Q2 2019 Earnings Call

Company Participants

- Adrian Gore, Founder, Chief Executive Officer & Executive Director
- Mike Brown, Board Member

MANAGEMENT DISCUSSION SECTION

Mike Brown {BIO 6995397 <GO>}

Right. Good morning, ladies and gentlemen. I'm Mike Brown from The Investment Analysts Society of South Africa. We're being hosted this morning by Discovery Limited for their interim results, six months ended 31st of December. Discovery, as we know, has been around since, I think, 1992, but listed since 1999, so we had 20 years listing on the JSE. And I think over that 20-year period, Discovery has always reported about, say, these six (00:29) months on their results, and that's always very well appreciated by the industry, which you can see by the cloud of people here. I'm sure there's other people listening on TV and so on.

In fact, Discovery is the first of the big integrated financial services companies to report to The Society. See, other insurance companies, as they used to be, will report - we used to call them (00:54) financial services, report to us over the next month or so, and the banks only start next week. Now, that's an incredible - when you think about the spread, global and otherwise, that this group has in terms of its organic growth in all areas of financial services, including our banking.

So, having said that, I don't want to take any more of your time. I'd like to thank Discovery Limited. I see all the executives and some directors are here in the front row. And Adrian Gore is here to, as the Chief Executive, give us a presentation. So, over to you, Adrian, and thank you very much, indeed.

Adrian Gore {BIO 3068929 <GO>}

I thank you for that introduction. And, ladies and gentlemen, thank you for the time. It is always a great pleasure to talk about our results and our progress from time to time. So, the presentation today is about our first six months to 31 December, 2019 (sic) [2018] (01:57). It has been a very, very important and profound period for us, I need to tell you upfront. It really was the apex of our 2018 ambition, a five-year plan that we set out in 2013. And really, three things I think that came through in this, and I assume you read our announcements last week. But the fundamental issue is a considerable investment in new initiatives and most notably, the Discovery Bank. And you see that coming through in this period.

Secondly, I think a very strong performance of our businesses, particularly our emerging businesses, across the board. And then one thing against the plan, a spike in Discovery Life claims that really fit the earnings by about 8%. And if you play that out, I think you can see that in the core numbers, these are numbers we put out last week, you (02:46) 16%. We invested more than 20% of our operating profit, including associated financing costs, into five key new businesses that affected the operating profit, and then getting down to normalized. I'll take you through some of the accounting aspects as we've gone from that down to the minus 16%.

But let me take you through the various issues you would have seen in this table that we sent out last week. We tried our best to give detail last week to frame expectations of particularly the 21% spend in new earnings I said, most notably the Discovery Bank. You can see the Discovery Life effect of the spike in claims. And then I think the strong profits – or the strong operating performance and the strong new business growth across the rest of the group, most notably the emerging businesses, Discovery Insure, Vitality Group and Ping An growing particularly strongly over the period. And I think they're emerging very strongly. And hopefully, through the presentation, you will see the effect of those and their potential, I think, going forward.

So, let me go through the numbers first. I think what I'd like to do today, if you're comfortable, is firstly take you through the numbers I think fairly quickly. I think they're self-explanatory. And then want to talk about the strategy, and to an extent, where we came through from the 2018 vision and contextualize our businesses in the context of that strategy. I think that will kind of make it clear as to what we're doing, and most notably, why we invest in 21% of our earnings in new initiatives. And hopefully, that will be clear.

So, let me start with core new business. At 16%, you can see it's, in fact, accelerated from previous periods. I think we've seen strong growth in a number of different areas. If you cursor over the table, you can see where the growth is coming from. Discovery Health, which is a very large portion of our new business, had, I think, a pretty solid time at 3%, but a very difficult environment. It is so big in the sense that Discovery Health (04:43) that it is affected by the environment and by new hires of existing clients, et cetera, but we're very comfortable with that.

You can see the growth of Discovery Life. Actually, very strong in, I think, a complex environment. The emerging business is growing strongly. Obviously, the most notable, Ping An. Their growth is kind of accelerating at levels that I think are quite exceptional. And you'll see that through the rest of the presentation. So, the new business production, I think, we are very happy with, and I think the quality of that new business is very good.

Normalized operating profit, I think this tells a story of the three things that I just mentioned. Right at the bottom, you can see we've invested over 76% increase in spend on new businesses. That amounts to about 17% or 18% of operating profit. When you take into account financing costs, that takes you to the 21%. You can see, I think, a very strong growth by emerging businesses that turn to profitability. And obviously, in their turn, you had considerable growth, but the growth, I think, is very strong and we expect that to continue. And then, the growth of the established businesses, I think, strong, but affected by the Discovery Life reduction of 13%, as you can see from the table. So, normalized operating profit, down 4%.

The group generated about ZAR 9.6 billion of cash, of which we spent on three main issues, tax and dividends, and I'll touch on that a bit later, but most importantly, our new business, our funding new business growth and funding new businesses. So, some of this obviously doesn't come through the P&L. It's of a capital nature as you build the businesses out, but effectively, leaving us with ZAR 2.3 billion of net cash.

We raised capital during this period to fund the outstanding 25% of the Discovery Card JV that was kind of more of an in and out, and you can see that in the middle of the chart. So, I think a solid performance from a cash flow perspective.

If you look at our gearing, financial leverage decreasing, we've had this kind of self-imposed limit of 28%. We've been coming down over time. We'd like to continue coming down. We're now down to about 25.2%. And the other controlling variable we use is making sure that the cash buffer at the center is about ZAR 1 billion to ZAR 2 billion at any point in time. It's sitting at about ZAR 3.4 billion or thereabout at this stage.

So, the cash flow, I think the cash – the capital and the buffer make you strong. Return on capital, we're trying to get (07:02) plus 10%, but obviously investing in new initiatives has a tremendous fit on return on capital. You got financing costs and you got operating losses. So you get this kind of double whammy, and I'll touch on that a little bit later.

So there is – the return on capital is lower than previous periods, which we'll see through the presentation, and we expect it to get better. The EV really reflects, I think, that performance and some of the realities of the environment. It's up 4% over the six-month period. What you will see is the Discovery Life claims. You'll see quite a big hit from the movement in asset values in the market that's kind of unavoidable.

And in the right-hand side of the chart, you see the effect of new initiatives on the EV, over ZAR 600 million, as you can see on the right-hand side of the chart. New initiatives are hard on the EV. Again, you're spending money, you're incurring operating losses, your asset values go down, and in fact, the businesses we're building are not in the EV yet. So, Discovery Insure, Ping An Health, the Vitality Group, all of these businesses, I would argue, strongly have considerable value. They're not in that EV yet. So, you're kind of getting EV dilution without the concomitant increase in the EV. But that's fine. You need to check it from (08:12) and see how it plays out.

You can see value of new business coming through the unwind of the discount rate, et cetera. There's a lot of detail in the financials that you have and, in fact, tomorrow, there are, I think, two substantial technical sessions. So, there's a lot of information to help you that you will have and you can certainly probe.

Let me just go to some of the accounting issues, and we have all of our people here, Deon Viljoen, our CFO, with us, as Robert, just to kind of reconcile the operating profit down to the bottom line. Profit and operations down about 4%, I made that point. If you take the associated finance costs, so a kind of profitable operations, including finance costs, it really shows the effect of capital spend on the new initiatives, most notably the Bank, brings us down to 8%.

And then fair value adjustments, I think IFRS 9 requires us to take gains and losses through the income statement, the reality given the market movement, that had an effect of ZAR 116 million. And then we're required to account for a finance lease approach, which really takes our rental costs then flat lines it. It's probably the – it is – not probably, it is the (09:16) because these six months is the first full period in this building versus the prior six months in our old campus. So, you can see the effect of the finances, this accounting on the numbers, taking all the way down to minus 14% with tax down to minus 16%.

So, getting to the dividend, quite a bit of discussion thought about where we should pitch the dividend. We set the dividend at flat for this period, reflecting not really the Discovery Life claims, in fact, that's reading an unusual event and we're very confident it will revert. Really, the fact we've invested an additional 21% in our new starts and thought, let's keep the dividend where it is, it's just simply kind of (09:56) symbolic holding pattern. We're very comfortable with the performance. We've set the dividend at ZAR 1.01 per share, keeping it flat from the previous period. So, that really reflects where we're at. There is a table in the handout on basic earnings, we sent it out for completeness to you, all. I'm not going to go through it cause I think it's fairly clear.

I'd like to actually turn, if I can, to telling you about the businesses, to telling you about the investment in new starts and why we are doing that, and the scale of them, give you a bit of sense of the Bank itself. But I think, most importantly, I wanted to actually give you context for what we're doing and why. A lot of this stuff, you've heard before, but I think there's a lot development, a lot of thought that I think makes it worthwhile for me just taking you through it.

So, the first thing I want to say to you is this period really reflected the apex of our 2018 ambition. We set out this ambition of being best globally, being relevant globally, and defining that ambition in terms of foundation, businesses and impact. And we've done a lot of work, and I'm very pleased and I think our team is really pleased with the performance of work we've done. It has dragged the group, I think, from kind of a group starting up things in different ways to one where there's a very centralized approach to what we do, a very firm business model, all of the basic principle of making people healthier, our core purpose which we set up right from the start of Discovery in 1992, 1993. But you can see the evolution of the group. In 2013, when we set the ambition, we were in in five countries, dramatically smaller than we are today. The JV – the UK business was a JV with Prudential. A lot of the stuff we're doing was in a very kind of embryonic way. You can see how this kind of ambition has driven discipline, has driven growth across the board in South Africa and the U.K., and, of course, in how we take Vitality out and globalized it into the various markets.

So, kind of the framing, to an extent, of these last six months is about how we use that position we got to, to take the organization forward for the next five years to 2023. I'm in the process of communicating that with our teams around the 2023 ambition, but I wanted to make a point that we got to a point in this period in 2018 where I think the business model itself is remarkably solid, it's repeatable, it's scalable, and it's applicable globally. And to use the Simon Sinek framing of why, how, what, I think the idea of purpose and of execution is very, very clear in how we operate. It' s the idea of making people healthier has given largely to a shared-value model of using incentives to create behavior change and connecting it to institutional businesses.

And then the what, to an extent, is that it's applicable to so much. So, carefully into life insurance, health insurance, long-term savings, banking, motor insurance, et cetera. So, how did this frame illustrate, I think, how disciplined the model has been. And what I would say is that of the five years of driving the ambition, it's quite remarkable that each of these chapter headings has got more intense, and I think more applicable and more relevant. So, kind of the three trends that we have always argued that have taken a local South African model, made it globally relevant, have all intensified.

The issue of purpose, when we spoke about make people healthier, that is a battle cry 20 years ago that seemed out of place today. It's becoming pretty clear that businesses need purpose. I think the Larry Fink letter of last year that made it critical that businesses should have purpose, I think our kind of focus on purpose is fundamental. The second is your technology has got more powerful, more enabling, and we've never - do not (13:23) on technology.

We try to be at the leading edge. But, in fact, our reason for being is the purpose, make people healthy, and the nature of risk. Our strong belief that if you change behavior, you can get better results for our customers and better results for society. And I think what we've seen over the period is that in all of the categories we're in, there's just a few simple behaviors that create change. So, the four (13:43) and mortality and morbidity are four conditions leading to 60% of mortality. It's true in how people drive, just five behaviors lead to three estimates (13:53) that drive 60% of fatalities. Same with banking, and that underpins our Vitality Money model. There are five behaviors of customers, how they manage their money, lead to three concerns that drive 80% of defaults. It's all the same kind of strand of DNA of behavior. (14:09) used it kind of similar, but it's quite heavily correlated.

And so, the model has amplified in its importance of our ability to do it in adjacencies and to do it in other markets. We'll see these behaviors and these effects are very consistent across all of the markets we're in. So, the why over that time is amplified. And that has given us impetus to do things like Discovery Bank.

The second point, the how, I want to make this point very clearly because this really does underscore the 21% investment in five key new initiatives. The how of the model is really this shared value circle. What started out as this Vitality model has become, I think, a perfect shared value business, the idea that we incentivize people to behave differently. Their different behavior creates profitability. For us, that profitability helps us fund incentives. And you have - and so you get this virtuous circle, I think, we spoke of many times; good for our customers, good for us and good for society.

But the fundamental point is how we build our businesses. Now, I need to tell you, we haven't figured out, yet we will keep trying, how you take this model and apply it to kind of an existing business or a back book. If you could do that, you could - we could make acquisitions and build a business through an acquisitive approach.

I think it's risky, but it could offer a whole range of opportunities. The reality for us is we haven't figured that out. So, this, at this stage, is a new business model. We start at brick by brick, life by life, and kind of the approach we take is taking this behavioral Vitality chassis and building and attaching this institutional capability on top, be it a life insurer, a health insurer, a bank, a partner like an AIA or others. It's essentially what we are trying to do. And, in effect, I think the outcome is in the three things, the underlying behavior chassis, the institutional capability and, of course, how it's joined and how value is shared, which this kind of value equation explains that.

So, the important point is that we've grown entirely organically. And this is an important point to make when we talk about this 21% spend on new initiatives because we often hear the narrative that Discovery is good at startups, do this part well, et cetera. I think, and I hope I don't sound as - no hubris intended here at all - we're the only guys doing this.

Not to say that other companies aren't starting new initiatives, but our modus operandi is we start businesses from the ground up and we evolve them. And so, in the process, we build this what we call a washing machine, this operating model where we've told you, I think, many times, if we start our businesses as new in the red, but (16:31) has become emerging businesses where they're kind of breakeven, and then ultimately become established businesses. And our framing - our phasing for that is typically five years for each phase, five and probably three to five for the second phase.

We expect those business collectively to grow at CPI plus 10%, and it's a pure mathematical average where the emerging businesses are growing at CPI plus 30%, the established at CPI plus 5%, and we spend 10% on new slots, and that's the important part of spending 21%. But we spend 10% to the model, the mathematical average is likely just CPI plus 10%.

The approach we take is cash generated is invested as much as possible in new business and new business initiatives, if that makes sense, and then meet internal greater return criteria critically, underpinned by capital model, that should have a buffer of ZAR 1 billion and a leverage ratio less than 29%.

So, simply put, we run around this model as fast as we can provided that the controlling variables of gearing and cash and capital remain intact. So, that's what we're doing. It's kind of an unusual approach. This is simply a callus execution approach. It doesn't talk to I think the liability of the purpose of making people healthier. But that's, in fact, what we're trying to do.

And the central question, of course, is can you phase the businesses from a startup to emerging to established? Very, very difficult to do because as the ramp gets bigger, your new starts have to be more relevant all the time to keep the mathematics intact. And so, these are not easy things to do. I'll just make the point that what I think we're doing is unusual and, to a large extent, unprecedented. But we remain confident of our ability to do so, not necessarily because of we think we've got unique talent, but because I think the model and its purpose is so noble and applicable that if we do it well, it takes to grow. And so, that's what we are doing on a continuous basis.

How have we done in the past, well, it's interesting. Our team kind of - the analysis of all of our startups, from Discovery Health to Gecko, all the way through to the latest things that we're doing, and this is kind of the notorious debt value of a startup, can you turn this thing around? It's an amazing thing, the debt value; keeps you humble, keeps you gray, unfortunately, for us, but it's very, very exciting. And as I said, if you're doing a startup that's small, it might take two or three years to get it to scale. In an institutional setting, our experience is it's three to five years minimum. If we're going to (18:54) the debt value in all of our businesses, we've actually done quite well, I think.

The only failure has been Destiny Health in the U.S. We kind of - at three years, we kind of turned it around, we couldn't get to scale and the relevance in that market. We kind of (19:07) and shut it down. But the balance, I would argue, and credit to the team, a lot of the learnings coming out of debt has framed our thinking about other stuff that we do whether as partners or standalone which we do, which you can see that we've done quite well. 9 out of 10 of them have been successful. Five, the average to turn around from the debt value, but these are hard, hard things to do. They go straight to the P&L, so they're hard on earnings. They increase your financing costs, they deplete your embedded value, and the success (19:34). The better you do, the harder it is for a new start to make an impression. So, that's kind of the dynamic we're at, and this is certainly not a mourning session. It's actually a session, hope you can see, of pride. I think we can do this well and that's framing our ability to - our very strong confidence in our ability to keep doing it, because if you do this well, the value creation is substantial.

And if you follow the stuff through into the emerging phase and the established phase, you can see that our old businesses, Discovery Life and Discovery Health, obviously, really of substantial scale. But the other starts are now breaking through, the emerging businesses are breaking through strongly, and the ability to push these into their (20:09) quadrant I think is quite exceptional and strong. So the how, I would argue, of how we take this purpose is quite unique. And we have to keep doing that in the process of growing.

So, I hope you're following me. I said about a thousand things. I haven't a clue what's going on myself. Let me just put this water down. Right.

So, let me move to the what because I do want to make this point. Therefore, what is quite important? A very strong belief that we can apply this to different things, to life, health, driving, I mean, that's what we apply it to. There may be other things we can do in adjacencies you see that are coming up. But it's very, very interesting that going through to the next five years, what we're learning is that if you do this thing well, it is your considerable competitive advantage in a particular market.

So you can offer price competitiveness, you get better selection, you get better behavior, you get better selective (21:03). And all of this drives a superior performance, and that's what we see on the left-hand side. But one of the learnings from the South African model is this idea of a composite, the idea of an integrated composite, integrating invest to life, to health, to banking has considerable opportunities.

So this model offers I think competitive advantage in a particular silo, but it offers considerable competitive advantage in creating a composite. Now, the old style of composite was kind of the old days where you had a property and casualty company join together with a life company. That's not what we're proposing here. We're proposing a customer-centric composite, an organization that people want to buy products from because when you bring them together, you get integrated value. And from our perspective, the adding of value is incredible. If somebody's behaving well, we can add it to the economic value. The stacking of that value can help us incentivize strongly through incentives. And you'll see that coming through the Discovery Bank, that's where I think the real power we can harness on the model in the South African context.

So, if you take all of this together, the kind of the why, how, what, where we get to is where we're heading. 2023 is kind of the stack that you see there. That's what it looks like. A South African composite model, a UK composite model which we haven't got here, frankly, I'll show you a bit later, and then a partner model made up of Ping An in China, Pin An Health in China, of course, our partners across the world through the Vitality Group which we see as offering considerable opportunity. And I'd say to you, where we're trying to go to or what we'd like to say in 2023 is we've got an organization that's a perfect composite in South Africa where people get unique value for being part of our world, and the bank is of scale. In the UK, the best insurance, a composite that's working together in the same way – and in Vitality Invest and others will follow. Building out of the Vitality Group, the largest platform globally that creates behavior change and mix it with financial services, and then in China, the best and biggest health insurer in the rapidly emerging Chinese market with over 50 million members.

That is the plan. That's where we'd like to get to in 2023. And that really is the context for the investment of 21% of our earnings in new starts. And I'm kind of showing you there across the board the five initiatives. I'm not going to cover the other four, they kind of filter through, through the other businesses. But I want to talk about the Discovery Bank. You could see on the left hand side of the chart, the investment in new starts has been around the 10%, but it's been drifting up as we started to invest and it seems a significant spike up to 21%. And I guess the central question you've got to ask is, will we make it work? Obviously. And secondly, how quickly will that 21% spend come down back to the kind of 10% level that we expect. So, those accretive operations, and hopefully I can answer them (23:42) sense of what we're trying to do and leave you out to the confidence our team has that we can make this work.

So, firstly, I want to – firstly and probably most important and most notable is the Discovery Bank and its evolution. This is in a multiyear process that came out of the Discovery Card JV with FNB and many debates, over a decade literally, of how we could blow this out into a full-scale bank.

I'm showing on the left-hand side, the timeline of what we've done. The bank license was achieved by the team late 2017, and we began to build properly, I think, from that stage very (24:20) with us over through 2018. As a board, we set out a core bank board budget of, I think, ZAR 1.5 billion to ZAR 1.7 billion. And we kind of allowed in our capital plan about ZAR 2 billion out there if we overshot that amount.

Of course, also, we had budgets for tests and the run phase. We're also running the Discovery Card and running the Bank at the same time while we build. So, a number of different issues. So, I want to give you a sense of where we're at. We are slightly overshot that budget, the total cost we saw is ZAR 2.6 billion with its - sorry, ZAR 2.4 billion was the expectation. We've spent about ZAR 2.6 billion, ZAR 2.5 billion on the build, the test, and the run, and the infrastructure. This is of a capital nature. Some flows through the P&L, but this is just kind of saying, if you wrote out a check to get to where we are, that's what you'll see. This excludes the cost of acquiring the Discovery Card from FNB and FRB. But, obviously, that comes with an associated revenue stream, so that's sort of different nature to this. So, this is a very, very substantial initiative, a very substantial investment. I think (25:25) both credit to the team, it's dramatically bigger than I think we expected sitting back a few years ago with FRB and saying, hey, let's start a bank.

But I wanted to give you a sense, we announced late November kind of attributes of the bank. I wanted to tell you a bit about the bank. So I think we're very excited about where it has reached, and I think what's really interesting is when we started talking about this bank, a lot of the narrative was about how will Discovery differentiate? Will it be a fintech bank? Will it be different, et cetera? I'm very pleased that it is fundamentally different. It's a behavioral bank and it's been both completely and totally along the chassis of how or what, or what I've just shown you exactly the same. It plays completely into this issue of purpose, of using technology. I think it uses the best technology possible. But importantly, ultimately, it's about behavior, getting people to manage their money better. (26:13) manage money well to bank with us and it's a core shared value model. If you manage money better, we incentivize you to do more of it and we share essentially the economic value that's being created in the process.

And fundamentally, it's about kind of building the best, building the best banking capability onto the Vitality behavioral chassis and getting that work, we think, in a very, very smart way. With that detail, the (26:35) of the bank and this is one of the - this is actually just a slide from our launch in November 2018. But effectively, it brings together those two worlds. You got the bank on the top. We've built a state-of-the-art, I think, the most modern capability in the bank sitting on this very new chassis of Vitality Money. And the idea is just like Vitality, you earn points for behavior change and you earn points for doing things that are good by way not of your health necessarily but by managing your money, so things around unsecured debt, retirement provision, insurance for times of difficulties, et cetera, et cetera, et cetera. Our research showed five key categories of what you do.

The key issue is the Vitality architecture. You get Vitality points for managing your money well and those points give you status through to goal, simple as that. But the fundamental learning I think is the Discovery Life dynamic pricing model where your premiums in life insurance flex as some of you have done globally (27:31) your behavior. The analog in banking are interest rates. So, it's exactly the same. If you manage the money well, you pay less for debt and you're in more for savings. It's a simple analog. And I think it's kind of intellectually and morally correct. If you're managing your money well, we can treat you like a corporate. We could kind of lend you at a very low rate, which you know you're not going to default.

So, in very careful mathematics to make sure that the correlation that who knows Vitality status and default rates is very, very strong. Using all of the data we have on our customers on Discovery going to achieve that. And then finally on the end, something I think is very powerful, called dynamic discounts, is the idea that the stacking of value being created and that's where I think the comps have comes in.

We know that people manage their health well, typically manage other aspects of their life well and then you get an additive issue. If you manage your money well and your health well, you can be a double gold, you get considerable economic value in terms of incentives that you earn. So, the chassis really plays out from the behavioral side to dynamic pricing to dynamic incentives that would make it very strong. And that connects you to the bank I think in a very, very elegant manner. I'll show you that in a moment.

On the back of that, I'm pleased of what the team has done at credit, to Barry and the team and to all of our partners. We've had a massive build of the capability. We tried our best to illustrate what is being built and there is a huge working - if you have a SIP bank base and many other companies to build what is being built in the Discovery Bank.

There's a considerable capability across the board. We've reconfigured a lot of SIPs, credit card system capabilities, a lot of stuff that we built ground up. You can see on the extreme left-hand - sorry, bottom right-hand side, there's integration built into the Discovery world and particularly at the healthcare system, which is very important and I'll show you a bit of that later.

Deals with all channels from checks to e-mails. So, this is a fintech banker that does appear on the face of your mobile in a very beautiful - and I'll show you them in a moment. And then critically reach out to all the payment systems, into FNB (29:24) in terms of migration of our Discovery Cards. So, it's a very substantial stack.

I wanted to show you this morning how you open an account. You can onboard it, I think, very quickly, less than 5 minutes. It's simple. It's easier to insure. As you do it (29:38) all of these different parts of the system but in fact what you thought you would do is actually demo what it's like to be a customer and show you the (29:46) I think the beauty of the Discovery Bank, it manifests in a very beautiful way on the face of the mobile. And it's kind of we're trying to make it a cryptic kind of play out of the bank sitting in the base of Vitality. And almost kind of (30:06) in terms of card, your status in terms of Vitality (30:11) all of it being simple and easy to use and seeing all the integrations.

So, I'm going to try to demo on my account. This has prototype features on it. There may be some glitches, but just follow me if you can see. I'm just going to go on. You'll see there quite quickly the facial recognition works quickly. That is, in fact, Ping An technology that we brought into the country, worked with Ping An on it, super quick, super stick. It does straight to home affairs when you do the account origination, and it does all the stuff (30:40) I think is very, very strong.

What you can see in my case is I'm on black and gold. I'm the black cardholder, on gold Vitality Money status. And it's an interesting issue because I think that banks typically segment people based on color of card, based on income which is right and then people aspire to that but we segment it by behavior and I think it's a social issue.

You can be in a low-income segment but you can be a gold Vitality member, managing the money you do have in a very good way. So, it offers kind of two levels of segmentation. We've designed (31:12) in that regard in that way. What you can see is, one, as I'm just drifting down to my Vitality Money and what you can see there are active rewards that brings you to all of the active reward, three rings, how you manage your health, how you manage you're driving, how you manage your money and they were also stuck up in that regard.

And then you can see the discounts, in fact, that I have very remarkable. You can see the additive effect of managing money well and managing your health well. So you can see discount on Kulula flights is like 67%, I get 65% of my health (31:45) This is pretty good stuff. I wish it was not just a prototype. This is the (31:50) So these discounts are exactly what a black and gold will get. And I think the beautiful thing about this as you can see is the 65% discount on healthy foods at (31:59) that's what I'm getting in this month.

The one below that is what I'll get next month based on how I'm behaving this month. So it's a dynamic process. As I manage my health and I manage my money, that fuel gauge will move to the right illustrating what the discount would be for the next month. So whole idea is if people almost obsessed with trying to maximize their position by their behavior in health and managing their money, so keeping a constant process. That's not, how can I say, static or discrete. It's continuous in its nature.

So if you go through all of the - if I outline all of the various accounts, you can see international flights, gym discounts, et cetera, et cetera, et cetera. By touching on this, I can actually go into their website and book my tickets. So the whole thing is kind of in the go. But then you go back to the bank accounts and then at the top sitting in a bank and just flipped through my accounts and other credit card, I can't read that well, another personal card that I've got here. Critically, this is one of the big things that has been built out pretty strongly (32:58) family banking.

The ability to allocate banking rights to my family right on the face of the mobile, that's been empowered by the Discovery community. We have all of those relationships linked into the group and I think that's important. And then health banking, I think in UK we're linking the bank to the healthcare system and you'll see that. And then finally, the Vitality savings account. It's kind of - that's a repository of all of my dynamic discounts. There's a lot of stuff we'll be doing with that over time. And then I can add more accounts just at the touch of a button.

So, let me just go back but I'm having a lot of difficulty reading. I'll just go to family banking and show you, these are bogus accounts that we've actually (33:41) the pictures of my wife and children but they should be there. Having said that, so I've allocated my wife some of my credit limit. I've allocated my daughter. I have a daughter and son past my credit. So, it's just a sample that I can allocate pieces accordingly, what I do almost kind of drop and drag. If I go down to my, I think, this is my wife. You can see my daughters. I can see there what's being spent, how much (34:07) I will add, I can just adjust that on the fly so I can kind of allocate this stuff over time. You could offer your - you can offer the domestic work upon the credit card very tight controlled, if you need to do that.

So, this is entirely controlled through the family banking. I'm not going back and what I want to do, this is very, very unfair to my son. He's a very diligent boy. He's doing very well as it happens. But I'm worried about him drinking alcohol a lot. So, what I'm going to do here is I'm going to just take his card. You can see that I have allowed to see transactions via SMS. It's a general (34:41) card. I've disallowed that so I can't see which is doing by my son. I do want to see that, so I can just toggle that stuff on and off.

And what I'm going to do is I'm actually going to set where you can spend the card on. I'm worried about the liquor store that he's been going to. This is entirely untrue. But Liquor City in Jan Smuts Avenue, which is in fact far away so he's drinking and driving if he's getting there, right? And I'm simply saying he can't use it. So (35:08) you cannot use the credit card at that store. In fact, you could lock out in five categories. No liquor stores for his card. And in fact, I can lock out at a time if I wanted that. I can put time limits. I can put what I like on this thing through the card. And once it's done, it is set and I simply just lock it in. So, I can essentially allocate cards to my family, allocate cards to my limit, allocate colors of my cards. And from a black cardholder that would follow, I could then change and mix and match whatever I want through family banking. I mean, very powerful capability where I think it's empowered by the strength of the Discovery community.

Something to be very excited about I think offers the Discovery Bank great potential is the concept of health banking, so linking at the bank to the healthcare system. In this case, what you'll see is I'm going into the bank. I've linked one of my credit cards to the healthcare system. And in fact, I've allocated a specific card to that. I'm also typing in here the amount of money per transaction I'm allowed to do, right?

And so in effect, what this does is when I go into (36:16) or whatever for - we show this in the launch. For medication, instead of having to come back at co-pay and stand at the queue, I'm just taking a walk out the door, through the technology and to just build Discovery Health medicals be a part of it and any balance will come off their credit card of their transaction of it.

(36:32) just take it and walk out the shop, so kind of an Uber - it's kind of an Uber idea. I set it there, I give it authorization to work with Discovery Health and get all the stuff I agree with the terms and conditions and I'm set. So, I can link the bank in effect to the healthcare system, essentially my executive plan, that's a bogus number of my actual membership numbers allocating the card, transaction limit. All done and confirm, I'm linked. So, my banking is linked into the healthcare system. Of course, many more capabilities will follow as we roll out the bank.

Something I wanted to do as well, which also is empowered by the healthcare system is make a payment. I'm going to pay through the context, very short (37:14) We know all the various details. So, there's no need to go at his bank account (37:20) I'm just going through my contact.

Call out Barry. And I would have paid for lunch. There is no such thing as a free lunch as you can see, ZAR 500 of lunch with Barry and I've made a reference for him. Done. There's no need to at all to go to bank account details as he pay through the contents in my phone, and it is done. So, I just go back, get out and log off.

So, that's kind of a cross-section of the bank. And I hope through the process I'm showing you that there really is a manifestation of the Discovery model. And I think it also talks to the power of the composite of (38:01) just taking the chassis that we have and using it behaviorally conceptually, but using it in the confines of the Discovery community to do things that I think are very powerful. Managing families, managing the healthcare system, managing payments, and that stuff will, of course, be very important.

We're quite excited about - these are still being worked on. We're quite excited about the concept of making the bank very visual. So, creating this almost these archetypes (38:24) and the most sought after would be a purple and diamond as you can see on the right-hand side. Somebody has a purple card or diamond status. The value in that is tremendous. At the average unit, you could be a gold card or blue. That's fine. And we're trying to figure out how best to get those archetypes out there. But the face of the mobile is it should be a very beautiful simple experience. So, everything is controlled by it. And that's what we're setting out to do.

And if we just think about the next 90 days, we launched the bank and its concept in November 2018. I think it's very well-received. We had a tremendous amount of interest in that. We've been pretty clear. We're in a B2 phase where we're rolling it out carefully to the public from March. Now, I need to (39:03) all kinds of questioning, how will this roll out? We're going to do a very, very careful rollout. Just understand the complexity of what we're trying to do here. We have 3,000 cards in the valley of FNB and we have a start-up bank. We have to migrate these cards from currently with rolling out the bank.

So, we're going to be very, very careful about this by breaking slowly at first our existing card base carefully into the bank, activating what they can do and then at the time opening that up to entirely new account holders and critically to accelerate the migration from FNB (39:37) of course we're working very closely with FNB and I think that is very constructive in helping us get that across the line.

So that's where we're heading in the next 90 days. There's a lot to do. There may be slippage, they may not be. Barry will be hoping he can do all of this but I was hoping to give you sense of what's being built. So the first point just to make in this is that if you look at the strategy of the organization, the how requires organic build, the how requires a very, I think, disciplined approach of what we're going. I think the banking, the most notable illustrates what we're trying to build and why.

So let me just ten get back to what we said out to do for 2022 and I think talk about the performance of the various business line fairly quickly in the context of us coming back to the stack and coming back to the four things we're trying to build, the SA composite, the UK composite, build that business in China and importantly build the partner composite. I'm going to South Africa and go through the businesses quick. I hope I'll be fairly quick. There's a lot to talk about, but I think it's best just to try and provide some highlights and give you a sense of the performance.

To frame Discovery Health and Discovery Health Medical Scheme, performance is exceptionally good. I think robust, strong, it's working incredibly (40:51) creating access to healthcare and be a good corporate citizen helping the environment get better in terms of the private sector and in terms of helping government with the NIH. That's what we set out to do.

The business has grown by 3% as I said before, so fairly hard base as you can see, membership over 3.5 million , normalized operating profit at 10% for the six months, so just under ZAR 125 million. The Discovery Health Medical Scheme strength continues nearly a 57% market share, contribution rates for units of benefit about 17%, so less than our competitor. It's illustrating I think the effect of the scale, effect of risk management in particular (41:26) all the work done and then the stability of the scheme, solvency levels triple A-rated, stability in terms of (41:32) nothing new in the that I haven't shown you before but illustrating just a very careful slow progression from one period to another.

It's interesting that if you look at the growth of the Discovery Health Medical Scheme I think is very strong. The regulated statistics show that only three schemes, in fact, grew over the last five years. You can see the Discovery Health Medical Scheme grew 4 percentage points at the bottom. The balance typically shrunk over the period, so pretty static market and we have to grow within that market and we've grown our market share from around I think it's somewhere in the slide. I can't see but it's around 56%.

You can see on the right-hand side how new businesses have progressed. We've got (42:10) in the blue additions to existing employees. So existing companies that we have, we get new entrants coming and new employees joining. New business colored entirely in the white and closed schemes are quite lumpy. So you can see how the business flow progresses. The only point I'd make in this graph is the blue has tipped down slightly which actually illustrates that our existing clients are not hiring. So as we have commentary on how the economy's playing out, it is tight out there, and therefore new business from existing clients is, in fact, quite slow and reducing. So it is there but slower than the previous periods. We remain optimistic. Hopefully, things will turn around that you can see the effect of the economy on the business of the scale.

There's a lot to be said about medical inflation and all the work that we're doing. Our thought in this presentation we talked about the administration cost of Discovery Health to the Discovery Health Medical Scheme a level of sophistication. We have built a very, very sophisticated integrated healthcare system that Discovery Health Medical Scheme sits on. You can see on the right-hand side we're bringing administration fees down quite ratably down but now that (43:11) you see considerable opportunity to make things better and more efficient.

We're spending over ZAR 0.5 billion a year on technology within Discovery Health. A lot of that is spent on digital technologies, so artificial intelligence, robotics. There's some really good stuff and there's the ability actually to accelerate that to offer better service to our customers at a lower cost. There are a lot of examples we can show. This is very interesting. There's work on using AI and machine learning about routing people to the right call center consultant. It's a very interesting problem in healthcare. People have specific needs, specific proclivities, specific health issues. So this is not just about speak to a person with a certain name.

We're trying our best through machine learning to actually learn all the factors behind who's calling in, route them to the right person. And we're getting fantastic results as you can see. Take all of these factors and having the machine figure out where that call should go to is giving us kind of close to 9 out of 10 satisfaction and close to 80% first call resolution. So the stuff works. If we could do more of that, use more robotics and I think over time we increase service levels. We can increase quality and, of course, decrease cost.

The last one I'll make is that we've, in fact, done a lot of work on just the core capabilities of Discovery Health Claims System (44:28) world-class. We spent ZAR 300 million just the last few years rebuilding the Discovery Health Claims System. It is state-of-the-art and we've kind of been in a venture with SAP globally to make this claims system available to potentially other health insurers. It offers an additional opportunity for us but I think illustrates the quality of the technology that's being built.

And then finally, to wrap up in the case of Discovery Health, I'm not going to say much more but to make the point that this kind of micro regulation, this competition regulation, and ultimately of course this national regulation, NHI, we are navigating, I think, of all it, not overly concerned. I restate our commitment to helping on the NHI. That's a crucial issue. We think it's a very complex issue that will take time to roll out. We've just seen the (45:10) speech of the Minister of Finance yesterday about the difficult position (45:15) But this is something that we are very determined to help if we can. We continue to interface with the Department of Health and with the authorities to try and see how we can do this.

It's important to say that if this is implemented incorrectly, it doesn't pose a risk to Discovery Health. It poses a risk to the environment, I think quite substantially I think. (45:34) will be applied to how best this can be rolled out. So we remain fully supportive and ready to help.

Let me turn to Discovery Life and I'm just going to talk about (45:45) SA composite. So if you lost track where I am, I'm now just working through the South African businesses. Can I just ask for (45:53) I need some effervescence here to (45:59) Okay. There are no bubbles here. Let me keep going.

Turning to Discovery Life, the growth is strong, but of course the most notable issue of the period was the claims spike. As you can see, it really hit the earnings by 13%. Despite that, the core growth has been very strong in, I think, a very difficult market and increasingly was 8% (46:24) consideration I think over the previous period. Discovery Life threw out a lot of cash over the period. With the move to SAM, a lot of the resource brought up over the many years out of I think very good performance (46:38) ZAR 6 billion of cash just on the basis of that change, so considerable amount of cash released out at Discovery Life.

But I think the most notable things to just talk about is the claims spike and all of our people here are available tomorrow, we're be available to go to the detail on this, but simply put, first thing to say is that we have kind of a 20% increase in the claim level which is substantially amounting to, I think, about ZAR 300 million or thereabout.

Importantly, on the left-hand side, even with those level of claims, it's within our profit buckets. So it's very important when you talk about the claims spike, we don't give the impression that that set us into loss, that this has made considerable profits despite the case by - you can see that the risk premium together with the profit loading were worth more than sufficient to pay for even that increased claims spike. The spike is relative to what we expected to happen. So, that's an important point to make.

The second point to make is one on the segment on the left, the spike was about the 29% versus our expectation. We've analyzed the data across every single issue to find where the spike is. There's no technical in terms of duration, gender, broker, disease type, where it happened on the third point is simply either than trend are more volatile. Just simply as that.

So, if you look at our 4% of our biggest claims, that amounted to nearly 40% of the spend, just 20 claims amounted to ZAR 0.5 billion. So, we had a kind of increase in high value claims and we're pretty confident will revert as statistics show that that event was 1 in 20 event, so these things do happen. It doesn't mean that they happened now. It's likely to happen in 20 years' time, right? It could happen tomorrow again but that's how volatility works and that's what we have do. This doesn't pose any treat. It simply makes it earnings volatile. It's important to say that of course Discovery Life has a number of reinsurance structures that we use to manage our risk within our risk appetite.

This is an explicit decision we've taken in the past pause to allow this volatility. If you model backwards, it probably was profitable for what we've done. We took a view given the earnings volatility to change the reinsurance structures and in the right-hand side, we brought in place the reinsurance structure to get through quite a lot of that volatility going forward.

So, we haven't (48:44) it completely. We haven't lost the profitability completely. But in effect, we got rid of quite a bit of volatility going forward. And I think importantly the price on the reinsurance is at no cost at all. So (48:56) the reinsurers would ask expected claims revert to the expected level and that's baked into the reinsurance cost. So, the spike could happen all over the place. It doesn't pose dramatic threat to profitability. It doesn't pose any threat to Discovery Life, quite the opposite. But importantly, I think we've remedied or remediated some of that volatility going forward.

The second point I thought we should make and often at least in the narrative, how strongly Vitality is working in the context of Discovery Life. I thought I'd show you this slide. I don't think we've ever shown the detail of the distribution of Discovery statuses by – or Discovery Life policyholders by Vitality Status. But we're showing you there I think it's 2013 versus 2018. So over the five-year cycle, blue through to bronze through to diamond, you can see it's quite amazing that maybe 20% of our customers are diamond. If you have gold and diamond together, maybe 25% of our customers are on the high status. So the levels of engagement are quite dramatic and in fact only 44% are in blue. So you've got a considerable spread of our customers across Vitality Status with a lot getting to the gold and diamond and of course it's a pretty good thing.

You can see on the right-hand side of the chart this is all of the data, all of that covered lives is I think that they're all on the right-hand side of the chart. You can see the mortality levels by about by Vitality Status on the left-hand side, the long term. And on the right-hand side, we're actually showing even with the claim spike where you had a lot of big claims of high statuses still give you the downward sloping compared to Vitality.

So Vitality is proving a very powerful attractor of good risks. Behavioral changes led to lapsation. You can on the left side, Vitality is having a tremendous effect on the lapse rate. The industry data looks at lapses over time. At year three, you can see that it ranks the lowest level of lapses, and then the right-hand side – in the middle, sorry, you can see the lapse rate. by Vitality Status very down sloping. So (50:48) as people get engaged in Vitality, they lapse less and of course the healthier lives lapse even less.

So the right-hand side, not only do you get low lapses by status but as you go time, that lapse rate tends to decline. So all of the indicators tend to be I think facing the right level of Vitality or whether it's the effect of vitality on the left straight the effect of Vitality on the lapse rate, I think the kind of the shared value model is working remarkably well to get the kind of results that we are looking for.

It's also important to say that I think the business continues to be very innovative. It uses a share value model on the right-hand side of a slew of innovations. It illustrates all of them linked to these Vitality aspects, linked to the rest of the group (51:28) to the bank. But you can see the effect on market share. Total market share has climbed up to 30%. So we are by a long shot the biggest in the market because we nearly double the size of the next competitor at 18%. And when you look at IFA we're tied. Agents, you can see a tremendous leadership, I think, that's been achieved in (51:49) So, really reflecting I think the quality of the innovation that we're getting that kind of traction.

The one thing that I think we really wanted to mention here very clearly is the issue of long-term lapses. This is a critical, critical issue because at the end of the day, the quality of our earnings, the quality of the negative reserves is a function of do people stay with us over time (52:11) and there's a lot of narrative about what the long-term lapse rates might manifest to be. It's a difficult thing to estimate what it might be in 30 years' time. But to make the point on the left-hand side, this is an issue because the industry over the last number of decades has changed. People generally don't flag premiums over time. Typically, they work out to cover their need and then that's not a premium that escalates according to different factors. It could be age-based. It could be inflation-based. It could be predetermined. And you have these planes of standard that are flat to accelerated to FlexRater, and our competitors are doing very much the same thing. It's a competitive market out there. So, all of us are doing this kind of low start with the premiums there to escalate.

You can see in the middle chart, about 85% of our block – of our new block tends to go on that basis. But the central question is what will happen over time as those premiums escalate? And you get all kinds of worries about just having the premium (53:01) on the right-hand side of the chart, kind of the work done by our various teams is to illustrate the affordability over time. So, looking at, if you're growing at flat rate, what that does versus salary. If you're going to escalate your effort, what that does versus salary. And then in green, the aggregate of our portfolio, what that will do versus salary over 10, 20 and 30 years.

So, we've chosen to compare it to expected salary. Our premiums, I think, are about (53:25) incentive salary currently. It's an effect of that showing you for portfolio, over 20 years – in 20 years' time, the premium would've probably doubled in real terms versus salary. So from 2% – from a 8% of salary to about 5.5% of salary, about 30 years' time in the green, probably 2.5 times where it was before, 7% of salary.

The central question, of course, is what if people left over the time? Well they left off to 10 years, 20 years or 30 years. And of course, this is not a binary question. You assume a lapse rate every year and the question is how are you performing. Well, the first thing to say is we have 20 years of data. So if you map back as to what's happened and you look at the entire lapse rate from the top-left hand side, you can see that in the white, our expected lapses, and the blue out of the portfolio has lapsed. You can see that the accumulative lapse rate is in fact lower than we expect it. So, despite the increases, the lapse assumptions that we put in place in fact to holding. When you look at the standard things that are flatter on the non-standard plans, it escalate, that relation that tends to be holding.

On the bottom – on the right-hand side, we show the table of duration. By age, you can see then the effect for most – for virtually all the durations, the left shows a quite a bit lower than we'd expect. So for the 20-year history, we can say with some conviction that the lapse assumptions are holding are in very, very, very firm.

But of course the question is going forward, who will know what the future holds. We have to make assumption. If you assume no lapses, you get a completely different result and particularly every lapse, you get no value. But you got long-term expense assumptions if you amortize over time. So, you have to make a lapse assumption.

And very important, just to show you, most notably in the blue curve, that if you ignore Vitality, our lapses assume that by you're 30, 95% of the block is gone. So, the assumptions inside our earnings assume that lapses happen every year. And the cumulative effect to that is by you're 30, 95% of that is gone. So, if 5% is left at that point in time, and the Vitality model assumes that people involved in the high status is will lapse lower, taking up to 14%. So, bring it all together, the basis of our lapse assumption shoots at 85% the book is gone in 30 years or much as probably as 20 years, but only if you need to make that back to that affordability. So, the assumption is, over 20, 30 years, if your cost goes from 2.8% of salary to 5% or 5.5% of sales, same as in the salary, 80% to 95% of the block will be gone. That's the assumption.

Is that reasonable? We don't know. We have to value our debt, continuously re-strengthen the basis. So, we assume that is the higher gain into this year. You're going to see that if you go through the VLM, we have a life business and the embedded value assumption changes, that come through quite strongly. But one interesting thing that we wanted to just show from health data is if people come on at age 45, over 30 years, they get sicker. So, the yellow line, we're showing it by that age, 40% of people thereabout have quite considerable illness. And if to an extent, if you're lapsing when you're sick, it's irrational. So, we know from life insurance, it (56:27) down to that. So, there is an absolute check of saying what essential people should be there what versus what is actually in there assumed in the basis. So, let me end by just saying we are working hard to trying to understand those lapse assumptions and whether they are (56:42) in line with the expectation. We feel comfortable that at that time, we'll manage them from time to time.

Then, we move fast to go through Discovery Invest. I think performance is very, very strong. Very tough market. The market value is in fact lower. At the end of December, that were a calendar year before, Discovery Invest is about attracting funds, hard in A difficult market, and our revenues based on fund value and market value. Despite the 40% growth in new business, assets grew by 7% to just over ZAR 83 billion. Strong growth in normalized profit at 9% despite a very difficult market. The model is working really work. Net flows up by 11%. If we got a slew of things you can look to see on the slides, about the incentives we offer people to start earlier, save more, drawdown less. So the (57:26) retirement provision about starting earlier, saving more, drawing down less, managing your health so you'll live a healthy life and you don't need healthcare cost at retirement. And all the figures are looking very, very good.

But one analysis (57:36) the really shows the power of the model is, effectively, people are investing and hoping that the investment is on the top quartile of returns. So, if you take all of the incentives that we provide, there are (57:49) fees, the boost, and you look at (57:50) - this is three years' out, we're going to (57:51) 5 and 10 years, what you find is on the top, as people become more engage in Vitality or the incentives, what happens to the investment performance, the effective investment performance is it gets better and better. So, simply put, across all of our funds, if you're highly engaged, the net result of our investments we're either going to (58:10) top quartile, the top (58:12) number one. So, what we're trying to do is shift shared value through behavior change is effectively the returns that you get and I think that's one of the reasons why I think we're changing excellent funds proving very, very sticky. And we're learning more about how to do this going forward.

And in terms of Discovery Insure, to frame it and say again, I think the performance is very, very strong. It's not - I think the business (58:33) from one period to another. Gross premium rolling by 21%. So, the new business was up 4%. You can see it (58:41) the previous year. But these are very big slices of new business that we're adding (58:46) getting total revenue (58:47). Very strongly, the business has turned to profitability strongly now, about 4% margin. We think we can get to a 5% to 10% margin given the quality of the business. I've made a point in previous periods just about the additive effect of the time of the model, we're getting better selection. So the number of people engaging in Vitality drive is over 90%. We're getting fantastic correlations to accident rate by age and status, selective (59:16), so all of the stuff you saw on the model. And then critically, this is a point that I think for us is a very competitive point, over time most of the reduction to the loss ratio duration is through behavior change because I think this is a market (59:27) the D2C players, (59:32) just pricing at the people staying. So we're not aligning inertia, we're aligning behavior change and I think that offers us considerable opportunity going forward.

And then to make the point the distribution channels are I think very, very strong. I think we are the only short-term insurer that is present, intermediated and direct at the same time. So, on the left hand side of the chart you can see we're getting 45% of our business from independent advisers. We're getting the balance of our split between our agents and B2C. So we're not a D2C player only, we're not an intermediate player, both channels, we can push them out.

But you can see in the middle side it's a pretty balanced portfolio. The combined ratio where it's intermediated D2C is in fact very, very somber. So obviously, I see opportunity to grow on both. We're doing a lot of thinking about our advertising spend on D2C. We're not a great spender so you can see in the middle of the chart they versus our competitors. I think pretty clearly and we have our supporting advisers are primary. So these are channels that I think offer considerable potential for Discovery. I think we can grow the base quite substantially on a quality basis for both of these channels. It should be there at D2C. So we think the margin can climb to 5% to 10%. We think we can grow the book. The book is already at ZAR 4 billion quite significantly.

And then the final point to make on Discovery Insure is just you will have seen in December we announced transaction around CMT, Cambridge Mobile Telematics, just to tell you – give you a bit of insight into this. During the evolution of Discovery Insure, we were using deep black box installs into cars where we could then track people how they drive based on G forces, et cetera. We searched for the ability to this via mobile and came up with a company – we didn't – we found a company, a small startup out of MIT called Cambridge Mobile Telematics, a bunch of super smart professor of computer science out of MIT.

We acquired 20% of the company for $5 billion and began working with them. It's been a fantastic partnership. The quality of the technology really speak tremendously. The app that you use if you use Discovery through the cloud is the CMT app. Together with us, we develop this idea of that tag that attaches to the car, state-of-the-art stuff.

Over time CMT itself started doing this with other insurers and we help them commercialize their model. Amazing over the period, Softbank acquired stake in CMT for $500 million over this period, illustrating just the potential I think of the model. For us, of course, I think it's financially very important. Our stake has been diluted out to 10%. Our profitability from the transaction is about $55 million, and we'll get cash of about $28.5 million in the six-month period.

So this transaction we announced I think during the period with a financial (01:02:20) will come through during this kind of six months. But I think more important than the money illustrates I think the power of the model and its potential to change I think most insurance going forward.

Let me talk to the UK composite model. I won't take too much of your time. Talk to the UK. And I call it composite model. It is indeed a composite model. We've got two businesses in a new start in Vitality. I think we are making the most progress in the UK if you bring it together. Business has been strong. It's a complicated environment with Brexit. It's a (01:02:55) environment but I think the progress has been really good. New business up 13%.

lapse growing at 13%, it's just under 1 million - from a 1 million - 5 million lives in the UK. Operating profit growing really strong, about 21%. And it's got considerable value. The EV of the UK business is now nearly a quarter of the group - of the group EV.

To make a point as well, I keep remaking, but it is important to understand the power of Vitality. If you look at through Vitality Health, correlation is two different disease types, incredibly strong as you get engaged, our sickness levels go down. Correlations to lapse rate, 45% reduction on the highly engaged versus Blue are expected is remarkable.

So, we're continuously seeing and engaged in Vitality is incredible. I've shown in previous periods, the engagement levels are just going up as we progress. Vitality health had a tremendous period. I have to say it to the team, the business is remarkable. It is, I think, the best health insurer in the UK. If you cut - the (01:03:50) performance is exceptional, new business up 18%. Particular success on the individual B2C channels, where I think the 01:03:58 using Vitality, using all the stuff we're doing has been strong, up 34%.

Lapse covered at 9%. If you look at Vitality Health, if you can see it in the chart, affecting end around it, in fact it went down for some time, as you - we kind of - we took off lives if we felt it around the price. We're now growing strongly and the operating profit up 26%, it's just under ZAR 0.5 billion six months in rand.

Every measure is good. Loss ratio is coming down and staying there, retention levels are coming down, the back book through at - close to £47 million of cash, funded all in new business trend, pushed all the cash to the center. So, the performance has been really good.

Vitality Life also had a good period, it's a very difficult environment for long-term life insurance as rate of interest is very low. We've made this point at many presentations this far, that I think the company is making strong and steady progress, new business up 8%. Lives covered coming up 16%, operating profit up 13%.

Claims levels are a lot of expectation, lapse levels are below expectation, which is good. The valueof low expectations which is growth (01:04:56) growing by close to 40%. The number of moving parts in VitalityLife. The margins in new business are 01:05:04 should be, relatively it's just too low. We have to keep just working carefully through that hoping the environment will somehow revert once uncertainty is exceeded. VitalityInvest is still very, very young and very, very complex that market the next few months as we go through the tax season so the kind of tax people are actually buying actively the product and selling. We reported back in a few months' time as to how we've done in it. There's a number of tools we've launched, new products into the market (01:05:30) technology we will show in a few months' time if we can get (01:05:35). We spent £33 million to date investing in this business.

Getting back to the point of composite 01:05:42 it's amazing. In the Discovery Health, in the Discovery context, our businesses like Discovery Insure, 70% of their clients (01:05:50) products. In the UK, 106% of that client base is lapping out. It's remarkable. So these are two completely disparate client bases. It's a function really of very different distribution systems, the ability if we can create that composite what we're trying to do. It offers considerable opportunity. So the simple idea is using Vitality within each silo to make our life insurance offering better to help insurers, I think we're really doing. But now bring them together (01:06:15) behavior change to offer considerable value. That is bringing a lot of really good work around that 01:06:23. So there's a concerted effort of having one digital phase of the entire group, the ability to really 01:06:30 and building the same towards 2022, the best composite in the UK.

And I've said when we go to the last two businesses and talk about (01:06:40) and the Vitality Group, I hope – I think I'm using too much time (01:06:46) this is very, very important. People on health had an absolutely tremendous period. I have to say to you that pretty clear, growththat the thing on health strategy is pretty clear. Growth and quality of business, not profitability. The health insurance market in Chinese, possibly one of the biggest, it's one of the latest emerging and I think our timing has been really, really good.

You can see the rates of new business growth up 17%, revenue growing about 84%. The profitability pre-tax is a very substantial, you'll see that in the numbers. But looking pre-tax, it's up 26%, but it's kind of pretty marginal. I mean the margins are around 1%. So, this is not a business that's throwing out any real profitability. The focus on Ping An Health is on quality, the lapse ratio and the loss ratios are winning the expectation, the business is very, very strong. And so, it's A rated.

Our (01:07:32) is a rating as well. So, we're building a very good quality business. But I think the main theme is building the capability to grow. So, there has been a considerable investment in operational and particularly digital capability. You can see the stand on the operations has grown by 400% over the last four years to a ZAR 1 billion. And you can see the growth in headcounts, up to 1,800 in the business and fully a quarter of them or more – sorry, 40% of them are purely technology people.

So, the Ping An vision is about building the best health tech insurer in China with 50 million lives, that is their goal. And you can see on the right-hand side, kind of the jaws (01:08:09) of life as we call them, revenue versus operating expenses are not yet opening.

So, as fast as the revenue is growing, so is the OpEx. And we think at this stage that is entirely appropriate. They're building a considerable digital platforms, kind of a go-to capability for health. When you're going for health advice, you're going to Vitality Life, running issues, life streaming, consultations. And from an administer perspective, the stuff is all digital.

So, you can get your claims done online, underwriting done online, applications done online. Just to go back, the act itself, the Ping An Health has 80 million registered users. So, the scalability is quite considerable. So, this really is about growth, the margins are really, I think, fairly insignificant. We believe over a reasonable short medium to longer term, the margins get to 5% to 10% premium. We believe the quality is there, but you can see the growth on the left-hand side, that's month-by-month in the period. So, in the gray, 2017; in the red, 2018 and then in the gold, the January month. So, just in January, Ping An health put on 1 million policyholders, January. It's remarkable. It's the kind of growth we've never seen.

And on the left-hand side, Discovery Health. I think Discovery Health is great story on itself, but it kind of shows you Discovery Health growth versus Ping An Health. That's a number, not a revenue. You had to do the actual revenue to get the data in time, it will be more muted and these are smaller policies, but the (01:09:35). So, we feel very confident about what Ping An Health can do in scale and profitability and I think being strong about what we can do, working very well I think together with Ping An (01:09:45) to something quite special.

So, the six months under review, I think, were very, very good period for Ping An Health. Vitality Group itself is getting considerable scale, but really a lot of the work done to that part is starting to show growth. You can see the amount of premium we integrate to that part of the market. The new business was ZAR 7 billion of new business done by partners on the back of the model. Our revenue grew by over 90% of the profitability is coming out very, very strongly.

The cost of technology in V1, a piece of technology was taken out of this business as I said funded by the group using in a much bigger way and we restated those numbers to illustrate there. But you can see the growth of the Vitality group in terms of the growth of proper integrated policies 01:10:27, the scale of the partner, of our (01:10:32) underpinning it and then the actual strategy, our national exclusive partners like AIA, Manulife, John Hancock, Generali, very nicely. The franchise malls is proven to be very, very strong so we roll out two companies in Latin America, one in Asia and Pakistan, the Netherlandsas well in the Netherlands (01:10:52) flags at the bottom or the number in the top under we're doing. So we're starting to rapidly roll this out. And then we are in very exciting adjacencies, the work we've done with Apple. If you follow the Apple at CVS work using Apple Watch with physical activity, the Vitality Group did the planning of the back of that. So all the work we're doing kind of redoing that inside out of company. So there's considerable opportunity I think to do great start in that.

Our partners are doing well. Every time we present, we show some other aspect of news coverage. I think notably, (01:11:22) has done remarkably well with integrated model that made the decision during the period that all will be linked to Vitality for considerable coverage across the U.S. around the kind of the movement in principal around us, our latest partner Sumitomo Life in Japan has done a fantastic rollout. So we announced I think in the last announcement that in June-July, we'll launch Sumitomo Life in Japan on the integrated basis.

I can't show you the numbers that I'll publish and see the rate of growth. It's double what we expected, 70% of the sales now are attached to Vitality that was absolutely superb. And we're learning that how the technology works. So, if you go across every market from Germany to Japan, although they're different images, it's a similar repeatability of the Vitality model and how Vitality works. And again to make the point, the experience at the top mortality lapses by apps, it's exactly the same. So we're getting more and more confidence about what we can with the business generating to close to ZAR 100 million of profit in the six months, we're feeling confident about what we can do.

Two things to mention before I wrap up on this business. We're trying to build a network out of our performance I hope I haven't spoken. One of the key issues of there is with Vitality 1. That's one of the key initiatives we're investing more and more and we spent over ZAR 0.5 billion as of December 31 on this. It really underpins all of the stuff we're doing. There is one piece of technology. It really underpins all of the stuff we're doing. Now, there is one piece of technology across the world. So product changes are done, can't be done in market. We have 500 people working on this working on Vitality1. And 150 end market balance essentially building out this technology and capability. It underpins Korea, underpins Sumitomo. We're rolling it out now to the entire group, so that really is the idea.

The other point I wanted to make if you followed during the period we're trying to get our partners to work with us a collective rather than us with each partner. Difficult to do because these partners in many - are competitors but they're becoming more and more collaborative with us, making sure we can get this idea of making people healthy out there. Towards the end of last period we rolled out a study Apple around what physical activities together with a pledge in London 01:13:35 the first one I think we're working as a collective and I want to show you a video for just a few seconds on the power of this partnership, 100 million people healthier by 2025, more physically active. So watch this (01:13:49) of our partners, their commitment and I think the power of the intellectual base we have formed.

[Video Presentation] (01:13:54-01:15:35)

Sorry, not a commercial. I need to stretch, but trying to illustrate that. I think more and more we're creating a network out of - I think it's a tremendously powerful group of companies that cover I think 30% world's covered population. So the ability to really grow that into this page I think is remarkable. So let me end up by - that is the stock that how we look currently investing carefully across the board. And I guess the question and this is probably the most important piece of the presentation is all those work financially. So I just told you, we've spent 21% of our earnings on new starts. That has actually decreased our earnings for the period quite substantially how does that play out in the future, 21% go down where we achieved CPR plus 10% of growth going forward to do this.

So we can't show you medium-term or short-term numbers. We can't do that mathematically (01:16:30) in terms of that becoming a full cost. What we thought we'd do we want to use washing machine and see what these numbers are. So, just to show graphically, the first point to make is what we're looking at is how much is invested in new businesses, the (01:16:46) of the group growth for the five-year planning horizon where leverage will go to what the return on equity will be. Such make the point we started out now, I've just told you, we spent 29% of our earnings business. Our group earnings went backwards. Our leverage has come down slightly and our return on equity (01:17:04).

What you will see is that if you go to – according to our plan, the spend in new businesses comes up quite dramatically. So we reached the 10% points around 2021 very quickly. On the leverage side, we continue to go down to about 21%. So there's sufficient capital and cash in the system. And our return on equity by 2020, (01:17:24) to get back to the (01:17:27).

So if we can make these companies start out to work, we should get back to where we were very, very. But the critical issue, from the left, you can see if you look at the established versus in the blue, we expect part of the CAGR of 10% to 12% over the period. If you add all the businesses together in the green – the red, you can see that while the earnings level is lower, the CAGR is a 22% and crosses the line after the five-year period.

So, simply put, if we achieve what we set out to achieve, we should get back to where the earnings were five years, but the CAGR is dramatically, dramatically higher, and that's what we set out to do. So we've been very careful in the capital planning. You can see I think the business is very well capitalized to achieve that. Really, the judgment of whether we're doing the right thing is can we make the bank work? (01:18:15) work? There's all kinds of risk to the plan and pretty robust, but I'm giving you directionally why are we doing this from a purpose bid perspective and a corporate filings perspective.

To make one other point, we said we've spent 10% in our new starts. If it does below 10% in two or three years, very possibly the other things that we're doing. So if you kind of 01:18:37 10%, you get the (01:18:39) of those various variables. But I think it does show our ability to build going forward.

So, let me end by saying to you that, I think we got a very strong capability. We see four things happening by 2022 if we get it right, superb (01:18:53) card by the bank in many ways, a composite in the UK that currently does exists we think we're very competitive, the launch is to invest in health insurance channel with Ping An Health, and a global network, biggest global platform behavior change led to carriers (01:19:08) across the world, including ourselves.

We are comfortable and excited. A lot of work to be done. I hope that was very clear. Thank you very much and thanks for the questions. Thanks for the time. Thank you, everybody.