Q3 2020 Sales and Revenue Call

Company Participants

- Amanda Blanc, Chief Executive Officer
- Jason Windsor, Chief Financial Officer

Other Participants

- Andrew Crean, Analyst
- Blair Stewart, Analyst
- Farooq Hanif, Analyst
- Greig Paterson, Analyst
- James Shuck, Analyst
- Jon Hocking, Analyst
- Ming Zhu, Analyst
- Oliver Steel, Analyst
- Steven Haywood, Analyst

Presentation

Operator

Ladies and gentlemen, thank you for standing by and welcome to Aviva PLC's Q3 2020 Investor Update. At this time, all participants are in a listen-only mode. (Operator instructions) I must also advise you the conference is being recorded.

So, I would now like to hand you to our speakers today Company CEO, Amanda Blanc; and Company CFO, Jason Windsor. Please go ahead.

Amanda Blanc {BIO 19138679 <GO>}

Thank you, operator. And good morning, everyone, and thank you for joining us for our Q3 trading update. I really hope everyone has been staying safe and well in these difficult times. I'm here with Jason, our CFO, who will take you through the Q3 trading performance shortly. But before I hand over to Jason to take you through the nine months trading update, I'd like to update you on two key areas. First, the progress we are making on the strategic options and priorities I set out in August. Second, as I promised we would, I will take you through the decisions we have made around our dividend. So, in August I outlined three strategic priorities; focus the portfolio, transform performance, and financial strength. The first priority is to focus the portfolio on our strongest and most strategically advantaged businesses in the UK, Ireland, and Canada. These are our core markets where we have market leading positions, can generate attractive returns, and have the right to win.

For our international markets in Continental Europe and Asia, I said we would manage these for long-term shareholder value and I was clear that ultimately there may be better owners for these businesses than Aviva. Since August, I'm pleased to report that we have made good progress and have already announced GBP2 billion worth of disposals, all of which will be accretive to capital. We are continuing to work with a clear purpose and are exploring the options available to us elsewhere. I will touch upon this more in detail at the -- in a moment. Our second priority is to transform performance and we have started to make progress on this during Q3. I'm pleased to report that we are delivering robust growth in our core businesses, especially in the key segments where we can achieve attractive margins and have long-term growth prospects. We have seen strong life insurance sales of GBP32 billion including GBP5 billion of bulk purchase annuities in the year-to-date, which is more than double that of last year.

There has been a 20% uplift in net fund flows in UK Savings and Retirement achieving GBP6 billion and Aviva Investors delivered GBP1.2 billion of third-party net fund flows. Our commercial lines net written premium is up 9% building on the double-digit growth we achieved in 2019. And we are being recognized for our success claiming a clean sweep at the British Insurance Awards last week winning general, personal, and commercial lines insurer of the year. This is the first time any company has won all three awards together and we are very proud that our strong product offering and high service standards have been recognized in this way during a very challenging year for many of our customers. On costs, we are on track to exceed GBP150 million of savings for the full-year 2020. Furthermore, I can confirm that we will deliver the GBP300 million cost savings target by full-year 2022 from our core markets of UK, Ireland, and Canada and we will not rely on any of the disposals to achieve these savings.

What is abundantly clear to me, however, is that Aviva needs to deliver meaningful change in order to truly transform our performance. We are already taking actions across a number of fronts. For example rationalizing the number of products and legacy platforms, simplifying, automating, and digitizing more of our customer journeys, removing the layers of bureaucracy, accelerating the reduction in our property costs, and investing in our underwriting claims and sales capabilities. But we need to continue identifying the changes that are necessary and we need to execute them efficiently and effectively. My colleagues will tell you that they are clear on what is required and the change is underway. However, despite some initial success, transforming the performance of Aviva will take time and there is a great deal to do, but we're focused on delivery and I will update you as we make substantive progress.

Our third priority is financial strength. Our Q3 results demonstrate that Aviva's balance sheet is in robust health. Solvency II capital surplus of GBP11.8 billion. Solvency II cover ratio of 195%, up 1 percentage point from the half year. Center liquidity of GBP2.8 billion, which will be further strengthened by the disposal proceeds. I am reiterating my commitment to reducing Aviva's debt leverage ratio. We are intending to use the aggregate cash disposal proceeds of GBP1.5 billion from Singapore and Aviva Vita Italy to reduce debt. And as we continue to work on the portfolio, there will be other opportunities over the next two years to do more of this. Let me now touch upon our portfolio actions in more detail. We have made good progress since August in our efforts to refocus the portfolio and have announced GBP2 billion of disposals. In September, we sold a majority of our Singapore business to a consortium led by Singlife for a total of GBP1.6 billion.

By retaining a 25% shareholding, we hope to benefit from the attractive future potential of that market and this is consistent with our approach to managing our portfolio for long-term shareholder value. I'm pleased to confirm that we are on track to complete the deal next week, two months ahead of our original expectation. Earlier this week we announced the sale of Aviva Vita Italy for approximately GBP400 million with completion expected in Q2 2021. We have also completed the disposal of our Indonesian business and we expect to complete the sale of our Hong Kong interest by the end of this year. We are being decisive, we are focused on delivery, and as you can see one by one we are ticking them off. Now I think it is worth saying that you shouldn't believe everything you read in the papers, but I can confirm that we are exploring our options for France, Poland, the remainder of our Italian businesses, and our joint ventures.

These are complex businesses with multiple stakeholders and I want to be very direct in saying that it will take time for us to reach a conclusion. We will be disciplined in doing the right thing for our shareholders and our people. We will continue to manage these businesses for long-term shareholder value and we will update you as we make progress. Turning now to dividends. I said in August we would review our longer-term dividend policy in light of our strategic priorities, the future shape of the Group, and our ongoing commitment to debt reduction. We are today announcing our new dividend policy, which we believe will deliver a sustainable and resilient ordinary dividend covered by the capital generation, cash remittances, and growth from our core businesses in the UK, Ireland, and Canada. We expect to grow our ordinary dividend per share in the low to mid-single digits.

Aligned to this new dividend policy, we are announcing an interim dividend for 2020 of 7p per share, which will be paid on the 21st of January 2021. And subject of course to the Board's final determination at the time, our current expectation is that the final 2020 dividend would be 14p per share, which will bring the total 2020 dividend to 21p per share. We will not be distributing a final 2019 dividend. This has been a challenging year with significant market volatility and we have taken the prudent decision to conserve our capital and enhance our financial strength to ensure that we are well positioned through this period of COVID and Brexit uncertainty. We absolutely understand the importance of dividends to our shareholders, but we believe that now is the appropriate moment to align our dividend with our new strategy of focusing on the core markets. We have stress tested our capacity and believe that our go-forward dividend will be sustainable and resilient.

Future growth in the dividend would be driven by the transformed performance of our market leading businesses, by lower levels of debt, and from the benefits of focusing the portfolio. An important component of aligning our new dividend policy to the core markets is to clearly set out our new capital framework. We have been clear that financial strength remains a key priority and this is at the heart of our capital framework. Our Solvency II cover ratio working range will remain at 160% to 180% although we intend that our cover will remain above this range as we go through the process of reshaping the Group and reducing our debt. We are committed to reducing our Solvency II debt leverage ratio to below 30% and as we reshape the Group, this will likely result in us exceeding our GBP1.5 billion debt reduction target. Once we have reached a sub-30% Solvency II leverage ratio, we expect to return excess capital to shareholders when the cover ratio is above 180%.

This approach is consistent with maintaining our strong credit rating metrics. in terms of how we think about deployment of excess capital, we are absolutely committed to generating strong and sustainable shareholder value. We will look to reduce debt, return capital to shareholders, and continue to invest in our core businesses where we see attractive opportunities to do so. We will carefully balance those priorities and I will remind you that we already have a substantial amount of capital deployed within our core businesses to support growth.

Now let me hand over to Jason, who is going to take you through the Q3 financial performance and will provide some more color on the dividend.

Jason Windsor {BIO 17967688 <GO>}

Thanks, Amanda. Good morning, everybody. As Amanda just commented, we're making good progress delivering our priorities. We have strong and resilient businesses in the UK, Ireland, and Canada and we're confident in our ability to grow in these markets sustainably and our Q3 results demonstrate just that. Let's look at our core markets first. In UK and Ireland Life, we grew PVNBP 40% in the first nine months of the year. BPA volumes were GBP5 billion, an increase of 2.3 times relative to the first nine months of 2019 and 25% higher than our volumes for the whole of 2019. This includes a second deal with Marks & Spencer for GBP400 million. Bulk annuities is an important franchise for Aviva. Our brand, strong corporate relationships, and risk management capabilities; all play an important role in supporting disciplined growth with clear hurdles on IRR and capital usage.

Health and protection saw a 6% increase in sales primarily driven by price increases in group protection and health while individual protection trading remained competitive impacted by COVID-19 disruption. Individual annuities and equity release was down 29% in the period as the low yield environment continued to impact demand for individual annuities. Trading and equity release was disrupted by confinement measures. But I would like to highlight that we won the Personal Finance Award for Best Equity Release Lender for the seventh year in a row, which is testament to our team and their response during the pandemic. In Savings and Retirement net flows grew to GBP6 billion, a 20% increase on the prior year. Our workplace platform continued its strong momentum with flows up 23% to GBP3.8 billion. Net flows were also positive on the retail platform up 5% to GBP2.6 billion. We now have platform assets of GBP31 billion.

Our advisor platform has continued to perform well ranking third with a 10% share of net flows in the first nine months of the year. Aviva Investors made solid gains with third-party net flows of GBP1.2 billion and internal net flows of GBP3 billion excluding heritage. In addition, our liquidity range generated GBP5.5 billion of external net flows over the first nine months compared to less than GBP1 billion in the prior period. Moving on to General Insurance. Net written premiums were flat at GBP5.8 billion. Commercial lines continued to perform strongly with growth of 10% and 8% in the UK and Canada, respectively. This is primarily driven by property and liability rate increases which saw above inflation rate increases and targeted growth. Personal lines saw a 5% reduction in premiums as we continued to prioritize margins over volumes together with reduced activity levels from COVID disruption.

Turning to the next slide and looking at the quarterly trends for our core businesses. Of course it's been an unusual year as the trends show particularly for individual annuities, equity release, and protection. In Savings and Retirement, discrete Q3 flows were resilient, but remained muted compared to Q1 reflecting a cautious sentiment from ongoing macro and COVID uncertainty. Q3 volumes for BPA were up 43% on Q2 and this has led to a temporarily lower new business margin due to a timing mismatch with reinsurance and our target asset mix on those Q3 deals. You might remember we had a similar mismatch in the first half of 2018 and like we did in 2018, we expect our margins to have caught up by the end of the year. General Insurance saw lower discrete premiums in Q3 compared to the prior quarter. This was mainly as a result of seasonality. Margins in GI were good in Q3 with strong underlying performance in the UK and Canada partly offset by less benign weather.

Our estimate for the impact of Q3 of COVID-19 net claims on General insurance has reduced to approximately GBP100 million compared to GBP165 million at the half year. This mainly reflects further frequency benefits in the third quarter. I would also note that we haven't had to change our net BI claims estimate on the back of the FCA test case. As mentioned by Amanda, our international businesses in Continental Europe and Asia are being managed for long-term shareholder value. This means that we will selectively participate in these markets and we will withdraw capital where appropriate as seen with our recent announcements for both Singapore and Aviva Vita in Italy. Life new business sales in Continental Europe and Asia decreased by 21% overall as a result of COVID-19 disruption and our continued actions to reduce the volume of with-profits business in France and Italy as part of our manage through value strategy.

As you can see from the chart, there was a marked reduction in life premiums in the second quarter of 2020 which has recovered somewhat in Q3, but remains below 2019. In General Insurance, trading has been resilient with net written premiums increasing by 4% in the first nine months of the year. The higher volume in France in Q1 is a factor of seasonality. Now moving on to financial strength, which is obviously one of our priorities. Our Q3 solvency ratio is 195%, well above our target working range. The 1 percentage point increase in the quarter reflects operating capital generation offset by the payment of our 6p interim dividend in relation to 2019. We also had to correct the application of a rule in our French life model, which together with model enhancements to better reflect negative interest rates had a 2 point impact on the Group solvency ratio and this had an estimated GBP250 million impact on Group OCG.

It's worth highlighting that our Solvency II position at the end of September does not reflect the approximately 8 point benefit expected from the announced disposals of Singapore and Aviva Vita and to be clear nor does it reflect the Tier-2 Canadian debt issued in October to refinance the Canadian dollar Tier 3 note which matures in May 2021. Our shareholder corporate bond portfolio has continued to perform well with no defaults and less than GBP15 million of bonds downgraded below investment grade. This compares very favorably with the broader market experience. Our commercial mortgage portfolio is positioned fairly defensively following previous restructurings with solid collateral and low LTV on new lending. As such it has remained resilient to-date, but we continue to monitor positions very closely given the uncertain difficult environment. Performance metrics in commercial mortgages have remained broadly stable since the half year.

The LTV of the portfolio has not changed significantly while only 2% of the loans are in arrears at Q3 compared to 1% at the half year. Moving on to center liquidity, which remained very strong at GBP2.8 billion at the end of October. We will maintain liquidity of at least GBP1 billion at center. So in normal times this means that ahead of dividend payments, you should expect Group liquidity to be in the range of GBP1.5 billion to GBP2 billion in line with what we've said previously. It's important to recognize that as we restructure the Group, Group liquidity is likely to stay elevated not least as it forms part of our plan to reduce debt in 2021 and 2022. What I want to do with this slide is explain why we have set the 2020 dividend at 21p per share. To do that, we set out the expected cash generation from our core business units simply using the same targets from last year's Investor Day. You can see that the sustainable cash flow from our core businesses is expected to be in the region of GBP1.6 billion per year.

Once we allow for debt and incentive costs, we have GBP1 billion of excess cash flow. Please remember this is after growth and investment in the business. This allows for a 21p dividends with a comfortable GBP200 million headroom. There are additional levers to drive up headroom including better performance of the core businesses, lower expenses, the reduction in interest costs from redemptions in 2021 and 2022, and possible options to reduce our share count. Looking forward, we expect to grow dividend per share at low to mid-single digits. Crucial to those remittances is the healthy solvency position of our core subsidiaries on which I will give you some detail on the next slide. On this side, we set out the Q3 solvency ratios of our three core cash remitting subsidiaries and our reinsurance mixer. As you can see, all of the solvency positions are strong, all above risk appetite despite COVID-19 effects and capital markets volatility.

I've also shown the key sensitivities for each of these subs. This shows the resilience to rates and spreads providing further confidence in the cash outlook and the new dividend policy. With the backdrop of COVID-19 and wider macro uncertainty, we've delivered strong growth in premiums and flows in our core markets while maintaining our financial strength. In the context of the disruption we've seen, these are solid trends. I wanted to highlight some points as we move toward the end of 2020. We expect the second half performance trends to be broadly consistent with the first half and management actions and other to be ahead of previous guidance of GBP0.2 billion mainly owing to UK Life longevity albeit on its own, the longevity assumption change will be lower than in 2019. The impact of the Q4 lockdowns across the Group is uncertain, but we are not expecting any significant increase in BI claims.

Savings and Retirement is having a strong year, but growth rates are expected to moderate due to strong Q4 comparatives. On cash and OCG, we expect the second half OCG to be broadly in line with the first half after absorbing the France Life modeling change. While cash remittances in 2020, as I mentioned at the half year meeting, will be below 2019; but the second half 2020 will be in excess of the second half in 2019, which is good progress this year.

Thank you. I'll now hand back to Amanda to close the presentation.

Amanda Blanc {BIO 19138679 <GO>}

Thanks, Jason. So to finish, let me summarize the key points. Firstly, we've made a good start to simplifying the Group selling Singapore and our major business in Italy. Secondly, we have a new dividend policy which is sustainable, resilient, and which we intend to grow by low to mid-single digits based on our core markets of the UK, Ireland, and Canada. Thirdly, we have solid foundations from which we can transform performance and grow our business. We have market-leading positions in our core markets and have identified profitable areas that we can grow, Our robust performance in 2020 demonstrates just that. There is a great deal to do, but let me reassure you that meaningful change is underway at Aviva and we are focused on execution and delivery as we seek to unlock value for our shareholders.

So, thank you for listening. Now let me hand back to the operator and we'll open the lines for Q&A.

Questions And Answers

Operator

(Operator instructions) Your first question comes from Jon Hocking from Morgan Stanley. Please go ahead

Q - Jon Hocking {BIO 2163183 <GO>}

Thank you. Good morning, everybody. I've got three questions, please. Starting with the capital return with debt deleveraging target, you talk about potentially returning capital once the deleveraging target is reached in 2022. Is that the end of 2022? I see you've got a couple of big bond calls during 2022 so is it possible we start seeing capital flow during '22 or is it likely to be in '23? That's the first question. Second question in terms of the proceeds, is the interpretation here that the proceeds minus the debt deleveraging subject to 180% solvency threshold that everything else will come back to shareholders? There was an implicit message here there's going to be no materially much in M&A. That's the second question. And just finally, a little bit more detail. On Slide 7 when you're talking about the dividend growth, there's a comment that the dividend growth might benefit from management value portfolio actions. I'm just a little bit confused by all the dividends being set on these three core businesses. So is there -- am I interpreting that correctly? Is there any chance that you can see a step-up in the ordinary dividend through the manage for value? Thanks very much.

A - Amanda Blanc {BIO 19138679 <GO>}

Okay. Thanks, Jon. So, firstly I think on the capital returns and the debt deleveraging and the timeline for that. I mean clearly we're not going to be committed to any timeline today, but I think what we've said is that we are exploring all the options in terms of how we manage the manage for value portfolio. We're also being clear that we do intend to operate within the 160% to 180% solvency ratio and that we will return the excess capital once we have done our debt reduction, which is a key priority for us. That debt leverage ratio needs to be below 30% and as Jason outlined in his speech, there are opportunities that we will have to do that over 2021 and 2022.

But I think in terms of giving specifics on the timeline, I think it's going to be quite difficult for us to do that. And I think that goes to the heart also of your second question, which is around the proceeds once we have delevered. So I mean we've said the priority -- it feels like a broken record I know, the priority is debt reduction so that is what we will do first. We've said the excess capital will be returned to shareholders, but we've also been clear about investing in the business. I think that we've already got significant investment within the business. You talk about M&A, clearly at this point in time we have much on our plate. We have the priorities as we've set out here, but we will never say never on that. Jason, did you want to pick up the third question on dividend growth?

A - Jason Windsor {BIO 17967688 <GO>}

Sure. I think what we've done, Jon, is anchor the core -- the dividend to the core business and the remittances from those businesses. So, there is nothing baked in for value or remittances from the manage for value market. So, any remittances or divestment proceeds or capital withdrawal would be additive to the Group's financial strength so we could use that to reduce debt or possibly in due course reduce share count, both of which would be additive to the headroom in terms of cash flow per share.

Q - Jon Hocking {BIO 2163183 <GO>}

Okay. Thank you very much.

A - Amanda Blanc {BIO 19138679 <GO>}

Thanks, Jon.

Operator

Your next question comes from James Shuck from Citigroup. Please go ahead.

Q - James Shuck {BIO 3680082 <GO>}

Hi. Thank you for taking my questions and good morning, everybody. So, a few things for me. Firstly, in terms of the debt gearing itself based on a Solvency II basis so actually what you end up selling anything forward or above own funds will have an impact on that leverage ratio. So, I'm just confident -- interested to know your confidence in actually being able to sell things at or above the own funds level? And if you're able to give an update on the golden ticket situation in France please, that would be very helpful.

Secondly, in terms of the investment mix. So your solvency level is well above the target range, it's more tricky to actually deploy that capital and it depends on cash flow and overall comments around debt. It's easier to reduce that solvency level by increasing your investment mix or the risk profile within that investment risk. So, I just want to get an understanding for how you might deploy that Solvency through the increased capital funds on the investment side, please. Thank you.

A - Amanda Blanc {BIO 19138679 <GO>}

Okay. Thank you. So, I'll let Jason pick up your second question. On your first question around the Solvency II and own funds having an impact, of course that's the case. And I think what you would have seen there is our disciplined approach to the way that we have handled the first two deals both in Singapore and in Aviva Vita Italy, which have been accretive and I think that has been something which we have been very conscious that we are managing for value and I think that disciplined approach will continue. I think as far as France is concerned -- as I said for France, for Poland, for the rest of the Italian businesses, and the joint ventures; we are at the stage of exploring our options, Jason, did you want to pick up the second point?

A - Jason Windsor {BIO 17967688 <GO>}

Yes. On the golden ticket, I mean there's nothing to say on that. That's actually there's no new news on. It's behaving very much in line with what we've seen for many, many years now so there's no new news on that. In terms of capital deployment, we don't have big plans to re-risk the balance sheet. I think we set out that we've taken that interest rate exposure wherever we can. We don't think that's rewarded. We reduced exposure at the margin to equities, we've got property exposures and bond exposures as you would imagine, which is core and integral to the growth of any insurance company. If there is reasonable level of risk, then the balance sheet will certainly -- we're not aggressively positioned as we go into 2021 and deliberately so and I don't see that changing in the near term.

Q - James Shuck {BIO 3680082 <GO>}

Okay. That's very helpful. Thank you.

Operator

Your next question comes from Oliver Steel from Deutsche Bank. Please go ahead.

Q - Oliver Steel {BIO 6068696 <GO>}

Good morning. Thanks for taking my question. The first question I guess is really about timing. It's really hard to understand why you're planning to wait maybe till 2022 before you actually return some of the excess cash you've got. I mean just if you're going to use Singapore and Aviva Vita to pay down the maturing debt over the next two years, then implicitly you've already gotten GBP1 billion above your immediate target for cash flow -- for cash. And then I look forward and I can see that you're covering your new dividend cost out of the UK and Canadian operations by themselves, which means all of the excess cash flow coming from France, Poland, and the rest of Italy are left alone until you sell them is going to be in excess of that. So, can you explain why you're being so slow in actually returning any cash rather more quickly? I don't think actually there are any other questions worth asking because I've asked that.

A - Amanda Blanc {BIO 19138679 <GO>}

Jason, do you want to pick that one up?

A - Jason Windsor {BIO 17967688 <GO>}

In terms of timing, we're with the first phase. Amanda's been in role four months. We've managed to announce not complete two divestments, one we expect to complete next week so it is early days. We are pleased with the progress that we've made so far. As we go into 2021, that is a very big year in terms of the development of the Company. We don't want to be drawn today on specifics around capital return. We've got two redemptions coming up in Q2 where we've got one we've already pre-financed on the debt side, the Canadian one as I mentioned in the script. We've got two more redemptions in Q2 about GBP600 million net reduction in Q2. That's sort of step one. As Amanda mentioned, we've got really big redemptions in 2022. We'll look at all options to reduce debt, but that is the priority and then depending on how we progress, we'll think through. But what we wanted to do today is give you a very clear framework for leverage for cash and for capital so you can take that and make your own assumptions.

Q - Oliver Steel {BIO 6068696 <GO>}

So, if I can just sort of follow up quickly. I mean are you specifically saying there will be no cash return over and above the normal dividend until 2022 or are you saying that actually it depends on how things progress?

A - Amanda Blanc {BIO 19138679 <GO>}

I think what we're saying is that we are at the early stages of exploring the options for the other markets, in particular France, Poland, Italy, et cetera, And that whilst we do that, we said that we will keep more capital above our working range and we will focus on the debt reduction. So, we are just not being specific about the actual timelines today. We're just giving you the framework, but clearly we will not hold on to excess capital. It is our plan to return that when we feel that we have completed the work that we need to do.

Q - Oliver Steel {BIO 6068696 <GO>}

Okay. Thank you very much.

Operator

Your next question comes from Blair Stewart from Bank of America. Please go ahead.

Q - Blair Stewart {BIO 4191309 <GO>}

Thank you. I just wanted to ask the same question, but I won't try and ask it in a different way. I'll leave it at that, but a couple more. As you sell those businesses, what's your expectation in terms of what happens to the SCR on a Solvency II basis? Should we just assume that reduces in line with the footprint of the businesses that are being sold or are there any that are particularly heavy or light from an SCR perspective? Just to try and get a better handle on the modeling there. Second question is you said low to mid single-digit growth on dividend. One of your competitors said the same and that translated to between 3% and 6%, I wonder if you'll be drawn on something a bit more specific. And finally the UK Life solvency dropped a bit during the year, clearly lots of moving parts, but I'm just wondering if the increase in bulks had a bearing on that? Thank you.

A - Amanda Blanc {BIO 19138679 <GO>}

Okay. Thank you. I'll pick up the second question if Jason picks up the first and the third question. So as far as the low to mid single-digit growth. No, we're not going to be drawn on an exact number, it's low to mid-single digits. I think that what we will say is that we are confident about the ability to be able to do that because if you look at the UK, Ireland, and Canada businesses; we have seen already from the Q3 performance that there is this really strong and robust performance there. So, we will continue obviously to do that. You saw the growth in BPAs, the growth in workplace savings, we see that the commercial lines market is hardening so we see the opportunity to really capitalize upon that. We also see the potential to improve the efficiency of the organization so we've already again made progress there in terms of simplifying, but we also see more opportunity to do that. Jason outlined that obviously the debt reduction will reduce the interest cost so that gives us more opportunity to grow it there. And then the real benefit of focus in the portfolio. So, we have to -- you have to note that we have not assumed any dividends from the manage for value markets. So we are confident in that but not to be drawn on a specific number, Blair, but thanks for asking. Jason, do you want to pick one and three?

A - Jason Windsor {BIO 17967688 <GO>}

Yes. The SCR intensity of the businesses are very different. So, I think I'll use the example -- the two helpful examples, Singapore and Aviva Vita. We sold three quarters of Singapore for just over GBP1 billion, 1.5 times own funds and got 4 points of capital benefit. We sold Aviva Vita for GBP350 million approximately and got 4 points of capital benefit so you can see -- our own funds. So, you can see the difference as it comes through in the Group that the level of SCR intensity of particularly the Continental European businesses where the SCR intensity is much, much higher. In terms of UK Life, yes, obviously it has fallen a little bit, I mean partly that's payment of dividends. We have got cash in the Group from UK Life, there's a little bit impact from bulks. And the temporary point that I mentioned has impacted that by give or take GBP100 million of capital that will unwind relatively quickly in Q4 and the residual, as you might imagine, there's been a bit of macro uncertainty this year so market levels are still a little bit lower than at the start of the year.

Q - Blair Stewart {BIO 4191309 <GO>}

Thank you.

Operator

Your next question comes from Andrew Crean from Autonomous. Please go ahead.

Q - Andrew Crean {BIO 16513202 <GO>}

Good morning all. It's Andrew Crean. Just three questions if I might. When you do decide to return capital, can you give us some idea as to whether you have a preference for buybacks or specials? Secondly, could you remind me how you define your 30% leverage? Is that done on IFRS or own funds and if it's IFRS, is it including goodwill and the surplus in the pension fund? And then thirdly, this question I'm sure you have every capacity to duck, but it would be helpful if you could give us some indication. What we're looking -- what I'm looking at when you talk about France and Poland and the remainder of Italy and JVs, it's very difficult from the outside for us to assess how much diversification credit will be lost from the disposal proceeds as you shrink the breadth of the business. If you could give us some sort of percentage impact of that, it would be really useful. Thanks.

A - Amanda Blanc {BIO 19138679 <GO>}

Okay. Thanks. I'll pick up the first question and Jason will -- can pick up the second two. In terms of have we decided about whether or not it's buyback or specials, I think we're not committing to that or how we will return the capital. But one thing I think we will reassure you obviously we won't sit on that excess capital. The priority is the debt reduction and once we feel the Group's in the right place, then we will balance the return to the shareholders with some investment in our future growth. Jason, did you want to pick up?

A - Jason Windsor {BIO 17967688 <GO>}

Sure. The leverage ratio is on a own funds basis so that does not include any big surpluses or any goodwill just to be clear. And then diversification, I mean the proceeds -- you said the proceeds would clearly be cash and they wouldn't be affected by diversification. In terms of the capital benefits, I mean it depends. I think I've said in the past that on the non-life size that is about 35% reduction in SCR because of the diversification with the life. I think the life businesses -- the International life businesses relative to the UK in terms of total SCR reduction is sort of it used to be 10%, it's probably slightly higher because interest rates have moved around a bit. So, it's somewhere between 10% and 15% of undiversified SCR is a benefit from diversification from the international life companies.

Q - Andrew Crean {BIO 16513202 <GO>}

Thank you.

Operator

Your next question comes from Farooq Hanif from Credit Suisse. Please go ahead.

Q - Farooq Hanif {BIO 4780978 <GO>}

Hi, everybody. Thank you very much, Hope you're well. Just a couple of questions around transformation in the UK. So it seems to me that attractive areas on the GI side are to grow in commercial and particularly around SME and also to look at digitalization and transformation of UK GI. Can you talk a little bit more about what sort of capital commitment you would put towards that and what your plans are to accelerate that if there are any? And then conversely, would you revisit UK sort of legacy back book disposals in life? What are your thoughts on that? Thank you.

A - Amanda Blanc {BIO 19138679 <GO>}

Okay. Thank you for that. So, on the transformation point. So look, I think we do see that there are a number of opportunities to transform the performance across the UK business. We already start from a very strong position as the Number 1 commercial lines insurer and I think we also have some very strong proof points around digitization. So to just remind you in the plan, we already have over GBP400 million worth of investment in the core businesses of the UK, Ireland, and Canada. So, there is already investments set aside to grow these businesses. We've seen good strong growth in commercial lines so far this year and we see the opportunity to continue to do that as we move forward. Over 50% of our customer journeys have already digitized.

We now see the opportunity to take that to the next level and we see the priority as you know creating the opportunity for our customers to be able to look at all of their products. So, we've seen the number of logins on MyAviva this year is about 28 million and we've seen a big increase in terms of the MyAviva app as people are looking at their workplace pension and then looking at their motor policies or their home policies. So, we see the opportunity to continue to enhance that customer experience. So, I think it's an important part of what we do. But we will also allocate capital to the bulk purchase annuity business, the pensions business. We see that there are strong areas of growth that we are already strongly positioned in and the market is growing and therefore we have the opportunity to continue to grow that.

I mean the other area that we will invest in is our brand. We have the Number 1 brand in UK insurance, which is a great position to be, but we've not invested in that brand over the last number of years. So, we plan to relaunch the brand next year and we're targeting the businesses to deliver upper quartile efficiency. So, there's a range of measures around where we'll allocate our capital and how we'll do it whether it's teams of people, technology platforms, capital to grow. But I think we feel very confident about the business and the opportunities that we have there. Your second question around revisiting the UK legacy business, that is not something that we are looking at at the moment. We believe that that business has an important role to play in terms of the cash flow in the UK Life business and I think we discussed that at the half year and that strategy hasn't changed.

Q - Farooq Hanif {BIO 4780978 <GO>}

And just quickly on transformation, I mean basically what you're saying is that sort of major significant M&A is not on the list.

A - Amanda Blanc {BIO 19138679 <GO>}

So look, what we're saying is that we've got plenty of other focus areas to focus on at the moment. And we believe that we already as the Number 1 player in the UK, we are in a pretty strong position both in GI and in life. But on that, we never say never.

Q - Farooq Hanif {BIO 4780978 <GO>}

Okay. Thank you very much. Thank you.

Operator

Your next question comes from Greig Paterson from KBW. Please go ahead.

Q - Greig Paterson

Good morning, everybody. I hope everyone's safe. Can you hear me?

A - Amanda Blanc {BIO 19138679 <GO>}

We can. Hi Greig.

Q - Greig Paterson

Yes. I'll do my customary three questions. One is I wonder if you could give us an idea of what the bulk annuity margin in the third quarter would be if you had normalized for asset allocation in reinsurance? And the reason I ask this is you said previously that the first half margin was temporarily boosted by very favorable conditions so I don't know what normalized margin is for this year. Second question is RSA Intact is a major increase in your competitive position on a competitor in Canada. I wonder if you could venture some thoughts on how that would impact you or the competitive landscape in Canada? And the third thing is just to check. The remittance table that you produced to explain your -- what your base dividend is, am I correct that the central cost and debt reduction component of that table is pre-cost cutting and the current debt reduction program?

A - Amanda Blanc {BIO 19138679 <GO>}

Okay. Jason do you want to pick up the first question on capital (inaudible)?

A - Jason Windsor {BIO 17967688 <GO>}

Sure. The first one bounces slightly always the first half or something VNB margin of around 4% is a pretty decent guide. Clearly Q3 was nothing like that. But as I said, we do expect it to normalize as we get the assets invested and strike the reinsurance deals.

A - Amanda Blanc {BIO 19138679 <GO>}

On your second question about RSA Intact, obviously very interesting development over the last number of weeks. I think in terms of our position in Canada, we already have a Top 3 position in that market. We see that there is significant headroom for growth particularly in commercial lines and of course we already have the partnership with RBC, which is the strongest financial services brand in that market. So, we see really exciting opportunities to continue to grow there. On your third question, I think it's a relatively straightforward yes.

A - Jason Windsor {BIO 17967688 <GO>}

We tried to just give a sense, but it's really anchored on 2020. We have not factored into that in a significant cost reduction, it's really where we are nor have we factored in significant debt reduction that will come through as we do it.

Q - Greig Paterson

The reason I asked the question is just the new rate or the gross amount includes your targets for remittances which obviously include the GBP400 million in capital et cetera, et cetera so I would say adjusted for expectations. But the deduction is not adjusted for the expectations, which implies that the headroom is actually higher than GBP0.2 million. That's what I was alluding at. Is that a fair thought process?

A - Jason Windsor {BIO 17967688 <GO>}

Well, as I said, we haven't baked in all of the cost saves into the expectation the -- particularly in the group figure. That number does bump around a bit due to tax and other kind of one-off project costs and things. But I think if you sort of annualize '19 and '20 on average, 0.6 is a good place which is why we use that number. Looking forward we see that the pressure is down on that for the two reasons I just mentioned, cost reduction coming through and lower interest costs.

Q - Greig Paterson

Excellent. Thank you very much. Keep well.

Operator

And your final question comes from Ming Zhu from Panmure Gordon. Please go ahead.

Q - Ming Zhu {BIO 17001429 <GO>}

Hi, good morning everyone. Just three questions please. First, your nine months solvency position cash and central cash all look very strong. What is holding you back from not paying any more of the full-year '19 final dividend? And my second question is going forward just on your -- based on you running the business on your core focused market, what is the minimum and central liquidity you would need at center? And the third question is in terms of the BI, I think there's a comment you mentioned on the BI as more cost paying out due to the recent lockdowns. And in terms of the recent policies you've sold the new business, have you changed all your BI wordings? Thank you.

A - Amanda Blanc {BIO 19138679 <GO>}

Okay. Thank you. I'll pick up one and three. Jason, you can pick up two. So in terms of full-year '19 so I think we are keen to say today that we are back in the business of paying dividends that we have declared the 2020 7p per share interim dividend and given an expected total 2020 dividend of 21p per share. So, we recognize the environment. It's been a challenging year. We took a prudent decision earlier this year in discussion with the regulators and everything else to conserve our capital position and enhance our financial strength to make sure that we were well positioned through the period of COVID and

Brexit uncertainty. And I think that from today really what we want to do is to look ahead and we're just reinforcing the financial strength as one of our key priorities.

On your third question around business interruption, there were two parts to that question. Have we changed the policy wordings? I think our policy wordings on the whole largely very clear, but changing the policy wordings will require us to go through a renewal period. So, we will be making sure that all the policy wordings are very clear as we renew policies and many of the larger policies as you will know renew either the 1st of January or end of March, beginning of April. As far as the business interruption estimates are concerned, what you see is that our business interruption estimates have actually not changed. What you're seeing is the benefit of frequency coming through in the numbers, which I think Jason outlined. Jason, on the solvency and central liquidity?

A - Jason Windsor {BIO 17967688 <GO>}

I think what I said in my script, I'll just go over again. We aim to have a GBP1 billion minimum in Group treasury before dividend payments and the like. That means for the reporting dates, which tend to be just before we announced dividends, you'll see a figure in the sort of 1.5 to 2 range and that's where we're pretty comfortable for liquidity. And as we look further forward and the Group's a bit smaller, we'll revisit that, but that's sort of the level you should expect certainly over the next couple of years.

Q - Ming Zhu {BIO 17001429 <GO>}

Thank you.

Operator

And you have one more question from the line of Steven Haywood from HSBC.

Q - Steven Haywood {BIO 15743259 <GO>}

Thanks very much. I just wanted to ask a couple of quick questions please. On the (inaudible) French solvency rule, could you tell me what the impact was in the actual the French local solvency ratio, please? And then secondly on the assumptions you have in your solvency ratio about credit downgrades, defaults, and UK property. Can you provide an update on the actual experience performance versus your assumptions and whether or not there's potential for these assumptions to be improved in the future? Thanks very much.

A - Amanda Blanc {BIO 19138679 <GO>}

Jason, would you like to take that?

A - Jason Windsor {BIO 17967688 <GO>}

I'll take the second first if I may. On the downgrade assumption, we kept that in at Q3 as I said it was something like 10% of BBBs and 5% of As that were downgraded. That stayed. And we've seen about 7% in the first nine months of the year. So, I think it's actually reasonably prudent now. We started to see agencies catch up and I think that will be --

that will bring us up with events probably by the year-end and we would need to have overlays, but clearly we'll take our decisions carefully. On the French side, what we've disclosed today is the impact on the Group 2 points solvency there and we aren't providing the disclosure in France. What I can say is it was a specific issue to France and the French subsidiary does remain well capitalized and we don't expect any capital needs in the French sub as a consequence of this.

Q - Steven Haywood {BIO 15743259 <GO>}

Okay. Thanks for the update.

A - Amanda Blanc {BIO 19138679 <GO>}

Thank you. I think that's the end of the questions. So with that, just want to thank you all for all of your questions this morning and for listening. Jason and I really appreciate it and hopefully at some point, we'll actually get to physically see you. But thank you very much.

Operator

Thank you. That does conclude today's presentation. Thank you all for joining. You may now disconnect.