started, it's underway. So, driving that home is going to be pretty important. The quality of our value view business and consistency of our core and delivery around that, improve our cash flows and continue the rationalization of our cost base. And with all of that, we need to have a customer focus start with a customer and work backwards.

So, let's talk about declaring victory too early. A number of people, both internally and externally, have told me that Aviva declares victory too early and moves backwards quickly as well. Well, be rest assured we're not done and we will not call victory too early. It's definitely not my style.

Transformation efforts normally fail because institutions call it too early. The issue around change is that we need to institutionalize the change for transformations to be successful. So, I think a number of you have kind of commented and certainly what I'd be reading today in the newswires around the targets and so. You should not leave today with the thing in your mind that we're not going to continue what we started on, right. So, we may not have put an explicit expense target out there and efficiency target out there, but we're very, very committed. And the gas pedal is still down and we're going to continue the execution. There's a lot of opportunity that we're working through and our objective is to continue that. So, we should walk out of here knowing that we're going to continue the execution that we started.

Tom has given you a breakout of the £400 million in his slides. Now you will note from that that 7% of the £400 million, roughly £35 million, was pure efficiency. Doesn't sound like a big number, right? So, if you still look at our expense base, if you still look at our efficiency and look at the benchmarks we clearly have more to do through automation, through digitization. Now, clearly, we need to make some investments to realize that, but we're absolutely focused on doing that.

So, I'm going to quickly summarize before I move on to the next topic. We have more to do. We're not done. The ship is turning. We will deliver as we have the execution focus. We're on it. And we will not call victory too early.

So, on that note, I'm going to talk a little bit about something that impressed me. As you probably gathered, I'm not someone who's easily impressed. A few weeks after I arrived back in March 2013, I was invited to the board meeting and I had to provide an update. And I was asked at that time what has impressed me about the company. It clearly wasn't the financials.

What had really impressed me was something called Systems Thinking. Now, clearly, it's a methodology that helps change. What was interesting about Systems Thinking was that it has an impact on the customer in a positive way, it impacts satisfaction, it has an impact on employees from a satisfaction perspective and ultimately it has an impact on the financial performance, and productivity. Why was I impressed?

The reason I was impressed was it starts with the customer and it ends with the customer. It's as simple as that and it works, right. So, we have Six Sigma, we have Lean, but this is very simple, starts with the customer and ends with the customer.

So, on that note, I'm going to pass over to Scott. And Scott is going to walk you through as to what Systems Thinking is and what we've achieved so far. Thank you.

## A - Scott McFie

Right. Good afternoon, ladies and gentlemen. I'm Scott McFie from the Systems Thinking team. When Nick Amin's impressed with something you should probably tired of (04:49:48) the proceeds and scarper, and crip for (04:49:50) your head. But actually I'm not going anywhere because this is a great time to be at Aviva and this is a great role.

So, I was asked to do this session given license for it to be unplugged. It's probably verging towards unhinged somewhere in the middle, and thank you for the gentlemen for swearing earlier on because we may stray into that territory as well. Okay. I guess, this is Scottish, you can't take the boy out of Glasgow sort of thing. And I've just relocated back there as well, which doesn't help. Okay.

So, System Thinking. Why? David Morris, the guys have very kindly touched on the kind of economic benefits of what we do and why we do this. So, the bottom kind of right-hand quadrant, this does drive genuine OpEx, underpins a lot of the achievements we're seeing at the moment.

Now, if you go up to the top right-hand quadrant, predictably we see up to 60% waste in an area, that sounds absolutely horrendous, but therein lies the opportunity. And we shouldn't actually feel bad about it. A lot of the System Thinking method comes from Toyota Production System, Taiichi Ohno and he'd been doing it for 40 years. And he was asked towards the end of his life and no on his deathbed that would probably be unkind. He was asked towards the end of his life, so how much waste is in your system given that you've been doing this for 20, 30 years. And then the questioner was kind of expecting the answer, 3.12%. And he said 75%, he just need to know how to look. Okay.

So, clearly we need to look a bit harder, given that we're only 60%. So that's the kind of commercial side of this, and the opportunity side of it. What makes this really interesting for us is that it works for the customer, okay.

So, top left, Net Promoter Score, I think give it up a flavor of that is our customer satisfaction measure. Typically, we see about plus 30-point movement in NPS that's kind of supernormal territory. And then who makes it better still is actually this works for our people as well.

So, to Christine's point, these have been tough years, but actually in those tough years, the areas where we've been doing System Thinking, we've seen sustained improvement in employee engagement. This really quite simple. There's the guy called Dan Pink who brings together some research around why do people come to work. And they come to work to align to purpose, System Thinking is very big in what the customer purpose is, mastery to get better at what we're doing and self-determination. So, hopefully, I'll be able to give you a flavor of why these things come together.

Einstein is always good for a quote. I suspect there's a quote that says, I didn't see half the things that people said I did. But somebody asked a good question about things were bad previously, what have you learned. So, System Thinking is not just about different method, it's not just a move from kind of lean or sigma to this. It's actually about understanding like how the hell did we get into this mess in the first place. It's called double-loop learning. And if we pay attention to that, we'll do better because typically when the pressure gets cranked up, we'd regret. We go back to what we know.

Okay. Now, you'd be forgiven for thinking that this is just an operations play and actually it's not. And there's two reasons why it's not just an operations play. One, if it works so well, why wouldn't we do it in support functions as well? Okay, that's reasonable. But the more important reason is as the operation gets slicker and faster, it places more demand on the support function. So the support functions, I'm talking about IT and HR, finance. So, you can imagine an IT scenario for, Monique's here as well, for the operation. He'll say, look, we're landing a hell of a lot more out our business. We need to change with real agility. And if the IT responses, please fill out in these forms and we'll see you next year changed portfolio, we're stuffed. Okay?

So that's why customer will place demand in operations and operation places demand in support and it needs to flow. You can't have a Ferrari engine in a Mini, it's going to end badly, okay. Right, this is where things get a bit unhinged, and you need to indulge me a bit. So, I don't imagine you'll see too many slides like this in an Analyst Day and you may not see them again because the royalty fee my son is charging me for that photo is exorbitant.

Now, first thing on here with this curious juxtaposition is, what's happening on the right-hand side is a sport of human carling. So, if you look closely enough, those little fields and my son's casings, so I've two sons, 12 and 14. My wife would argue that my mental age fits neatly in the middle, never more so when we're on holiday. And we've developed this sport of human carling. So, my son sits in this case and I presume down the airport to predetermine sport. We think it's hilarious. We absolutely love it.

However, this photo was taken three minutes before a travel insurance claim. Okay? Now, don't worry, it's not that bad and pushing down the flight stairs of entrant, but we'll come back to it. And (04:55:09) know who the gentlemen in the left is, don't tell me his name, he's up there. Any clues?

## A - Unverified Participant

The guy who invented the bag that your son sits.

## A - Scott McFie

That's actually probably a pretty decent guess, you maybe, I don't know. And – but Taguchi is a Japanese statistician, who dealt with Toyota in the 1950s. And I'm going to draw for you, why we're interested and note, I give you fair warning, these drawings are unlikely to make it to the Tate Modern okay, okay. So, what Taguchi – okay. Hang on. What's happened here? Wait a minute.

This is kind of one of the joys of the agoras, good for conversation, but not quite so great for presenting. So, frankly a flip chart would have sufficed nicely here it's a shave actually, because the story build up quite nicely, but let me take you through what's going on here.

So, the bottom part of this diagram, Taguchi only worked with Toyota. They did work on, easily it became known as Taguchi curve. So, essentially what they're saying is that point in the middle, they were studying and manufacturing. If you deviate from perfect quality in any direction, is it true that costs go up in the end-to-end system. So, imagine I work in Toyota and all of a sudden, I'm Head of bolt. I live bolt. I'm gifted, I'm brilliant at bolts. And

I always hit my budget and my productivity is through the roof, but actually they're not that great.

And what you see is a cost elsewhere in the engine, okay. So that sounds like very strange things for us to be interested in. So, what we're interested in is, if we deviate from what the customer actually wants, is it true that our end-to-end costs go up in the system. You see the connection, okay? So, let's test that. So, back to Brodie McFie and the human carling example.

For whatever reason, unbeknown to me, this drives my wife to distraction. She absolutely hates it. And our flight was called and we're in one last kind of go at this. And she absolutely stormed off in a complete hissy fit to the gate and she left behind her leather jacket. So that's the basis of the travel insurance claim, I didn't push my downstairs.

So, she's got this thing when she is really angry with me. She does this thing because she says one word and points at the same time. So, we get back to the UK and she said, it was your fault, you will make that claim. So, I wake up in the morning. Now, has anybody made kind of a travel claim, a property claim?

Wow, okay. Look, let me tell you, you do not wake up in the morning, go, yeah, travel insurance claim day, boy, oh boy, I'm looking forward to today. Now, I'd suggest if that is you, you need to go a bit more. So, rather reluctantly, I hold the policy out the drawer, Aviva policy, good corporate citizen. Okay, fair enough. I'll give that go. Let's see how this gets on. So, I picked up the phone and the first unusual thing happened was, I got a human being. I've to ask it, that's not normally what happens, I usually get some sort of machine. And it quickly became evident that the chat was going to sort out my problem. It wasn't going to pass me on to somebody else. Okay, fair enough.

Next interesting thing that happened is remarkably unscripted. It was a really good conversation. The data protection was sensible, it wasn't - could you please tell me what you had for breakfast in the morning you took out the policy and all that nonsense. So, we're about 2.5 minutes into the phone call, and he says, look, I've brought up your policy. I see you don't have a neutral policy. I need to ask you, what's your story. And that's how he described it.

Now this has been tattooed indelibly into my forehead by my wife. It was - she was doing the thing again. It was a Marks & Spencer jacket, it was 140-years-old. So, I told the chap and then what happened next, blew me away. He said that shall we call £110? I said, I'm sorry, I don't understand. Yeah, you've phoned up to make a claim and I'd like to settle your claim here and now. And I thought that's super, but in mind I was going actually you've ruined my day. Because I was kind of expecting a fight to the death and drizzly stories for, its Scottish thing again, drizzly stories for the next two months.

And then, this was now Friday, so I've managed to procrastinate for four days, which is pretty good, but the nagging was getting incessant since Friday. And he said, I see you pay by direct debit. The money be in your account on Tuesday, how does that sound? And

I kind of mumbled out, fine, but what I actually meant was like, absolutely smashed out the park in terms of customer experience.

However, that's not the point of the story, okay. So, this bit in the middle of diagram, we call that nominal value, but for that just we'd fought the customer really wants, okay. So, when I picked up the phone, what did I want, answer the phone, have a sensible conversation with me, be fair, pay me the money, no rocket science is it, okay. Again seems through the day, that's not necessarily how it always works. So, could you just indulge me and let's play, what's the deal process look like, okay.

So, I need you to chip in here guys. So, I picked up the phone, what did I get, I don't get human being, IVRs. So, we all know what an IVR is, press 1, press 2. Do you know that in life policyholder contact we establish the only one in three customers got to where they needed to get to and there was about 1,200 possible permutations through the system. So, guess, what we canned it, okay?

So, you got get an IVR. Do you ever get passed on from department to department? Yeah. Not always the best to handoff, sometimes the call gets dropped, yeah. That's quite common. The data protection questions, talked about that almost Stephen Hawking could answer the question, if it's not me, so, why would be. And it just goes on and on, and then it just gets off the map out of hand. So, they're about to use the words that I'm not going to do, I was going to get down on my knees. They'll literally bring me to my knees. They use the words, you need to. No, no. Hang on. I mean, I'm the customer. I'm placing a demand on you, do not tell me I need to.

And they're going to send me something now. So, what is it? What are they going to send me? They're going to send me a piece of paper. How are they going to send me it? In the mail, fantastic, absolutely bloody marvelous and drives you to distraction.

Now, I don't know about your household. But I run my household with military possession and everything that comes into my household has failed and leave her arch in date order. Now, as I bleeding lie, it's a miracle of my Labrador little dog doesn't eat the post, okay. So, they're going to send me this thing. The chances of me actually getting on nibble to slim to none.

I have to tell you also that I'm, in fact, a renowned expert in filling in insurance claim forms without any missing information or without any error and with crystal clarity. So, I'll do that brilliantly as well. So, what's interesting? Remember, how long was my first phone call, how long was my boot process? It's minutes, wasn't it, minutes. I phoned up, they're going to send me a form, I'm going to fill in, and what sort of timescales are we up to now? Yeah, literally.

We're probably up, comfortably a couple of weeks, okay. Friends with form is going to reach me, there's a curious language that they use, they're going to send me the form and it will be with you, working days, is this completely different calendar that exists. All this time, I've been looking at a calendar and there's this thing working days, astonishing.

Now if that doesn't happen, what am I lightly to do, okay. So, congratulations, Scotty boy. You've just increased the demand into that system by 100%, okay.

Now, eventually if somebody kind of reviews my claim and I guess pass from department to department, so to see what's happening, we're kind of moving away from the customer's nominal value both in time and how the process is working. Eventually, they'll write to me and you know there may be a step in between saying you've forgotten your receipt and you know I'm not going to pretend I have a lever (05:05:06) receipts for everything I've ever bought. And they eventually got a letter saying congratulations Mr. (05:05:11) £62.14. Where the heck did that come from.

So what am I likely to do? Again touch again, congratulations we are now off at 200%, 300%, 400% demand into the system. So that's grizzly (05:05:26) enough and it might surprise you or it may not surprise you to learn that generally this extends out to 40 plus days. And what fascinates me about this is I'm one of the kind of senior middle manager guys that Christine was talking about, you know, I can't imagine anybody going into steering group or a group exec going, great idea guys, look at this fabulous process, it's going to take 42 days and it's going to really piss off our customers. Out.

So, how does that happen? How do we go from these kind of PowerPoint designs to this bonkers way of working? There's another thing that goes on, and it's a wee bit less easy to spot, okay. And it is management things. So not only this is a bizarre workflow that extends out now and is really not very good for the customer, management things begin to happen. Now in that protracted workflow, there are loads of people. So what do they need?

True. They need managers. And there's lots of managers, so what do they need? Slightly more senior managers, and they need slightly more senior – and bingo before you know it you've got hierarchy, okay. So the good point earlier on what they also need is this is going on for a long time, so we get worried and we get concerned. So what we need is information and we need reports.

So, if we're choosing (05:06:51) information and reports, what do we have? We have reporting teams. We have MI teams, we have SLAs; we have targets. These areas are heavily functionalized and here's a bizarre one, if they get big enough they start creating engagement functions at the start of their process and it goes on and on and on. Clearly, this isn't working for the customers. So, they're going to do one of two things. What are they?

## A - Colin Simpson {BIO 15894636 <GO>}

Believe?

(05:07:21) So, that puts a strain on your business, doesn't it? And from my old marketing education, it's more expensive to attract a customer to keep one. So, we've now got a bigger and new business function and if they are kind enough not to leave and it's not working for them, what are they going to do?

(05:07:38)

Yeah, they're going to complain, aren't they? So, we now need a complaints team. This is the bit I love in the drawing, because I get to get my pen out and scribble all over it. But actually...

(05:07:50)

No, I won't do. I won't do. Actually it's all [Obscenity] (05:07:55). We have completely and utterly missed the point in terms of how we've designed our work and the customer's nominal value. Does that make sense? Okay. So, if we can learn to design our ways of working to meet the customer's value, we have data coming out years' time and time and time again that actually it works better for our people, because it's no fun working in that environment. It works better for the customer and it is economically beneficial to us as well. Okay.

Ah, you've just paid a (05:08:34) £110 over the phone. He is going to phone you on Tuesday, Wednesday, Thursday and Friday. I can say that from there. So, actually I got in touch with one of my peers, one of the system thinking leaders from you know a massive claims here, and I said okay, is that true? And he goes no, nothing like it. Actually what we've seen is our claims cost going down and I can't explain the psychology of that to you, but it happens time and time and time again. When you do the right thing, customers do the right thing, that's extraordinary.

So okay, 5% you know, no big deal. However, even if that figure was neutral, look at the bit at the bottom, so the customer size has gone from minus 3 to plus 53, and this area is 44% more efficient. So not only are we getting the claims dividend, we're getting the efficiency dividend as well. If we have more time, there are some belting stories around that sort of account and intuitive logic. So how does it work? That's a system thinking room, so one of the things about the method is its very visible and by design because you're trying to create irrefutable proof as to what's actually happening, so that that's the next thing, you can't hide from it, okay.

So here's how we do this. Now, it looks a bit Janet and John, but there are dimensions of this that are really important. So if I put that slide up and the internal Aviva audience you know, and no one can assist in the funk area, apologies we can't think of a better past tense for system thinking, so system funk. And we say, okay, so where do we normally start? And usually it's somewhere between plan and do; sometimes it's do than plan. But it's certainly not at the study stage. It's not in our culture to study. Whatever as we're been doing has been rubbish for five years, six years, two years, four years, but yet we won't take the time out to study it for weeks or months. So the check process is absolutely fundamental. And not only do we study with the people who actually do the work but we also study with their leaders.

Now, we have system thinking governance which kind of sounds like a bit of an oxymoron, but it's not. So if the leader of the area isn't prepared to turn up full time and we're not prepared to dedicate resources to it, we don't show up. It's that simple. Okay.

The next bit is this kind of concept of redesign. And it's important in two senses; the first sense is that we redesign to try and get to perfect. So if you think about the travel insurance claims, we're not trying to make that car crash slightly better; we're trying to establish what is the customer actually wants and nail it only then if we find aspects of that difficult we will compromise back away okay. So that's fundamental as well.

The other thing that's really precious about this redesign work is it really helps with moving corporate culture. So we've talked about the kind of mighty medal people stock, how this helps us is we are not moving from the technical organizational state of - we binary kind of do this thing and let's kind of move wholesale to doing something different. If you honestly think in that travel claim, we would have moved the operation from one method to the other overnight, of course, not. So this bit in the middle is about testing and learning quickly in a really odd agile manner. And it gives us a lot of ability to say to the functions, are you honestly saying that given the dysfunctionality that we can now see that you're not up for an experiment. And really you know people don't like to stand on you've got to move. Okay. So you know this doesn't - we figured it all out. Let's take it to an Exec Committee and let's move the whole organization.

So at this point, you're kind of feeling like a bit of a god and the operation are feeling fantastic because what this essentially done is it identified massive opportunity, they've identified a solution that will work for the customer, work for the team, it will be whole scale better, but actually you've changed nothing. So this bit - it's kind of like we've had a hit single and this is the tricky second album. And this is where we move the organization to succeeding with this because of how the organization is designed not despite of.

Now, this method looks after us really, really well. If we just set up (05:13:07) business here and get into this, it's extraordinary how well it looks after us. And there are some quite complex models for each of these; it's not quite that simple. Otherwise, I might have a problem justifying my salary. So that's how it works, and it creates a kind of moral imperative to act, so that wall that you saw in the photo. Once that's up there, it's dead easy. You're basically saying; look guys, that's how it is, unless we act profoundly, that's all you deserve, that's all you get. So are we going to change or are we not?

So what system thinking does is it allows us to connect, influence with insight. So very often you'll hear things like our people are empowered, our frontline people are empowered. Yes, they are once we do a bit of this. But actually genuinely no. The massive changes that we have to effect, so look at the travel claim example, we're going to let frontline people use their judgment, we're going to pay claims over the phone, really; frontline people are empowered to flip to that way of working, I don't think so. So what we do is we connect the insight from the frontline people, the guys who do the work and do it brilliantly. So they power in the organization to actually change it and that's really powerful. And this is another slightly different version of that.

So the performance that we see with which we're generally dissatisfied, which is a good thing because it drives our improvement as a derivation of the design of the work, okay. So if you want to change performance, change how you've designed the work. However, to go a step farther into the Einstein territory, how we designed the work is not a law of physics or a law of nature. It's there because of people's and usually senior leader's assumptions as to how to design the work. So, if you're not going to change that thinking, guess what, you're going to go backwards as well.

So, just to kind of mirror the bit in the left, what happens in system thinking is the analysis is done bottom-up in the work and the change happens top-down. And boy oh boy, that's a change for senior leaders. When I was doing this in my functional area and my junior people were coming to me and saying, (05:15:23) stuff, we need you to do this. You're kind of like, what, me, with my reputation. Actually effect some change.

So, this next slide kind of feels a little (05:15:35) in public. But I can't stand here in front of you and say, look, we can spot 60% waste in the system and not kind of tell you some of the starting points. So, there are a couple of areas here. So, left-hand side of the slide before and after blue and green, right-hand side of the slide before and after up and down. So, you can see the numbers for yourself. But – and actually I've just noticed that the complaints numbers are monthly, not weekly, apologies.

Two kind of different problems to be solved here. So, the life policyholder contact, if you look at the top bit about demand, you learn things by studying demand. So, there's two types of demand into our organization. There's value demand, which is what we're here to do, and there's failure demand. Now, failure demand is caused by us not doing something or not doing something right. A better expression of it from a customer's point of view, something they'd rather not have to do with us. So, you've got it wrong, it hasn't arrived, I don't understand the failure demands.

So, this whole area was dealing with 70% failure demand. Can you imagine? Now, the organization learned progressively how to design that out by getting things right and organizing in a different way. Once they were into the realms of positive (05:16:54) demand that we do want, and guess what, that proportion went up. There was about 1,000 different demands that that area could receive into a system, 1,000 things our customer could phone for.

What they understood was actually the top 32 demands accounted for 80% of the volume. So, what's the answer? It's really very simple. You train up your front line people to deal with those top 32 demands, you support them with the technology required, and bingo, you get first point resolution for that, and that delights customers. So, the bottom also – there was a hefty commercial dividend here as well. Situation in the right (05:17:36) this is Clive's business. It's a slightly different type of problem. It's where we have massively functionalized a piece of work. Basically, we've lost the plot. We've been touching so many areas, and 5 and 15 touch points per claim, 0% first point resolution and taking up to 45 days, but predictably anything up to 90 days.

Now, we talk about these things very transactionally. So, let me just ground us and what this is actually talking about. This is a loved one phoning us to tell us a relative has died, and that was our response. We're going to send you some forms. We're going to send you some letters. You need to do this. So, can you imagine what we've managed to achieve by dealing – that's now up over 70%. We now deal with 70% of those very emotional and very, very difficult phone calls on the phone and you should hear the reaction. And it's very striking, because the person in that situation is not just dealing with us, they are dealing with other providers.

And the juxtaposition between what we can do and what other providers can do is very stark. And we're beginning to win as a result of this. I was quite emotional because actually I went through this pre-Christmas, and it's breathtaking what it does for you. The other interesting thing about this slide is we're getting better and better at this. So, on the left, policyholder contact was one of the first things we did in our life operations. It was about two, three-year journey. Piece of work in the right, if you look at the number down in the bottom, 70% out of the cost base and it was done in four months.

And what we're building is a legacy of leaders that can actually do this. That piece of work in the right had no involvement whatsoever from my team. People in Clive's area, they just know how to do this (05:19:42). So, the other fabulous thing about this is how many processes globally do you think we have. I don't have the answer actually. But how many processes (05:19:52) globally do you think we have that looked like the one in the right-hand side. We call that comparative capability.

So, why it might take us 42 days to do something in France, yet we can do it over the phone in another market. Just think of the opportunity. That is one process and one sale. So, to conclude, I hope you got a sense that the system thinking works very much at the heart of digitization. I'm doing some work at the moment in one of our sales, where we are up-streaming our automation effort. So, actually system thinking is the gateway to funding, why would we not redesign our business to be more efficient and then automate what's left, it's a much better way of doing it.

System thinking is very much at the heart of our thesis that works, investor, people, customer, distributor. The other thing that's superb is it aligns perfectly with our values. So, what I've talked about in the last 20 minutes or so, what is that if it's not killing complexity, what is it if it's not caring like crazy for the customer. You notice as well that our method is a circle, so it never rests. We go round and round and round again (05:21:07) 75%. You just need to know where to look.

And our role is to create legacy by creating system thinking leaders. Ideally, do ourselves out of our job, not too soon, but do ourselves out of our job. So, I rather hope this will be a relaxing session for you after a hefty day. I have to tell you this has been quite relaxing for me. I moved house over the weekend. So, frankly, anything is relaxing after that. My wife thinks I've started off to London as an elaborate ruse to get out of the unpacking. So, I should probably get my iPhone and get a photo of you guys.

But I did want to say thank you. I probably owe you a gin and tonic each. It's got to be worth at least that to get out of the carnage of a house move. So, thank you very much. I've enjoyed it. Last serious thought, so when we say that we can transform the customer experience and be more efficient, please be assured that we can, we have and we will. Thanks very much.

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

Is my mic on? Yeah, good. Welcome back. Well, this is the last session. We'll try and finish on time. So, we'll let it go hopefully as long as you need. Now, we've had a full day. Everyone is looking a little bit tired. We've had everything from Taguchi curves, which was the systems thinking, to the work on the strategies. You have seen fraud. You have seen a lot of different speakers on the team talking about the areas. So, the objective of today of course, as I said at the start, was a few things.

First, it was to talk about the strategy of the overall group, the composite, the true customers composite, digital first and the fact we're not going to be everywhere, we're going to be a focused composite. And I think that clearly does differentiate us. You have seen the strategies of the businesses in the life and our response to the annuity changes in the market. You've also seen the new strategy for the – who was he, for Euan, down the side in Aviva Investors, and remains to be seen whether we'll deliver.

You have seen – I guess I had a lot of questions in the break on Euan's new target they announced in the 40, 40, 20 (05:23:39). But thank you, Euan. I should just put that in a little bit of context. Think of that like a internal challenge, a 2020 internal challenge. If we're going to be a true customer composite, then we want the diversity associated with that. And we think we can do a lot to increase both Euan's business and the other businesses and develop general insurance throughout the other markets where we haven't got it and balance up that portfolio. Don't take that as a target, take that as more of an aspiration (05:24:18). Yeah.

If you wanted the new (05:24:24) targets for next year, I can probably (05:24:26) easily. But – and we talked about that. You saw some of the examples of the digital, hopefully. I think it's clear that if we lead – we certainly lead in terms of a composite digital and what we're doing in this part of the world, but there's a long way to go in that sort of journey, particularly with the cross-sell. This afternoon, you've seen Asia and you've seen Europe both in the turnaround markets and the growth market, the Poland and Turkey and Indonesia, et cetera, and China. So you've seen those too. I mean the objective today was to give you a long-term picture. Today was not designed for the sales desks. As I said at the start, the objective I think among this team too is to create legacy in the business, and we are thinking long-term. That's what you've seen today, and I make no excuses for that whatsoever.

You've also hopefully seen the depth of the talent we have in our management team. We've got internal promotions and new hires, and someone asked me over lunch, well, they're all different. I mean I see that's good. So we've got different personalities, different cultures, different styles, the only thing you see consists across this group is only a few things is a value set, the values that we talk about, our business values, I think are all consistent. They're all a capable team intellectually, and they're all very driven. And those are the three elements I want in the team. And I think we're starting to blend that together as a team.

But rather me talk, what I'd like to do is open up for questions you can cover any question you wish from the day. And I have all my colleagues here with me. And so on that basis, open up.

## Q - Colin Simpson {BIO 15894636 <GO>}

Thank you. Two questions. The first is, we've had quite a lot on the digital investment you're putting through, automation, the anti-fraud thing. What I don't quite get sense of is where you are, because as it became obvious as we went through the systems (05:26:37) for instance, as some of this had already been done. So I wonder if you could just take us through the three types, I suppose of, sort of, IT investment, just literally speaking, where you are in each market. I'll stop that on that question.

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

Okay.

## Q - Colin Simpson {BIO 15894636 <GO>}

And then, slightly a techy question. How do we calculate the group expense ratio?

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

Okay. Techy question, not for me, but probably you. So where we are, just to be clear as well, the expense ratios includes all of that as well. So, what are the expense we're talking about, we reinvest from other things. So, we will divert expenditure saved from a broker channel or a bank or just part of the business, and we will reallocate the expenses, just to be clear on the expenses, it's not additional expenditure. It's all in. Okay. Just to be clear on that. Now, where we are difference by country, so on systems thinking, for example, the first country that did it effectively on systems thinking that you just saw here was the life business. And it was a life business and the claims. So some of those examples we were talking about was the claims area or parts of life business and claims.

Businesses life – I don't know whether Patrick Dixneuf is still here. Oh, yes, in front of me. So, Patrick, when I was in Italy last week, we were talking about the rollout of systems thinking in Italy now. So that's only just beginning. It's the same if you're talking about the predictive analytics. So, Canada started, the UK is behind Canada, well, quite away, and most of the other countries frankly haven't started. So, this is – if you think all countries – if we're giving the impression all countries are at the same level, we certainly don't intend that. What we have is pockets of excellence that we're rolling out and each month, we get a bit more.

Scott, for example, is one of the people – as you just saw, he's one of the people that's rolling out systems thinking in the different countries. In France, I was there, what are the core systems thinking in France?

## A - Scott McFie

(05:28:41)

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

So, which is bringing customer very close to systems thinking. So your second question on expense ratio.

## Q - Colin Simpson {BIO 15894636 <GO>}

(05:28:52-05:29:14)

## A - Thomas Dawson Stoddard {BIO 15071280 <GO>}

The last page of the result pack in March have the calculation in it. But we try to put together a ratio that, we're a diversified group. So we went through the life, the non-life and the asset management group. And that's how we manage each cell. They got their own ratio that is relevant to their business, but then to compile it for the group, we said actually we need one metric not a formula, because you can't add life, non-life and asset management to get some sort of formula type. So, we say, okay, total operating expenses is what we've disclosed. And you've seen - that's the 400, it's the same basis and the denominator, the income is effectively profit before expenses, and before interest cost. So, it's what we'd call IFRS income across the board and that says expenses divided by IFRS income for the group.

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

Yeah, if you look at the individual units, you will find that, for obvious reasons, what necessarily makes the group, because we look at the group as a whole in the cost to income. If you're looking at Euan's business versus Maurice's business, obviously they have a different dynamic. The only problem with that of course is the ratio could go up and down, if you have a weather event. We got up or down (05:30:20) marginally. But I think Euan will understand that.

Yeah.

## Q - Colin Simpson {BIO 15894636 <GO>}

On the cost point, you mentioned I think in quite a few of the presentations that you're above benchmark...

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

Yes.

## Q - Colin Simpson {BIO 15894636 <GO>}

...of cost. I just wonder whether a lot of the things you seem to be doing on the digital side are trying to leapfrog what the industry is doing. Is that - it's not benchmark, probably it's not the benchmark, because the benchmark is a different cost structure and target. Can we talk a little bit about where you are, (05:30:48) industry benchmark or where you see the real benchmark is?

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

Okay. If you're looking at benchmark and I'll just take you a couple of minutes on cost, because it would have been quite easy today for us to just come out with a big cost figure, frankly. And I don't know the (05:31:05) that would have got us to the industry benchmark, and particularly areas I'm talking about that I would say on the UK, general insurance business. And we've shown that I think the last annual result - or the last quarter results, we've showed the chart actually that one of our competitors put up and we said we chose which one we work and it didn't make us look too good.

The other big area of costs frankly is on the back books. The back books we are highly inefficient, and look, there is reasons for that historically, and the reasons but the reasons are no longer are an excuse. So, the reason historically was that, systems couldn't talk to each other and you had all these big lump of legacy systems. Now, what's changed? It's the same reason why we couldn't have a single view of the customer, because the way the old systems work, the way I had to build the databases, it was just too complex. So when I said we build a single view of the customer for £11.5 million, that same thing just a few years ago would have costs us £150 million and all that changes the technology to fix it.

And probably what I think we have done is, we have looked the sort of the stuff years ago and we never realty addressed it, so the back books are a big source of savings to us that we can do a lot of that automation, and what we do with the systems and other things. There is a whole lot of it other things, including (05:32:26) buildings, and all those sort of things as well, so on an individual level. Tom also outlined earlier today, there's also some corporate finance stuff. Now, for example, refinancing that £700 million of debt that we did a couple of weeks ago had a tangible benefit to us of actual savings on debt of about some between £10 million and £15 million, but relative to our plans.

Now, you can see that that's also meaningful and at the moment obviously, our cost of debt has declined. So, there's other elements you can do there. So, next leading initiatives at the moment is about like what is that next phase. And if you underwhelmed by the expenses, that's okay, because people are going to have to make a judgment what they think we're going to get. But, I'm saying very clearly, we're going to focus on cost to income ratio, because it would be easy again to just do some very short-term cuts and give a boost, but I need something that's replicable year after year after year, because if we want a dividend that's going up, well, year after year to year, we need to make that work. The £800 million, I'll talk about the £800 million as well as to the bright side, a lot of questions on the £800 million what was in and what was out. I think Tom described it best. He said after, after, after. So, that's after growing the business, right.

On the debt side, I think Tom - all our words that have been chosen very, very carefully, okay. Tom's words and my words were, we will be opportunistic. That £800 million does not include one-offs, just to be absolutely clear. We spoke about (05:34:22) before being able to perhaps release some capital at some stage, and Tom, we haven't given any indication what that may be and we need to see if we can deliver that of course. So for example, that's not included in there.

So we're trying to give you a realistic, but a very balanced view about what's included and what isn't. We take a lot of time today to highlight our issues. We did the same thing last year and we've done that deliberately because then you, all of you that's why you're here, can make a judgment on whether we can deliver exactly what we can deliver. And that is the joy of having one of these sessions, I guess.

## A - Colin Simpson {BIO 15894636 <GO>}

I think the benchmark sort of expense ratio is kind of lies down wise in statistics. You look at Italy for example, we've got 8%, 9% GI expense ratio, which actually benchmarks relatively well across the group. Not in Italy, across the Italian market. The top guys in the market, the guys – the three or four biggest players are delivering a 6%, 7% expense ratio. So that's kind of one data point. I think the other data point is interesting, if you look at the UK and (05:35:42) the UK.

But if you compare the digital expense ratios, so our business like (05:35:50) 5%, 6% expense ratio versus tops versus what...

(05:36:00)

...a mature business. So that's where the world is going.

I mean, there's no doubt that digital stuff is got out (05:36:11) and it's one of the reasons why you're going to see us focusing a lot on that channel. What else?

Well, can I ask the question another way above £800 million, right? So it just so makes clear. You may not want to answer but just so...okay. Are you talking about £800 million unencumbered, whether you choose to use it for that or not unencumbered for dividend purposes? That's the question I think people are asking.

And my channel is eloquent as always; and the answer of course is yes. So we've talked about distributable cash flow, okay. You can do the math or perhaps not trying to be that open. But yeah, that distributable cash flow, yeah.

Using 75% raw, how much capital do you think will be reallocated for Aviva say over the next five years? I mean, how much capital – less capital do you think will be required to run the UK business and perhaps even capital taken out of the European business? And what are the selected markets that you are possibly going to select in the future?

## A - Thomas Dawson Stoddard {BIO 15071280 <GO>}

Yeah. I mean, that's a nice question. Our clients are sick and tired of it, not the first part because the answer to the first part is, we don't know yet.

## Q - Colin Simpson {BIO 15894636 <GO>}

Yeah.

## A - Thomas Dawson Stoddard {BIO 15071280 <GO>}

Except – because this is moving target quarterly and yearly and it depends on everything from regulation to economies to governments to frankly how good our teams are. So we allocate capital we look at, does it fit the strategy.? Is it going to deliver the investment thesis, cash flow, how quick's the cash flow payback? Can the team execute? Have they got their history? And what's the economics that that business looking at?

And Jason's in his new role, in particular, is focused on that in developing that. As to where it's going to go, you can assume it is going to go to where we have the higher returns in equity and we have teams that can deliver. So, I've mentioned a few of these today, so Poland extremely high return on capital. Is Adam still here?

## A - Colin Simpson {BIO 15894636 <GO>}

He's gone.

## A - Thomas Dawson Stoddard {BIO 15071280 <GO>}

He's gone. Adam and his team are a first class team and have proven they can deliver. So we do want to reallocate capital there. Turkey, Turkey is like Asia was 15 years ago and someone said to me before what about Asia and I said it's not about Asia, what I said at the start is about selective markets whatever region are in. And frankly, Turkey is like Asia was 15 years ago. It's got lower penetration than China has, I've just put it in perspective we like China.

What Khor said before, and I'll just clarify what he said. In China, we have 9% spontaneous awareness, not brand awareness, that's much higher. This is 9% spontaneous awareness. Tell me an insurance company. Now, I'm not aware of any foreign player that is even remotely close to that in China. Now, I expect the long as to do with our partners name frankly, but we don't mind doing.

So it's the market that can give us the returns. We look at business cases. We will never have enough capital for everything we want to do, at least I hope we don't, because then we can choose the best. So it has to how much, I don't know, but I've been very clear for the past answers, beginning of last year, certain markets are cash cows, we need to grow those cash cows, we need to keep them healthy, but they will allow us to provide cash up and we reallocate that cash around the group, or between themselves. There is question behind you.

## Q - Colin Simpson {BIO 15894636 <GO>}

Thanks, Tom. Again just following up on the cost to income ratio.

## A - Thomas Dawson Stoddard {BIO 15071280 <GO>}

Yeah.

## Q - Colin Simpson {BIO 15894636 <GO>}

I know you don't want to be drawn on the specifics of other financial targets, but can you just talk a little bit about how your vision of value creation and the other metrics may evolve over time? And specifically, the checks and balances that you've got in place next to the cost to income ratio, because at the back of my mind was I think I understand the philosophy behind that ratio. In practice if you've got that ratio and nothing else, it can dangerous unintended consequences in what is – it seems that we non-growth commoditized markets.

I will answer that and then I will give either Tom or Jason to add something on that. So the danger, of course, you're talking about is when people chase top line not interested in top line. Now we need it we need a metric that balances off. You've got an optimum level and you do that basically by bonuses. So for example, the waiting on cash flow in the UK is just cash flow by itself is four times what the weighting would be on a cost to income ratio.

The waiting on operating profit, this is (05:41:05) after all restructuring costs, not before restructuring costs, to be absolutely clear. It's four times what it is on the cost to income ratio. So you can do it by that. Then you have profitability measures and payback measures. So what's the cash flow payback for XYZ product and you do it to the pricing of those products as well.

You will never see in this organization me paying anyone for volume. I'm not saying volume or scow was important and you need scows to get your costs down, so you can make decent margin on it, but you won't see us paying for volume. Not one of the team members table has paid for volume at all and (05:41:46) volume which of course is a profit metrics.

So do you want to add anything to that?

I mean, I think you gave a good flavor here that we're not mechanical about (05:41:57-05:42:22)

Sure. So, let me start again. Are we saying that, again we don't apply the KPIs mechanically, they are weighted. We have a sense as to where our growth businesses are, where our cash generators are, where the turnaround businesses are. But I think as we sort of go into the next phase, as David McMillan was referring to, sort of the competition for capital in the group, the strategic overlay and what we're looking for the different businesses to achieve, is this something that's going to be under review and you know we may adjust some of the KPIs of the weightings to reflect that.

Come down here and then we come back to it. Okay

You could please talk a little bit more about the reinsurance mix and strategy because you see that that's potentially quite a significant change in the way of even manages its capital and diversification benefit. So how significant in terms of capital release or how would you show the numbers well to reflect as you get the benefit?

It's actually – and on top of that, it's also important for the internal line. So the reinsurance mix is actually a key part. Now, the (05:43:31) mix is sitting up here. So John, I'm going to pass to you, but it's – and just to be clear, it's also something that's had an extraordinary amount of discussion with the regulator to get their support on this as has been pretty robust process.

Thank you. And yeah, I mean essentially what we are doing is trying to pull risks from across the group. We've started with the two UK businesses. So we've taken 10% of the annuity business and 5% of the general insurance business, moved them into a common legal entity. That enabled us to release capital, release actual capital through diversification of those risks within the reinsurance mixer and improved the capital position of the UK Life business and the General Insurance business, and that enables us to dividend capital up to the group. And our intention is to expand that clearly to other areas and we've been talking to other parts of the business including French business, the Polish business, the Italian business et cetera. And I think what we are looking to achieve is something that other European companies have done such as Allianz and Zurich through different means. And it gives us more flexibility about how we manage the capital of the group and how we manage the capital of the different businesses.

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

The other thing I would say, and that it's also Solvency II efficient, if I can put it that way.

## A - Colin Simpson {BIO 15894636 <GO>}

Absolutely, Solvency II efficient.

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

And sourced and lot of the actions have seen us take over the last two years because we probably understand that Solvency II better than most because we've been operating under making (05:45:23).

## A - Colin Simpson {BIO 15894636 <GO>}

So, if I may just add one point, just build on last point that Solvency II. Solvency II requires you to demonstrate both fungibility of capital and transferability and having a reinsurance mixer enables us to do that.

I just wanted to amplify a couple of points there. We've just gotten started with this and achieved the benefits that John is talking about it. I think over time, more like some of our peers are potential against some other benefits here in terms of, you talked about moving capital around the group. This is another way for us effectively to shift capital and investment and risk around the group to get those benefits. There probably also are some other benefits in terms of how we optimize along the lines of some of the things I was talking about earlier today. And then as we think about investing, there's probably some opportunities here to invest the assets from the reinsurance mix or manage our investments and liquidity a little bit different than we've done in the past. So it's still early days there, but I think there's a lot of opportunity for us over time to effectively turn the reinsurance mixer into a business line for us and staff it up with people and report it that way.

And you know on the - obviously the way, what I was trying to look at it was 50% of capital still in the underperforming businesses.

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

Yeah.

## Q - Colin Simpson {BIO 15894636 <GO>}

Just get a feel about what that might be in a few years' time, because something about the cost target, it doesn't feel like cost targets can certainly turn all these businesses from the low ROE into a high ROE on their own. So I was wondering how you get the ROE of these businesses up and how much capital will be allocated in there, maybe it takes time.

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

That's the right question and I realized this morning after the session that I've deleted a slide that may have had explained this. The previous slide and the previous ones you had, the underperforming red cells as they were called were not on that graph for the simple reason that they've gone. Right, so underperforming to us means, it's not reaching the targets that we want. And so it's - there were several buyers (05:47:32) taken off the bottom buyer because we've sold them all or moved them or whatever. Just for absolute clarity, because I think there's a lot of confusion on that, today. Look, the part of the question that we've got, so if you look at say the turnaround sales of or take some examples might be lead this way, if you look at the turnaround sales of say Italy and Spain, clearly they are in that range.

So they've got two choices, haven't they? Either they give us capital back or they get the capital - they return on the capital there to an acceptable level. And to do that, they've got to be cutting costs dramatically whatever now in a lot of those ways giving us capital back can also solve that problem. And that's about we saw Patrick talked before, as you heard him talking some people, he is talking about last night it was about what it'd done with the product range so you reduce the capital intensive products. We've sold off the bets too so that we can control that business now. And therefore, you can release capital up to the group. You release capital up to the group and you're still meeting your Solvency II requirements. And in this case, Solvency II actually helps the Italian business. So Solvency II helps to lease capital up, what do you? Return on capital employed improves, doesn't it of course.

So, I mean, I wouldn't assume that all this is purely a cost play that would be a wrong assumption. I would suggest to you that the answer to your question was different if we sell we have. And to be really blunt, the sale can't get there and there's no prospect to getting there (05:49:12). Right just to be really blunt on it, if there is no prospect of getting there through whatever means, we'll exit then, we reemploy the capital somewhere else. And I think we've shown them in the last 12 months. I mean, it's absolutely the right question because we're asking that question all the time and that's part of the Jason's new role. And frankly, also, say, it is a key part of my job. My job is to allocate capital between businesses and between countries. And I said earlier on, I will exit countries if necessary to invest in others that are going to give us a bit of a tune. And again, I think, that's what the great businesses do. What else?

## Q - Colin Simpson {BIO 15894636 <GO>}

Sorry to get back to the £800 million, but how much of the – the quite positive experience you had in 2013 you assume to recur in that £800 million. And then just on the PRA subject, I mean, you obviously have an awful lot of discussions with your being regulated. But some of your peer companies since becoming away with recent discussion with a negative surprise particularly on the Solvency II, can you just sort of confirm that you are...

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

Yes.

## Q - Colin Simpson {BIO 15894636 <GO>}

...rock solid confident?

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

All right. Lance (05:50:33) always ask me the easy ones, so welcome back. I can confirm that our discussions with both the PRA and the FCA a very positive discussions. I can confirm that so far we've had no nasty surprises in Solvency II, but we've got to remember where we are on Solvency II. So we don't have (05:50:58), we don't have high guarantees. We sold our U.S. business. We've done all the problematic areas that we have made some real good progress on and frankly I think that's one of the areas that people before me really looked at and looked at well and what we've done is we've shown to that, a lot of us being led by John Lister here. And I'm not saying there couldn't be any surprises. Please don't take that message because we haven't seen all the Tier 2 takes, what I can say is so far as coming out where we thought it would.

And I know there has been some people who will say they've got all these issues. Well, we're not trying to say earlier today, some people have different financial dynamics with us than, in different countries they have different product ranges and so they're impacted fundamentally different (05:51:49) players. It's not a one size fits all. I do suggest to you that Solvency II is a big competitive issue in the market. I can tell you in places like Spain and Italy, this will help our competitive position because we've been measuring these guys are now basis here, now everyone's going to be measured on Solvency II which is much closer to our basis here.

So you can see the – you see the – I think the variance – the positive variances point, you always and I'll ask Jason on the executive assumption behind, I'm not sure what we've said and what we haven't said publicly. But you would always – we try on most things, particularly things like investment variance and things like that, we model as though there's no improvement. So, we're just modeling, we're not modeling and assuming there is a big tailwind or anything like that. We aren't taking everything through in terms of variances now just because we might see this year mortality experience and stuff, but you do visit those over time. I would expect if you run a business well, you would get positive variance. You would need to get positive variance, I'd expect in a well-run business.

(05:53:04) what would FCA model through that or either we, the answer is not much. Any variances to ICG.

## A - Colin Simpson {BIO 15894636 <GO>}

So. Well, the ICG is effectively for non-life (05:53:21) and that's modeled with a long-term investment assumption, which is agreed every year. On the life side, it's really the release of MCV surplus that comes through each year and that's based on assumptions and we take through the changes, but it's the operating figure and it's clearly in the variances above and below the line like any MCV type analysis, asset management is even easier. That's just a straightforward profit that comes through. So each year and as we go through it, the experiences just checks in the easier way on the embedded value analysis.

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

I think from my understanding your question I think about and the £800 million will be the same, what's the - what have you modeled for (05:53:59), okay. So you're not assuming positive variance, if you're assuming that, then you're assuming it's not variance, you're assuming new models. Does that make sense?

## Q - Colin Simpson {BIO 15894636 <GO>}

So when we set plans, we're assuming...

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

Is that your question?

## Q - Colin Simpson {BIO 15894636 <GO>}

That is my question.

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

That is your question. Yeah, okay.

## A - Colin Simpson {BIO 15894636 <GO>}

Yeah. We're assuming it's pretty been a steady state economic assumptions, and in fact we're not assuming a variance versus the assumptions in planning with respect to those we're announcing.

Because you know off the £1,772 million OCG, last year £350 was positive variance, which you can't assume that spend to continue with your expense rate.

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

I think you can assume with type of (05:54:41). Just a word an OCG as well because I had a lot of questions about that in the breaks as well. So OCG is an important metric, just to be clear. So I think Tom's key point is that OCG will have to be redefined going forward under Solvency II. That's really the main point so whether you call it OCG or something else is bit a relevant I think, but we'll have to be defined as with everyone one else because OCG is a (05:55:10) really put a one metric. So you need to update that for Solvency II once we have over take some Solvency 2. So you can assume some stage this year, we will give you an updated metric for Solvency 2 obviously during next year just not at the end of 2015, but we'll give you something on this that will help you. Is that helpful?

## Q - Colin Simpson {BIO 15894636 <GO>}

Helpful.

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

What else?

## Q - Colin Simpson {BIO 15894636 <GO>}

Can I?

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

You can take them please.

## Q - Colin Simpson {BIO 15894636 <GO>}

Yeah. Just on the OCG point.

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

Yeah.

## Q - Colin Simpson {BIO 15894636 <GO>}

So, I mean, I appreciate there are positive operating variances.

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

Yes.

## Q - Colin Simpson {BIO 15894636 <GO>}

There's almost £300 million or so in 2013. You would expect a normal run rate of positive operational variances going forward because you would expect your business to be running off positively. So when we look at 2014, 2015 and 2016, are you modeling anything for operational variances?

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

What's your definition of operational variances?

## Q - Colin Simpson {BIO 15894636 <GO>}

Well, it's the release of free surplus. Everything that's included in the release of free surface does not relate to investment gains or investment variances.

Yes. We would be expecting the release of free surplus. If the question is, are there sort of unusual investment variances or something sort of changes in the market? We're not assuming anything there. We're sort of assuming a straightforward market, but otherwise sort of the unwind of what's embedded in the actuarial MCB (05:56:46) assumptions.

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

Yeah. But that's not variance as such.

## A - Colin Simpson {BIO 15894636 <GO>}

We expect that to release.

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

So, we don't see that as a variance. So, releasing surplus example of the debt book, it's not a variance, that's just there. In fact, if you have a look at some of the data we provided last year, we actually showed that too, just in the slides, we showed it up I think 10 years.

## Q - Colin Simpson {BIO 15894636 <GO>}

So, we put it, probably think about it another way then if we were modeling for €300 million going forward included in that €800, should we – on our own model, should we model zero or should we model a normal run rate?

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

A normal run rate. You'd not – a normal run rate. I wouldn't assume I think variances as one-off, should assume normal release from that business. And I think we have provided pretty sure, we have provided that before. So I'd assume – I would put that normal release in your model and then make the assumptions on whatever else we can do on that cost we have and the stuff on top of that, so do it that way, that might help you get to the number I expect.

## Q - Colin Simpson {BIO 15894636 <GO>}

(05:57:51).

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

Yeah. See that's the problem with these (05:57:55).

## Q - Colin Simpson {BIO 15894636 <GO>}

I was just wondering about, you got below 50%...

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

Yeah.

## Q - Colin Simpson {BIO 15894636 <GO>}

...operating expense ratio target.

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

Yeah.

## Q - Colin Simpson {BIO 15894636 <GO>}

We can work out from our own view about expenses and what you're expecting, but what so kind of normal run rate one might expect for the operating revenues to grow?

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

You have to form your own view on that as well and that's why I'd say – I mean, look, we even considered you know do we give more guidance on that. And I know all of you guys will always want more guidance. So, I could have just also gone out and said, here's a cost saving target of X hundred million and here's a revenue growth target of Y. And then frankly, I'll begin myself zero room to move between the two. And I didn't want to do that. I mean (05:58:45), we didn't want to do that. And part of the reason is because people in our businesses say these two gentlemen are going to have to make that choice every day. And one thing was certain, so Morris just told you all today that he's going to grow on the second half of this year. If Morris doesn't grow in the second half of this year, he's going to have to be more aggressive on cost, all right. Because the metric that I want him to focus on is say his cost income ratio must improve so that he will get his earnings target. And I'm not going to give any guidance on the earnings targets today because – and I'll never give any guidance on the earnings targets just to be clear, because I think that will just read short-term business and I'm not going to do that, I really don't want to do that. Okay. So I may not help with the modeling, I get that, I understand that, but I think I would help with that results.

## Q - Colin Simpson {BIO 15894636 <GO>}

Can I just a quick question for completeness? In terms of your central liquidity of the holding company...

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

Yeah.

## Q - Colin Simpson {BIO 15894636 <GO>}

Are you comfortable with that level or you'd be looking to build that with operational cash resources?

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

Again, I'll hand over to Tom. Just a bit of a (06:00:01) first. So what we've said previously is, as you'll recall, we've said that our central liquidity, we expect that to be around about the £1 billion level. Obviously, in our last releases, it's hard than that, so you've got a bit of central liquidity there. And we haven't - we're not going to be changing any of that guidance to you today. Do you want to add anything - any flavor?

## A - Colin Simpson {BIO 15894636 <GO>}

No, I think that's it. I think that's exactly right. I mean, it's sort of a £1 billion, this is what we're looking at is kind of the target. Day-to-day we may be above or below that, just as we manage the business and look at the pace of dividends coming up from subsidiaries and expenditures elsewhere. We've got liquidity lines and other things to manage as well around that, but that's sort of the number that we're comfortable with. We look at it from a couple of different perspectives. We've got a number of different scenario tests and stress testing that we do. And then also just operationally, we look at sort of the interest expense, center costs and dividend budget for the year and think about it that way.

Yeah, helpful.

Yeah. Just on - I'm asking question, this one about commission.

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

Yeah.

## Q - Colin Simpson {BIO 15894636 <GO>}

And you said that on trail, you're stopping paying commission at the end of this year. Now, I mean, now it's just off the top of my head, I'm going to guess about a third of your UK cost base in the UK life business is commission, and that'd be acquisition and trail. So - and some of that's going to be protection where that's going to continue. But just on the basis of obviously the acquisition, initial commission has gone, and the trail commission is going to end this year. I mean, what's the absolute saving, what's the absolute improvement in OCG purely from commission dropping off on everything which is non-protection?

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

Yes, and I'll now hand over to Dave, but these pluses and minuses on this as well by the way. So you had too lots of regulation that have impacted the behavior of advice say it idea and then you had all the pension stuff and they all really go hand-in-hand. The interesting thing is, so when people talk about the drop-off of the book and the retention and our negative flows, so negative flows as we showed just last quarter results or last time we gave you the figures have improved. Now frankly, this was probably an unexpected outcome of ideas. So if people can't take commissions for twisting stuff to other companies, it actually helps your retention. And that's why I think we have probably underestimated that. Then you see charging caps and that sort of thing of a negative impact. And that's really been offset I guess by the commission. Where is Dave (06:02:43)?

## A - Colin Simpson {BIO 15894636 <GO>}

Yeah, no. I mean, I haven't got the total commission in my head, I mean it's pretty significant for particularly for the - I mean the bond stuff is kind of pretty much finished. So you're really talking about TPP (06:03:02). And I don't - I can't remember the precise number, but it's obviously in tens of millions.

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

Yeah, I mean the balance is out there. There were some downsides as well you and I cover. So I mean as it stands, there's two sides related.

## A - Colin Simpson {BIO 15894636 <GO>}

I mean it's the flip side of the coin, I mean the charge kept coming, it was intended to come in. And that was clearly depressed income. And as part of the regulatory environment indicates to reduction in commissions or elimination commissions which is helpful. It's not something the industry can do in its own. And the balance of that leaves the product profitability roughly neutral, which is a good thing. It improves the profile from our perspective. And the challenge for...

It should improve persistence and that's something ...

...indeed.

... and straight in the line. So we will - I think that's one - I think what we were indicating earlier is, we will - we'll take - we'll benefit from actions or commissions in respect to regulatory change, but also look at opportunities to reduce commissions on orphan customers and the like, where it's appropriate. And clearly, the shifting nature of our product mix will move the way of expenses and commissions over time, and that's how we think about it. So you shouldn't expect a pop in OCG at some point in the near future in respect to that particular matter.

There is another element of this turn. (06:04:33) orphan - so-called orphan customer base, the ones that don't have an advisor has also jumped a lot and a lot saying across the UK, it's whether the - what's the figure, what's UK. Yes.

(06:04:46)

The ones that we can market to.

And (06:04:49)

## A - Unverified Participant

Okay. So, that's jumped as well. So it is now advisor text. What else. That's it. Well, if you do have any other questions, please you have my IR team to follow up. I think it's been a long day. Thank you for your time for your patience. Welcome to the (06:05:15). I know it's uncomfortable, but as you can see, it's actually pretty fruitful for a discussion and this is where we have a lot of our key sell review meetings and management meetings exactly in this form. We'll back on this floor. So, thank you everyone, and your feedback would be very welcome.