JRP Group PLC Defined Benefit De-Risking Seminar For Equity Analysts And Investors

Company Participants

- David Richardson, Group Deputy Chief Executive & MD UK Corporate Business
- Tim Coulson, Director, Defined Benefit Solutions

Other Participants

- Unidentified Participant, Analyst

Presentation

David Richardson {BIO 18045016 <GO>}

Good afternoon, everybody. I'm David Richardson, the Group's Deputy CEO and Managing Director of JRP's UK Corporate Business. I'm joined today by Tim Coulson, who is the Head of our DB De-Risking team. And thank you very much for coming around today in person and we are delighted to welcome you here for a closer look at our Defined Benefit De-Risking business or DB for short. And for those on conference call, the presentation materials are available in the Report and Presentation section of our website www.jrpgroup.com and also just advise you that this call is being recorded.

In terms of running order, I'm going to start off by providing a macro view on what is driving this exciting market. Tim will then take you through (inaudible) and we will then have a Q&A session and there should be plenty of time for this. So I please ask that you save up your questions. And finally, at the end there will be a chance for you to follow up with us informally over coffee.

The session today is being held in response to a number of requests to understand better DB markets and just questions within that. Hope today, we will answer those questions. We will focus on the markets and try to bring it to light. Hope you will come away from the session with a much better understanding. Now remember, today is not about our financial goals or guidance on future and financial results. We will cover that at our full-year 2016 results in two weeks time.

I will review the macro view as I said of the DB markets, what the key drivers of the growth are and why we believe these are pointing strongly in the right direction. Tim will then talk about where we are in the development of Just DB business, our vision for the future and how we see our addressable market. He will then talk about we compete in our chosen market segments before explaining how DB transactions work and why can we win. I will finish up by pushing on two key enablers, which are not specific to our DB business. But will support our success in this area like our mortgages and reinsurance.

Now, before we go any further, I think it is important that we take stock of DB significant as a profit driver of the JRP Group. So on slide four you see that DB accounted for more than half of our sales in both 2015 and 2016. Given that we are achieving similar margins in DB as we are in GIfL, this represents a fundamental diversification of our business model, significantly reducing business risk. We are no longer (inaudible) GIfL markets. This is a great example of JRP using our dynamism and innovation to create significant shareholder value.

The scale of the DB operation also allows us to shift capital tactically between GIfL and DB (multiple speakers) returns are higher. So we can focus on optimizing (technical difficulty) and return capital for the Group as a whole. We have around 10% market share in the overall DB de-risking market. We have completed more than 100 transactions since inception making us a well-established player with (technical difficulty). So we are talking about an operation, which is already at the heart of the Group and (by nature) at the heart of this industry.

Moving on to slide 5, I want to look at DB de-risking from the customers point of view. Large-scale DB pension schemes were first established in the 1940s and 1950s. And subsequently served the way for employers to attract and retain skilled employees in competitive labor markets. However, as the true cost of these long-term (technical difficulty) sponsors gradually withdrew the DB benefits. This is like the situation whereby today 85% of DB schemes are now closed. A lot of the customers (inaudible) sponsoring companies will take a keen interest in de-risking process, given they're writing the checks.

IAS 19 means that since 1998, UK sponsoring companies have had to recognize their pension scheme position at year-end market value in the accounts. Discounting liabilities are prevailing double AA corporate bond yields. Market fluctuations, therefore, create significant asset value volatility, which (analyzes) the sponsoring company's principal activity. Due to account volatility, however (inaudible) are generally deteriorating economic risks that sponsoring companies are exposed to through their pension schemes. This has driven pensions of the Board Agenda of UK Corporate. For example, should a manufacturing company be exposed to long tail longevity, equity risk for example. The sponsors covenant means they are legally obliged to ensure (inaudible) scheme and provide the contractual retirement benefits to employee members.

The scheme ultimately needs to hold assets equal to technical provisions. (inaudible) funding objective is discussed at least every three years by external actuarial valuation. Technical provisions discount the retirement benefits typically in the range of gilts to gilts plus 50 basis points. This is almost always a more (owners) basis than the AA basis, which comes through the accounts under IAS 19.

Now the topic left is the technical provisions, the scheme is in (deficits) and a recovery plan must be developed. Even worse, the deficit will be viewed by the rating agencies as equivalent debt adding to financing (halts). The deficit recovery plan will typically aim to repair the deficit over the following 10 years through additional cash contribution by the sponsors.

As you can see from newspaper headlines sprinkled around the background of the slide, this is a real issue, which can act as a significant drag on the share price of sponsors. So (technical difficulty) will be keen to fix the issue and focus on their underlying business. And one public example, last October, Rathbones raised GBP38 million, or 4.6% of share capital through share placing to provide an extra cushion to (inaudible) the capital as quote to quote (inaudible), which had a GBP58 million (inaudible).

Going back towards (technical difficulty) unique shareholders relinquish 90% of their share and take GBP14 million of cash in exchange for a release in the Company's GBP433 million interest scheme liability to its members, one of the first instances where a scheme of arrangement was used to shed this kind of liability.

The scheme subsequently went into the Pension Protection Fund and a pension obligation free unique was then sold to Greencore for GBP113 million, with GBP100 million delivered to the pension trustee. The entire pension scheme was subsequently bought out for GBP835 million securing an increment (to BHS) for the pension members. (inaudible) significance. In particular, the companies involved in co-productivity , the trustees and regulators can block a deal unless pensioner interests are protected. This may again require a significant contribution.

Just to the background, as you can see from the chart, (all the loans) that IAS 19 or 18 was introduced in 1998 and natural markets and demographic trends have driven growing deficits (inaudible). Corporates have been facing a perfect storm in particular, AA bonds and Gilt yields have fallen dramatically, adding flows accounting and actuarial liabilities. This was coincided with system's increases in life expectancy. And as a result deficits have almost doubled over the past decade despite increased contribution. You can see this in the bottom left hand side.

We can see the highest sponsoring employer contribution versus shareholder dividends in the table on the bottom right. This includes a number of household names, for them the scheme can feel like (inaudible) looking at cash for a recovery contribution. Most of them really have two options, runoff or de-risk. Runoff means accepting the balance sheet volatility and (hopefully) further debt to recovery contribution if the debt should deteriorate further.

Waiting for economic and demographic trend to reverse has only made the problem worse in recent years, this has hurt a lot of companies. For these reasons, increasing numbers of sponsors are looking to de-risk their schemes. The long-term drivers and short-term catalysts are both in play for further growth in the de-risking market.

So now that I've explained the various drivers for de-risking. I want to explain how our specific product fits into the overall process on slide 7. Typically an employer will start by closing the scheme to new employees, who will instead be offered a defined contribution scheme. Then they will stop existing members from accruing further DB benefits. These two steps stop the problem from getting bigger. At some point, they are likely to work harder at asset liability management to reduce volatility and hence reduce risk, because debt just grows further. This will typically start with buying bonds for pensioner payments, reducing inflation exposure and eventually moving to a formal liability-driven investments or LDI approach.

Once they've moved to LDI they will probably soon be ready to think about the buy-in of pension repayments or the scheme is sufficiently mature at full buy-outs. Both buy-ins and buy-outs mean the scheme is no longer at risk of market fluctuations or longevity. We typically play a part in buy-in pension to payments where the pensioners are (inaudible) customers and where our ALM works best. We will sometimes write a portion of deferred but the liability is much longer and pricing is typically less attractive to trustees.

Now in the buy-ins, the scheme buys an insurance policy from us, which delivers a series of cash flows, which we guarantee, would exactly match some of its potential liabilities. But the pension remains a liability of the scheme. The buy-in policy effectively becomes an asset of the pension scheme. Tim will go into detail as to why buy-ins are presently more common than buy-outs. But potentially, the buy-in at current prices is unlikely to change the scheme's solvency position. But it does reduce risk for the trustees. Anyway, key point is that our place in the process is towards the end of the scheme's journey and if the earlier stages are underway, there is a good chance that a buy-in will follow in due course.

Now on to slide 8, now these charts show every stage of business life insurance becoming increasingly common. The top left chart shows that more and more schemes are closed for new members and future accrual for these new members. Over 85% are now closed for new. The only one potential scheme that's growing rapidly over the last five years is in the top row chart. This shows some more schemes are ready for buy-ins and this is mirrored by the actual fixed income holdings, which is rising and shown in the bottom left-hand chart.

And finally, as the last chart shows, there has been increasing volume of buy-in and buy-out transactions, which is adherent over there. In addition in 2016, there were approximately GBP9 billion of bulk purchase annuity transactions relating to in-force annuity portfolio, which used increased capital capacity, which otherwise would have been available for DB de-risking. This means total bulk purchase in each transaction reached record levels in (technical difficulty).

If we take the first three charts here, can be viewed as leading indicators for the fourth given the process the trustees go through. And which I explained on the previous slide. In other words, there is every reason to spend a lot more of come in the DB de-risking markets. We completed new ongoing, strong pipeline of potential opportunity. So now showing the momentum already in the market, I want to try and quantify the potential. If you look at this two, first chart at our Capital Markets Day in October. So won't cover over that too much. Pensions and payments were between GBP600 billion and GBP800 billion, depending on whether you considered the Section 179 liability or the LDI value. And this contains our core market potential at present.

However, as schemes mature and capital deficits, our vertical markets could eventually be the GBP2 trillion liabilities, which so far have not de-risked. The numbers are huge and to move these liabilities and corporate on to insurer balance sheet will take a generation at the current rate. And practically, we don't think that will be the case. We expect the rate of de-risking to accelerate significantly.

And these charts on the bottom of the page are the ones that I want to focus on. The first shows the rate at which this enormous potential could be achieved for the market as a whole. Hymans Robertson are forecasting a significant increase in the number of 43 to 50 companies to this scheme, which will eliminate the deficits over the next decade, putting themselves in a better position to do a full buy-not, just a pension of buy-in. Now, this isn't too surprising given this 10-year recovery objective set by the pension regulators. Hymans also estimates that the amount of pension of buy-ins could receive GBP350 billion over the next 10 years, requiring a trebling of the DB de-risking markets in 2015 levels. And this quarter's market forecast on the previous slide.

As you know, our focus is on the small DB-sized end of the markets. However, the key point to understand is that it's not the size of the scheme that matters to us, it's size of transaction that counts. Large schemes sometime choose to de-risk in small or medium sized tranches, for example, via top class or a separate pool of beneficiaries plus in relation to self-contained business units, acquired by sponsoring company in the past. Tim will explain this little bit detail using real life case study later on.

The bottom right chart shows how we got on -- the low GBP200 billion transaction sized market has developed in recent years. We are active in this darker segment. And this segment accounted for 33% premiums in 2015. The last year of which we have full industry statistics . However, it isn't (inaudible) in premium accounts only. We seek opportunity and flow of transactions. And our analysis shows that this segment accounted for 167 transactions or 94% of all transactions, which completed that year. This is quite an important point and a thing of our approach. Conversely, that's one of the reasons why we do not compete for the (inaudible) deals which given the amount of premium we write, will introduce a significant degree of uncertainty into our annual sales performance.

There are (inaudible) lumpiness we will tolerate especially given the weighting of new business profits to our Group operating earnings per share. We expect to drive the market as a whole, drive further growth in our target segments which will drive a steady stream of opportunities for us to pursue. Tim will expand on this segmentation in some detail later on.

So we expect DB de-risking markets will continue to grow significantly and the demand dynamics appear stable. Any lowering forecast involve a high degree of productivity but the overall direction of travel seems crystal clear. Adding to the mix is the emergence of a further approximately GBP100 billion life company annuity platform of transfer markets, which has created additional demand for limited de-risking capital.

In conclusion, the supply and demand dynamics of the industry are therefore likely to be capacity driven. So with that, I'll hand over to Tim to expand on how we transact in the Just way.

Tim Coulson

Thanks David. Good afternoon. I'm Tim Coulson, Director of DB Solutions of Just and Rodney recruited me in 2012 to set up the DB business. And I have been working in the DB de-risking market since 2000. I'd like to cover all things today, especially a brief summary of what Just DB business, on what will be our vision for the future. Secondly, I'd like to set out clearly our addressable market is and where we choose to compete. . Thirdly, talk about our competitive position and why this is aligned to our strengths. And finally, I'll cover what's required to win DB business and how we transact this business the Just way.

So our vision is to be the leading provider of small to medium sized DB de-risking solutions. We are (directing well in) that vision and as David said, the DB business was established and accounted by (Hart) group sales in the last of couple of calendar years. And entering the market in 2012, we first established the capability to compete and we then critically we established a track record for (asking credibility with improvement -- consultants) will be safe, as well as trustees. We've certainly developed that proposition and continues to focus on areas of the DB market, where our strengths most (inaudible). The DB-King is fully integrated post merger and benefiting from the defined experience and expertise. As you see from the chart, we completed over 100 transactions with 19 different EBCs since we entered the market. And during those, we achieved a market share of 10%. In fact, we've been the market leader in GBP20 million to GBP150 million transaction size subsegment over the last couple of years with an average transaction size of around GBP65 million. Again, note other transactions are not schemes. We are very focused on transaction size rather than scheme size. And I will now tell you what this means to our customer.

Part of this slide is readable. But does require some figures to explain. So if you look at table 1, table 1 may well be familiar to you. And the figures are directed from the Purple book. This shows a breakdown of schemes across the industry by number of members. And buy-out liability. Along with the split, pensioners, deferreds and actives. And GBP2.1 trillion in total liability figure, the figure David referred to earlier.

So table 2, based on the figures from table 1, we have estimated what the average scheme liability looks like. We have the average scheme size. But also within that we have the average for pensioners, deferred and actives. You should be aware that majority of DB transactions of the pensions are all for tranche pensions only with the minority in technically smaller schemes, made for full buy-outs of the scheme and I'll explain that in a moment.

Also keeping that it just targets transactions up to GBP250 million of size, we can then consider which of these segments are addressable budgets. So for example, in this segment with 1,000 to 4,999 members, average scheme liability is GBP439 million. However, the average pension liability is only GBP167 million. So the pensions will be clearly addressable to Just.

If we consider the pensions generally, the segments in green, in dark green are clearly addressable pensioners. Those large pensions that goes in light green would be at least partially addressable to Just depends on transaction insurance. And moving to the first, actives, Just can and it transact on slow and steady in the liability transactions. Therefore, the second scheme yellow, our addressable for Just now, those are seen for future buyer-outs. For larger deferred liabilities number then, let's say transact as a full buy-out, which is fairly rare at this size. then those would also be addressable to Just in the future, as tranches to the pensioners when they have been bought.

Type three, then simply total liability in saffron. So that's an overall imitation of addressable market. Now clearly some judgment is needed until you accept which of our schemes will transact to one or whole schemes or which will de-risk (inaudible) or additionally, how well funded the scheme on in fact, how suddenly you decide to transact. But hopefully you can see that Just has transact which we have seen in all segments of the market.

The key takeaway from this chart is that the way you are hoping in the future, today we have an addressable market well over GBP200 billion. So following on from the previous slide, I'd like to explain why the majority of transactions in the market are the buy-in in almost -- for some of the pensioners rather than the buy-out of all pensioners and the third members and that's all the one that (technical difficulty). The figure that we have on the slide is high and that's because the exact numbers depend on the specifics of the scheme. And in particular the provisions assumptions, the scheme numbers relative to ensure pricing.

And as we know in the detailed provisions scheme, the amount of scheme as the whole is to be fully funded on an ongoing basis. So considering those pension liabilities, more recently, we think a scheme to expect to secure buy-in for pensions as opposed to take provisions. Finally, the amount the corporate sponsor expects to come in line. The liabilities for pensioners are often back with gilts and bonds and so 19 are still are buy-in transaction, which will remain deficit until we paid provisions which also meets fund. However, with deferred member liabilities, this is more on us. Basically to the matching and capital requirements of ensured regulation that are pensioner scheme of course of pension scheme reports. Getting varied scheme specifics and with (inaudible) the buy-out premium for deferreds could easily be 130% or more technical provisions. And therefore, it requires sponsor contribution once beyond any deficit.

So I think you can see why de-risking of pensioners is, is more a de-risking of pensioners only I should say is more common. Then deferreds are more often secured as tranches as its (team) members retire. However, just even though you want to or need to secure deferreds as well, driven often by a corporate transaction. Also and particularly for small schemes, it may be attractive to buy-out members and more into scheme, because the average, the actual costs and the running costs generally obfuscate are formed by the employer and for technical provisions.

So for the small scheme, the present value of the running cost is very significant and saving these can enhance the extra buy-out cost of deferreds and the technical provisions. Also from an insurance perspective, deferred liabilities and buy-out are basically more difficult complex transaction to administer. And consequently, some insurers are unable or unwilling to transact the liabilities. As I said earlier, Just will not be able to see until the transactions further operates. About 10% of our transactions today have been buy-outs that contain an element of deferreds. However, we are very selective on the transactions and target. So that they fit into our business model and deliver us market (opportunities).

(If I look earlier) the pension scheme document and the de-risking tranches, I'm now going to talk you through two examples of very large GBP1 billion sized pension schemes that we have de-risked. But now they should help to mobilize those transactions. This is actually one of the schemes we transacted with the last year. The scheme had total technical provisions significantly in excess of GBP1 billion, just broadly speaking (technical difficulty). So taking into account the current actives in the scheme in the best approach, this budget now schemes to two single premium buy-in transactions covering approximately GBP200 million of potential liabilities. Third buy-in was, we're trying to cover 120 hedges covering GBP100 million of liability. We saw innovation medical underwriting to help secure this transaction. The second buy-in covered another GBP100 million and an excessive 500 pension members that Just ended for. But ultimately secured by another provider using a traditional pricing coverage. Just is defining further transactions for remaining pensions and deferreds over time.

Transaction two is a large FTSE 400 TLC we've transacted with. Again, we introduced innovation in (inaudible) which was another medically underwritten transaction for a very large scheme. Total assets of GBP2 billion, total members of which half of the patients were private. We worked the institution solution, we call trustworthy. The trustee each has partially given the pensioners by our buy-in covering 99 at the last liability members for over GBP206 million. I think the size, this is an example of where medical underwriting providing the pricing advantage that helped this transaction deliver new trustees GBP9.4 million below technical provisions. But again, we expect this gain to undertake further tranches of de-risking in the future. Given previous delivery, I think we're well placed to win additional business.

From (inaudible), as I said earlier, all (technical difficulty) small to medium sized DB de-risking solutions. You'll see from the table, we have a clear focus on where we can be and then I'll take you through the reasons why we are focused on these areas in the market. Firstly, while transacting a relatively large number of small and medium sized cases, we generate a lot of revenues with no-risk, I should say, low-risk in the industry, in the group.

Although it's lumpy than our retail GIfL business, the DB business is more reliable and more stable than the buy-in nature of large DB transactions. Secondly, the size of the transactions you are going to evolve mortgages the net charge offs. DB transactions, better matches some of our LTM business that we use to bucket compared to the approach where we market a few large DB transactions each year. In addition, while transactions cover the small number of individual life of members, the advantages of medical underwriting are greater.

You know that the large transaction market only had a handful of deals earlier. There more small and medium sized transactions, which provides us with a greater number of opportunities and so much of skill set (technical difficulty). And we've established capabilities pursuing still a large number of transactions. This is important, because this enables us to access a wider number of opportunities in the market to be more selective on the risk to life. This helps what business makes out for the targets. I don't want to sound over generalized. But it's worth saying that the smaller and medium-sized transaction like to take the deals that require a focused approach to pricing structure.

We've made, here in Just, we've made personalization part of our life. And this helps us to positively differentiate our offer. And so, before I finish on this one slide, I would like to say a word on the degree of difficulty facing the new entrants to establish themselves in this sector. It is reasonably high because the pool of people who can actually get this work done is quite small relative to the scale of the UK Life (of this scope). These are the people in balance sheet business. But operates in a highly regulated environment. Just supplemented its existing group capabilities, which included investment, pricing, reinsurance, underwriting and longevity by making external hires of experienced professionals with DB experience.

I'm now going to take you through different stages of the DB transaction. As we said, they will define each stage despite the -- they will following the following five stages. Three other opportunities, it will vary. But in a typical week of a month, we're seeing half a dozen of professional requests from EBC. These are expected to decline with the aim of maximizing the number of attractive transaction opportunities from which we target transactions that deliver our profit targets.

Moving to detailed assessment to understand the opportunity, whether the scheme can afford to (inaudible) how it aligns to our business model, for example, size, the duration, whether we can utilize our IP both underwriting. And LCS.

Initial quotation stage, this covers not only the price. But also confirming back to the advisors, the data and benefits provided. The key here is that scheme benefit is surety complex and we will be safe to ensure all quotes are like-for-like. We'd also be seeking to understand any additional scheme specific requirements that we can use to differentiate our offer.

Next stage, usually a subset of insurance, when asked to provide further than final prices. And it is during this stage, we consider that transaction against the portfolio of other potential opportunities in our pipeline. And we attend for other requirements, the trustees might have. So that we can apply our own IP and personalize the quotation offer.

For example, premium payment mechanism, ensuring the premium payment mechanism works for both us and the trustee. So the aftermarket risk is managed between realization scheme assets and premium received for example. So long term being at this stage of representation to trustees and EBCs to set off a particular solution.

Stage four, the trustees will select an insurer to work with exclusively for transaction. During the exclusivity period where we find that we spoke in our transactions terms, most are how are the points and scheme assets are moving within the technical market conditions prepared to hedge the transaction. We'll obviously work until trustee's legal advisors remain in the degree of policy terms and conditions. And now we want different legal firms used on particular policy terms and having a solution to those is particularly important to ensure the transaction completes at vicious rate.

And lastly stage five, the process is aimed at improving especially for us or the trustees. We want the trustees and their administrators to ensure that the date we closed on was correct and critically to ensure that payload is taken off on smoothly. So you can see there's quite a lot of detail here. And what I'll do, shortly show you how we do this the Just way and how we introduce innovation and use of our IP to differentiate our approach to win.

To start you on the EBC channel. The new type Pensions Act 1995 technically requires BP Pension Trustees. So called professional advisors when posting at EBC products. This means the EBC have a very powerful position that gets to all these transactions. This successful mid-market, it's very, very important to have strong relationship with all advisors. But particularly EBC's brokering deal and the legal advisors to lead on the contractual negotiations.

All the leading, double or so EBCs and the 20 or more leading pension law firms have all advised clients to transact with Just. We work in partnership with the EBCs, to deliver innovation to their clients notably medical underwriting included into hospitals. But also in the structuring of the transaction efficiently. We've also partnered a number of EBCs in developing a process to enable quicker transactions to the smaller-states. As a result of our strong relationships, we are seeing growing amount of repeat business. This is having experienced buy-out proposition including delivery, (inaudible) servicing subsequent return to us, deferred charges in (technical difficulty).

So how do you -- what unique way in this DB world. There are number of components named especially to DB business. First is price. Price is always a key consideration and firstly are under the obligation to demonstrate that paying the competitive market points. But this isn't sufficient to win DB business. Second financial strength. Just had have the strong regulatory environment from a capital and PI process expected covering all insurers. This is off beyond the trustees, however, to demonstrate good process, they may conduct due diligence on this selective insurer while using a specialist advisor versus an offshore more information provided insurer.

Transaction execution and administration. Especially what we came to understand the expertise within the DB team and the ability to execute from it and understanding of the track record of both insurer and the DB team considered and focus is around executing similar types of transactions in the past. And trust me, the decision particularly is surprisingly not around how to payroll the work. But how well we insure the new cost fee post transaction. We think this team is planning to ultimately buyout, they will also consider the policyholder experience and how they will be able to talk.

Fourthly, bespoking, the bespoke structuring. Each team particularly don't have more and more requirements that are specific to the scheme. This is around having particularly complex on hedging specifics and need to move to individual member policies ahead of completing data plans, or any -- one of the numerous possibilities. The ability to dispose the opportunity but at the corner, it's important to secure that reflection and jump out of willingness and reputation.

Next policy shows it's important that trustees have a contract that meet their needs, both now and also in the future. Of course, the contract will cover the basics around the pension payment, data cleansing. But it also have important closures that ensure the trustees discharge their liabilities in the future. So for example, even the beneficiaries to issue individual policies or restructure benefits also the events such as in floor and solvency.

And finally recommendation of advisors. After considering all this, the trustees were looked at every decision and legal advised (inaudible) the insurer. The trustees will look to the EBC to provide them with a confidence that jobs can deliver what we promised.

And to finish up, I'd like to leave you with summary of how we at Just are winning our five segments. Firstly, just rigorously focuses on the transactions in our private sector and which of our strength are best exploited. We use our medical underwriting IP and our ability to reason a high quality (technical difficulty). DP business is complex and every scheme has different requirements. Our reputation for innovation helps us support the competition. We have a rather established reputation and track record in this profit space. These notably relied on to deliver (inaudible) trustee. We are highly confident, professional and demonstrate our expertise in the solution design, execution and developing to a contracted theory.

David Richardson {BIO 18045016 <GO>}

So thank you Tim. And hopefully what we did was a certain attempt to really get into some of the detail in the DB market, very happy to get into any of the detail in process of Q&A, hopefully which are useful.

And now what I'd like to finish up with is a couple on two key enablers, which just as the Group utilizes and made significant contribution towards the first, the DB business, that's lifetime mortgages and reinsurance. I'll then provide some concluding comments and then we can open it up to Q&A.

So if we start with lifetime mortgages on slide 21. And increasingly the ability to sort of transact the classes and to lock in the associated liquidity premiums is a key factor in rising profitable annuity business and they possibly give in, say a little speech at the ADR yesterday. We have a proven ability to originate lifetime mortgages through a number of distribution channels, including directly or through third party measures, in addition to acquiring interesting books of business.

Now as I explained in our Capital Markets Day in October, combining lifetime mortgages with fixed income assets and then matching those assets against the regular flow of DB transactions is an important part of our business. And capital model. And our investment approach is very much driven by holding our obligations. We use a combination of prudent loan to value book of LTMs, a well-diversified fixed income portfolio of good credit quality and a cash flow to fund our outgoings as you see in the asset liability management chart above.

What that chart shows is that we've split out the representative skillful, liability profile in the top blue line, you can see that. And representative DB profile, which circle as the lower red line.

As you can see though, DB liabilities can have a much longer tail, simply due to the higher rate of increase in pension and payments compared to GIfLs. You can see that the longer duration of cash flows in the LTM assets are a particularly good match for the DB liability profile. So you can see how the red line. And the blue hump that coincide in the later years.

Now, the LTM market itself, just has been a pioneer in that market, it's first entry in 2004. As the market itself goes strength to strength, in the top left, you can see that in 2016, the market increased by 34% to over GBP2.1 billion. Then if you just look at the second half of 2016, about 15% higher than all of 2013 and not for all of 2014 levels. New entrants, changes in demographics and lifestyle changes in retirement are driving the markets higher. These are the growing markets as well, which means that the size is unique. Our existing direct and indirect distribution relationships built up over a decade of (constructing) business allows us to cherry pick underserved corners of the market. For example, using our IP to medically underwrite those customers with shorter life spans and thus offering higher (inaudible), will be the first offer into this new products, such as drawdown.

So let's just move on to our final topic reinsurance. And as we have explained before, it's the key enabler of our capitalized business model. We shall put this by reducing the capital spend on new business, which in turn is the return on capital and allows us to generate more profits for unit of capital than we could otherwise do without reinsurance.

Topic two, introduce (inaudible) risk margin to cover non-hedgeable insurance risk, including longevity, operational risk, et cetera. This additional buffer is over and above the one to 200-year risk capital rewards, the SCR and does not count available capital. However, it is expected to be released over time and as the backbone matures, longevity risk is the largest single contributor to Just risk margin.

Now the graph on the left hand side shows how longevity reinsurance reduces the initial new business strength on a (inaudible) basis. Both the SCR and risk margin reduced as a result of the longevity risk, which has been passed on to the reinsurer. We need to set aside the reserve future reinsurance fees. But this is much smaller than the SCR and risk margin releases. The outcome is, as we put at our Capital Markets Day, that we expected new business sold to two strengths to be mid-single digit percentage of premium fully loaded for post synergy expense levels.

In the graph on the right hand side, you can see our reinsurance range for DB. We have revised our (inaudible) for DB standard business for the 75% of the longevity risk to reinsurers. And this covered all standard DB business risks, since January 1, 2016. This is a good example of the strong relationships Just develops with reinsurers over time, in this case with our GIfL.

Just to recap briefly, why are reinsurers keen to do business with us? First on a macro level, most major reinsurers are significantly overweigh mortality business by a term insurance and other insurance quotes which pay as the consumer does. Longevity risk, with particular met underwritten longevity risk is a natural hedge to this, which is attractive to be impaired both from a risk perspective and capital efficiency. Certainly, reinsurance recognize the longevity based insurance is one of the few areas of growth in the top insurance markets and our key to access -- the trust growth markets just to operate it. And finally our IP mix is very credible counterpart.

So few concluding remarks to be covered and then we'll open up to Q&A. We believe the structural drivers of DB are in place for the specialist industry moves very much into the mainstream and the comment increasing percentage of the industry profitable. With pension freedoms, industry capital has moved to the retail to the wholesale segment, with 2016 DB premiums estimated to be GBP10 billion for 2013 levels and largely replacing the reduction in individual business.

However, our focus is not on patented sales, it's new business margins and profitability. As you've seen from our full year 2016 trading statement released on February 2, new business margins are now expected to exceed 6% and the comparable margins on both DB and GIfL, our observation is that the DB industry is maintaining its pricing discipline and rising business profit levels attract its shareholders. But also crucially at the level those attractive for the sponsoring companies. Occasional backlog consolidation can only help to support this pricing discipline by diverging industry capital to those opportunities.

Over 170 transactions in 2015, the last year for which we have been statistic and Just isn't active in the segment, which accounts for 94% of those transactions. We do not play in the very large transaction segments as we (technical difficulty) our structuring capabilities for our business model. We demonstrated our capability by writing 51 transactions in 2016, approximately 30% of the deal in our under GBP250 million segment.

After a slow start to 2016 across the industry, we were selected and actual won more business in Q3 and Q4 using the opportunity to match our warehouse LTMs from the first half of the year at very attractive economics following the EU referendum. Experiencing close relationship with the EBC and ability to deliver (inaudible) in this regard. Finally, we are holding as usual our full-year results at Numis on March 10, 2017.

And with that, we will open up to Q&A. And (Jessie) start here in the room for the line. So good luck.

Questions And Answers

Q - Unidentified Participant

There is one question, I mean the things that drives the DB de-risking market is really that handcuffs the link, the scheme to actually having some obligation to pay its pensioners. And I think we've seen recently with Capita, it's still late that goes some sort of deals through in the restructuring, where they water down those obligations. I mean, do you think that's a sign at some point in the future that government is going to silo, these obligations are just too big and a lot of sponsoring companies water down or break those handcuffs?

A - David Richardson {BIO 18045016 <GO>}

That's a very funny question, because actually the prompt for pensions released in the compensation paper earlier this week. And which is actually seeking to address some of those questions and I will let Tim comment on it in a minute. But then essentially I think, that they recognize those types of concerns that would be aired. And I things they are trying to diminish expectation of changes in that regard. But -- Tim do you want to add to that?

A - Tim Coulson

Yes, sure I mean, on the example you gave, I mean that's clearly a situation where the likelihood of achieving full benefits in members is remote and it was actually in, since the trustees -- compromise and take a lot of benefits with a higher probability of those being paid and a deal signing out for DBS.

A - David Richardson {BIO 18045016 <GO>}

This situation -- represents the broader trends.

Q - Unidentified Participant

And you talked about doing some deferreds. Can you get reinsurance from deferreds, that's first question. And you talked about current level of stream being full synergy from mid-single digits. I mean from what the same demand would appear to exceed supply? So are you seeing any signs of streams coming down? It was the final thing. Just made it -- under market, it was growing rapidly as a proportion of the total market and obviously placed in different sizes though, it seems to have stalled a little bit. Can you talk a bit about that in terms of the asset portfolio to the total?

A - David Richardson {BIO 18045016 <GO>}

Okay I'll talk on the first two and Tim, you could speak to the deferred -- the first question. So on the strength points, there is a balance there. I think about -- just trying to flow out my comments and everything we're seeing suggests that there is good pricing discipline in the market by other participants. So it's delivering what we feel are attractive profit margins and attractive return of capital to shareholders. And however -- the demand of the solution is much greater than the current available supply by insurance balance sheet. But to that extend, that environment is not skewed at price too much because ultimately the trustees don't have to transact in most cases, it will sometimes in particular merge with that transaction.

So the clearing price has to make sense relative to the technical provisions for the sponsoring scheme, which means that there is a limit, I think how far that pricing goes. So those are automatic stabilizers. And what we're seeing and will -- we'll talk more about the financials in a couple of weeks' time. But the comments we made a couple of months in October still stands which we see mid-single digit strength in lieu of expectation and it will deliver attractive returns on shareholder capital.

The question on the medical underwritten markets, a bit of context on that. That whole market was creative and innovative for what was then partnership on just retirements. And the two companies together has really developed that and scratched into a very important part of small to medium sized markets. We think the merger if they were concerned as you say, would have just hold. And what we are seeing is that's not the case and it's evolving.

And so what we're seeing now is we can offer different types of medically underwritten solutions and top-slicing are targeting the largest lives, it's very much alive as well and there are still some transactions that will go down not top-slicing. But we will still do some pre-transactional underwriting, as well as the post-transaction underwriting, where we will quote with that medical information or within the agreement that we will then go and underwrite a segment of the numbers post-transactions if we win it and then we will divide some of the savings between us and the sponsoring company. Now in 2016, the majority of our new business premium was still medically underwritten, it was around 60% and it will fluctuate from period to period. But this shows that it's still a significant component of our accomplishment. So Tim, do you want to come back to the first question?

A - Tim Coulson

So on deferreds, I think your question was about can we -- have the insurance from deferreds. But I would emphasize that we again around our selectivity around our pipeline, we very -- this confers in the deferreds that you can get a block of details, their average age 55 or it will make 60, which is very different profile, very different time slice than you say, to a 25-year old deferreds. So it's about being smart about selecting the transactions that we did.

A - David Richardson {BIO 18045016 <GO>}

I mean that's a good point. And we talked about a 170 transactions in 2015, we do not close in all of those. The process has explained where we look for what make sense to us relative to our capacity.

Q - Unidentified Participant

What's the capacity for you to transact deals, is it capital, or is it the number of deals you do or your access to lifetime mortgages and -- or just the market itself? Then secondly on the -- you mentioned you allocate capital, between the two divisions is up to really just where we are getting the highest returns you put most of the capital or is it bit more sophisticated than that? And just final question on the risk margin, kind of imagine the PRA comments yesterday, if the risk margin does disappear, is there -- (inaudible) 2016 to 2017, is not more profitable or is there -- at the end people price in for the risk margin disappearing?

A - David Richardson {BIO 18045016 <GO>}

That's a good question actually. So I will leave to Tim (inaudible) capacity limits . And I mean on capacity and especially you've listed all the consideration, you kind of answered your own question really, which is (inaudible). And we don't have a limitless amount of capital. Therefore, we can write limitless amount of business and we have a strong EBC. But we have not got the capacity to quote a 170 quotes in a year, frankly we do try to triage it to those that are most likely to win.

And lifetime mortgages, that is very strong growing market. I think there is a lot of opportunity to flex in that market. Not overnight, there is a lead time. So frankly that is a lower level constraint for example I'd say capital and the overall mix business at the group. And my capital allocation, yes, it's financially allocated to the most attractive opportunities, two key metrics that focus on our profit margin and the return on capital. This is never one metric, which is perfect, which is why we look at both of those two. Those are the two that we have to expand for a equation. And with margins, I've got a crystal ball and I think the comments in the PRA, it fits in what they said in the past, I think it's to interest rate sensitive, I think it needs to be reassessed. I don't think that's going to be scrapped. And I think their comments are well deployed. Just stepping beyond DB, it's helpful for capital management (technical difficulty) away and would translate into, if you were to reduce the risk margin with its impact pricing, possibly. Well I have said that it -- specifically that DB is a supply and demand balance there at the moment. So again no crystal ball. But I think you got a counterbalancing for us there. And again, I don't want to compare, I was necessary talking about gross margin coming down significantly both being reducing some the volatility so to say.

A - Tim Coulson

Two small quotes on the capacity please. The capacity is human capital this year and I'm really referring to the EBC facts of -- for example, take any of the big EBC thousands of thousand people working there, you've got only a handful of people doing this particular type of business and they can quickly get capacity. So there is a limit -- and that limits the number of transactions coming through. Now just clarify what something that David said, we certainly haven't got the human capital capacity to do 170 transactions a year. But we certainly got the capacity to do 170 quotations. We do a lot more quotation work and opportunity to see some natural number of transactions, if that was we feel to.

Q - Unidentified Participant

You have three questions. So the DWP yesterday seem to be able to disclose the source. And so I was about countering, more consolidation of the (inaudible) under the DB market knows wondering if that the sort of consolidation vehicles that we're talking about is a competitive for you or whether actually you're not really expecting them to get done, the sort of derisking and sort avenue if it will.

And second thing is you gave us the examples of deals in tranches or what sort of proportion of your business over the last year or two years that actually been sort of part of those tranches. But those what I'm looking for here is percentage of your business in any year which might be sort of repeat business. Then the third question is, I'm sort of being hearing that there might be new rules coming up from the PRA on lifetime mortgages from my capital around that. So any comments you've got on that?

A - David Richardson {BIO 18045016 <GO>}

Okay. I'll pick up final question, if you can handle the first two. And on the PRA's review of the LTM through the consultation paper as of that issues and that's going to process which is looking at valuation of LTMs across the industry, that is the background there. And there are -- I'm not going to predict where the PRA will go on this and I think as Tim said in the past, we look at industry benchmark of our LTM assumptions and in that we were in the top awards -- after the strongest end of the range in terms of the assumptions that we use in our Solvency II balance sheet balance sheet and SCR calculations. So I think if you go into a process like that a strong starting position. And I'm sure something I would clarify over the coming months.

A - Tim Coulson

Okay. So you asked about tranching of new business. So as I said, it will be 10% of our business, including some of the deferreds. We did three buyouts last year. So, that tells you how much was not tranched, the rest is all buy-ins and therefore our definition is not the entire scheme, it's part of the scheme. Maybe that's all pension is all part of pensioners. In terms of the repeat business, clearly we've done over 100 transactions and we've taken time to ramp that up. But the repeat transactions are approaching 10% of the transactions we've done.

Then you asked about the aggregator. Okay, it's a consultation paper at the moment. I guess, potentially it could be a competitor. But I think there are significant challenges to an aggregator coming into a formatted competitor. I mean, without getting into the huge details, the different covenants, the sponsors provide different funding levels, aligning benefits this huge complexities that put barriers to a fully functioning agricultural orbit.

Q - Unidentified Participant

David, could you just outline what your reinsurance policy is? And kind of -- is it all -- did you tick both business yourself and as you see 50% of the individual stocks?

A - David Richardson {BIO 18045016 <GO>}

Yes.

Q - Unidentified Participant

Then secondly, with regard to the reinsurance, you haven't felt for the moment, is there any that restricts in terms or is it all during the timing with the longevity of the schemes --?

A - David Richardson {BIO 18045016 <GO>}

Okay. Yes, I got you. Yes. So second is straightforward no. Its full longevity risk transfer over these higher lifetime of the reinsurance and so we don't have any kind of -- any tranches like that. In terms of how the -- this strategy and we do seek to optimize our reinsurance arrangements to file with that. Every time we do -- you get away from risks, you could tap on reinsurance arrangements to file with -- every time you get away from risk, we do tap on. This is proper reinsurance and we bounce that with the capital efficiency that gives to our return on capital.

Now as opposed to about that equation at the moment is the probably encourage you to reinsure more rather than less of longevity risk at least because not only do really you get the all expense you need to risk margin, which is that a significant component. So we do not chop and change reinsurers, we have long, deep relationships with our reinsurers. But we do have ongoing discussions with them and do less the percentage of risk that we can't bump them at over time depending on the assets that pricing and the capital efficiency over the center. And it's set on the DB here business, it made sense to increase our 75%, it gives a quite nice boost to the return on capital.

Q - Unidentified Participant

Firstly, as said it looks like 21 there. the sales the defined benefit business is somewhat faster than you had thought. I just want to think how that will take cater more towards the business over the next few years. And secondly, just look at the mortgages again, clearly from some other competitors really -- this market over the last year or two and -- actually looking to remortgage existing lifetime mortgage customers whether you're seeing much of that and what your expectations are?

A - David Richardson {BIO 18045016 <GO>}

So I'm not going to go too far on predicting what is going to be our process releases. But I think it's fair to say you should be anticipating any step change or a significant change. These divergences between the DB and the -- profile liabilities, you're talking about 20 years or so down the line. So it's a very slow and incremental impact that has on the profit margins. And in terms of LTM mortgages have more generally, I mean I'm not going to speak to other company's strategy or what the clients do in this market. But this is a very strongly growing market 34% last year. We are -- that remortgaging away. And first of all, these are all advise and processes. So I think, you need to be very with buy-ins on whether those were down en route. And they need to look at returns that are fairly in the market versus what they've got today and we start our products with approved loan to value ratios. Those loan to value ratios grow over time, typically if you can strike the accumulation rates on the LTM, higher than have price growth rates, because these are home service loans.

So what that means is, the Company may have a headline rates on its LTM for new business which is X %. It will probably cost more than X % if they were going to regrow something less and very recently, which was called us on and that XY issues. And so if you see that is worth, I think what I'm trying to say is it's a possibility. But we don't see it as a major risk and we do have early redemption fee charges which protect us and our markets as well.

Q - Unidentified Participant

So are you able to get any kind of quantification of whether you're see anything at all in back book?

A - David Richardson {BIO 18045016 <GO>}

We're not seeing anything on the back book from recent competition.

A - Tim Coulson

We've got one from the room, have you open lines yet?

A - David Richardson {BIO 18045016 <GO>}

Yes. You can always come back.

Q - Unidentified Participant

You made a comment about changing of the reinsurance improving your return on capitals. So given that your view just, I don't want to stray into the results, which we have just announced an increased expectation in terms of your new business margin, we have risky business margins. So I'm just wondering whether that has been driven by new change in the reinsurance arrangement that you've made on new business? (multiple speakers)

So basically when you bought our new business margin, we can't tell whether that's just an acceleration of the property, since the first year or whether it actually changes the overall process.

A - David Richardson {BIO 18045016 <GO>}

Yes. Deep changes will have negligible impact on the eye for our new business book. And they're really about reducing stock to see the strength. The impact of this high --.

A - Tim Coulson

Okay. No other questions in the room. Go to the line. And operator are we going to need any questions?

Operator

(Operator Instructions)

A - David Richardson {BIO 18045016 <GO>}

Okay, if there's no question on the line -- (inaudible) to ask a question.

Q - Unidentified Participant

I just have a couple questions on slides 8 of 9 actually. See the Hymans projection, I think GBP35 billion around in-between (18 and 26), the right hand side of the bottom right. Do you think there is sufficient capacity -- capital capacity at the very least and into the business from 2018 onwards? And actually I noted Tim's comments about EBC capacity. EBC is running the full capacity now also going to be like if the markets expecting to double in a couple of years time that doesn't kind of work to --? It's not a long question.

The second one just on the budgets related. On slide 9, again it was Hymans slide where the number of FTSE 350 to reach self-sufficiency. I presume that was -- I haven't seen

Hymans report, I'm guessing you the direct, did they make any projections relating to real yields or anything in there, or was that just basically on end of play whenever they cover the data?

A - David Richardson {BIO 18045016 <GO>}

I will take the first one. Tim will take the second one. And good time for question to clarify and the GBP35 billion is a kind of an average number, (multiple speakers) I don't expect Simon here today to discuss on (multiple speakers) but that's not my base case expectation. But I think what you will see is an acceleration and the industry finding ways to meet that demand, because typically that is what the insurance industry -- proper opportunity --. Your question on EBC capacity is a good one.

And just to build on Tim's comments, my observation here is that the EBCs are getting increasingly professionalized in its particular aspects of their advice. So whereas five years ago, you might have one or two partners in a company working at probably different offices, one in Manchester, one in London and it would be and -- it would happen that there were emerging opportunities. They now dedicated to de-risking teams and they can see this is a potentially interesting source of revenue for them. So that's evolving and I think will grow as the capacity grows. Tim you want to --?

A - Tim Coulson

Yes. So on the slide, the Hymans graph you referring to, yes, we did actually contact Hymans to make sure we have -- we've understood that correctly. So just to be clear, the self-sufficiency is the buyout costs, not -- that's the first thing I decide. And the one act, this is the number of schemes, obviously talking about 350 schemes. They've made some -- it's actually a pretty complex projection, frankly ever made a number of assumptions. We've taken in detail. So it's just -- certainly we clearly made assumptions about the market yields as you indicated for cost of buyout. But also that maybe assumptions such as assuming that the contribution schedule from the sponsor continues beyond DB, more DB to get to self-sufficiency obviously. And clearly they're allowing quite sensibly for deferreds retiring over time in that projection as well. Yes. So to ask -- for precise question, I don't have any answer. But that's a pretty complex projection that's done.

A - David Richardson {BIO 18045016 <GO>}

It's essentially a choice of development, only factor that will drive.

A - Tim Coulson

Okay. Any more questions in the room?

Q - Unidentified Participant

I've got one. Obviously, I don't want to say it's a blip, the pools in longevity improvement as identified in the charts anyway over the last couple of years. Has that caused any impacts on competitive pricing as people started to develop longevity pricing according to those or people taking a pretty cautious view?

A - David Richardson {BIO 18045016 <GO>}

Yes. We can't observe the input for our competitive pricing and obviously look at it the -- and also it's imperfect information. So the way these transaction work is the EBC's will not tell you, specifically will not tell you, precisely how much we have won or lost, because they're trying to encourage the dynamics and potential going forward at this transaction. However, my observation would be that we are not in any significant change in the clearing price in the market. And the margins have been -- we're getting on the deals we win are still attractive. And now the CMI tables will actually -- the new CMI tables will get published actually in a better amount of time. And whether that will start impacting pricing, we will see. But there is no sign at this stage.

A - Tim Coulson

Yes. That pretty much covered there. We are not seeing any dramatic changes in the market price. But it is very, very difficult to isolate one course for any change because you don't want to know what inputs are. But I will say it is a hot topic of conversation in the market at the moment and we'll see how it plays out.

Q - Unidentified Participant

You know what your input pricing?

A - Tim Coulson

Yes.

Q - Unidentified Participant

So have you made any changes to your pricing?

A - David Richardson {BIO 18045016 <GO>}

So I will let Tim on that.

A - Tim Coulson

Fully our capacities are on the line is understandable to that question. But it's only one of very many different (multiple speakers). I don't think that we have to decide new things.

Q - Unidentified Participant

But reinsurers would definitely adjust their pricing and you know what's happening there.

A - Tim Coulson

The way reinsurance pricing works is, it isn't real hard pricing. So we sign a agreement treaty with a reinsurer which automatically covers all treaties that we brought through and the business and that will specify what the cost of the reinsurance is going to be.

So it is not going to move up and down in real time for example to reflect factors like that. That will factor into negotiation as you review reinsurance arrangements. But again not something that just flows automatically through.

Q - Unidentified Participant

I'm hoping to renew your reinsurance.

A - David Richardson {BIO 18045016 <GO>}

We look at them very regularly and we don't have a set time because it will depend on how we feel the value for money for each treaty looks. It'll depend on discussions we are having with reinsurers on their (inaudible) which does vary over time. And so you may have a reinsurer who's trying getting into a new area. That could be quite interesting. We don't drive a change regularly.

Q - Unidentified Participant

(multiple speakers) What are the other employee benefit consultants projecting going forward because I think there has been a sort of trend amongst those who haven't been quite successful in the space to put out higher and higher projections one year, five years, 10 years ahead. So I'm just wondering whether that $350 billion over 10 years is the very highest you could find and when there's a more reasonable rate.

A - David Richardson {BIO 18045016 <GO>}

So again feel free ask Tim. The reason we chose on Hymans Robertson is because that's a very thorough report. We also use their segmentation of the market as well, you've seen that in the slides. And they probably gave the most I'd say scientific approach to a multi-year projection. We're trying to be helpful here, we don't try and hold the market over the next 12 months, you're going to be -- if you don't think (inaudible) to certain extent. But what this is trying to show is what happens over 10-year period and it is very useful in that regard. In terms of comments on whether EPC is a common act.

A - Tim Coulson

Yes, I think anything I would say really is clearly projecting the future is very difficult. But all of these things are -- their thrust is in the same direction of our growth. We are saying this is going to stagnate or whatever. So it's just a question of how quickly it's going to grow from depending on whole number of factors that could affect that.

A - David Richardson {BIO 18045016 <GO>}

Towers Watson is 30%.

Q - Unidentified Participant

That goal is optimistic 30% this year, not gradually going up?

A - Tim Coulson

(inaudible).

Q - Unidentified Participant

Can you just say how your IP helps in quoting which is not something you really mentioned all that much. And you certainly mentioned in terms of getting better reinsurance. I just wondered how IP helps in clearly the medically enhanced to medically licensing deals probably help that. Can you say a bit about that?

A - David Richardson {BIO 18045016 <GO>}

Tim can expand on the two case study that we shared, both of which involved medical underwriting. And so -- is we're looking at top -- transaction. So that is the largest lives by liabilities within the pension scheme. And those were very regularly be medically underwritten and that's something where our IP gives us, we believe a significant advantage. But also on smaller schemes or more smaller transactions by member accounts. That's why the IP can make a big difference. We would typically not on those cases underwrite every life. We might -- top 20% by five to account for 70%, 80% of the liability and will medically underwrite those. And again, if you see this better risk selection, more accurate pricing and gives us competitive edge as you're getting the right risks the right front.

A - Tim Coulson

I'd just add on the top slicing the reason (technical difficulty) the top slice is the largest liabilities. These are the people with big pensions obviously. But live in super good postcode. These are your longest lived group in society typically. And therefore, they often have the youngest spouses and so forth. Just the data. The thing is therefore the traditional pricing approach will tend to be on the side of prudency for those, because you're uncertain about the health status. However, we're underwriting them, you can -- you probably find out they are healthy. That's great. You have less risk now, because you are most certain of what -- you expected to find something you did that you're most certain of it. But if they are ill, less likely they are going to be ill or smokers or whatever it is. But if they are a significant saving program, that's the basic.

A - David Richardson {BIO 18045016 <GO>}

Again, thank you for everyone who has dialed in. Thank you for coming around here today and we will be here for another 30 minutes if you want to catch up informally.