



Andrew Moss, Group Chief Executive, Aviva

Results

Q: These are your first set of preliminary results as Chief Executive, so how would you sum them up?

A: I think they are a robust set of results in the face of some quite challenging conditions, both in terms of economic conditions, but some particular issues in our home general insurance market where we've seen the worst UK floods for 60 years. But we've come out of that with an improved EEV operating profit, we have a strong balance sheet and we're pretty confident about the outlook for the future and I think that's demonstrated by the fact that we've increased our dividend by 10%.

Q: Long-term savings are up by 25% despite the global economic uncertainty. So what, for you, were the key drivers?

A: Well, we, the management have been driving that business pretty hard and you mentioned that sales are up 25% but profits are up 35% and it's growth in profits that I'm particularly interested in. I think the demographic drivers externally continue to be very positive for our life and savings business. People do need to save more money and they are in most of the major markets in which we're operating. So, our customers are going to go on needing our products and that really underpins a good measure of confidence about the future.

Q: What about the credit crunch? Has Aviva been affected?

A: We've been affected a little bit. We have CDO holdings in Holland, and in the US, we've taken some small write-downs on those. But overall, we manage our balance sheet very conservatively so we have really minimal exposures. And actually, in the course of the year, we've reduced our exposure to equity market volatility; we sold down £3.4bn of equities. So, going forward, our shareholders are actually materially less exposed to market volatility.

US, Europe, Asia Pacific

Q: What has been driving the North America performance?

A: The acquisition of AmerUs, which is now Aviva USA, has been the big driver of very strong growth, with sales up about 39% on a like-for-like basis. Now, we've said we think we can double the size of that business, both in terms of new business sales and profits in the three years from the date of acquisition, so that's from November 2006. So frankly, we're well on the way to doing that.

I think as we look forward in the US, we should bear in mind that the main product that we sell, which is the equity-indexed annuity, provides for income for people in their retirement. So they've already accumulated savings to put into the product and so I think although we're seeing clearly some recessionary pressures in the US, there are good grounds for us still to have confidence in our growth prospects in that market.

In Canada in the general insurance business, we've seen a very solid result with a 98% combined ratio. And I'm very pleased, actually, with the stability of the earnings profile in the Canadian general insurance business.

Q: And what about Europe?

A: We set ourselves some targets in Europe that we've really outstripped in 2007. We were aiming for 10% growth in sales and new business profits in the life business and we've hit 19%, so we're really travelling well in excess of the targets that we've set ourselves.

If you look at the Northern European markets - France and the Netherlands - we've seen some returns to growth in those markets and in France, we've certainly outperformed the market.

Our Southern European businesses, in Spain and Italy, both of those have outperformed the market by some measure and I think particularly in Spain, for example, although the housing market is pretty weak right now, we've seen a big return to savings and a new pension product that we have put out into the market has been extremely successful.

Then you've got the real engine for growth, which is in Central and Eastern Europe, so our Polish business, for example, up more than 50% in 2007 and even our smaller businesses - Hungary, Romania, the Czech Republic - we're seeing growth. And the Russian business, too, is beginning to really take shape.

So the European portfolio, it's about scale, we're trying to leverage that scale, it's a business that generates capital for us. But there are some unique growth opportunities in Europe which I think we've taken advantage of in 2007. I'd hold out, I think as examples, new bancassurance deals in Spain, in Italy, and particularly, perhaps, in

Turkey, where we've teamed up with Akbank, the largest bank in Turkey, in what is an economy that's growing very fast and I think that's going to be a very exciting growth prospect for us.

Q: And Asia Pacific seems to have performed particularly well?

A: We've seen 60% growth in our overall sales in Asia Pacific and it's becoming an evermore important part of the group - about 11% now of the sales in the group come from that region.

The overall economies of that region at the moment have looked relatively unaffected by more global economic concerns. So we've seen some exceptional growth in some of our businesses. For example, our Chinese business has seen premium growing by 200%.

We are prioritising investment in that Asia Pacific business. In 2007, we went into Malaysia, we went into Taiwan. We've announced more recently entry into the South Korean market. So you're going to see Aviva investing more in that Asia Pacific business as we go forward.

UK

Q: As your home market, the UK always attracts attention, so what's been happening there?

A: In the UK Life business, we've been working hard and I think we've been achieving some really outstanding results. The profits of that business are up about 16% relative to 2007. We're working hard to maintain a market-leading position and I think in profit terms, that's unarguably the case. I think if you look at all of our products across that UK Life business, we're writing those products at a return which is well in excess of our cost of capital and that is the benefit of scale.

The other thing that we're doing in that business is frankly trying to transform it and to shake off some of the legacy issues that we've had. So of the 550 systems that we had in our UK Life business, we managed to flick the switch and turn off 104 of those in 2007 and enter into a really ground-breaking agreement with Swiss Re to outsource about 3m policies which will greatly reduce the burden and the cost of administering those policies, many of which come from many years ago.

So I'm very pleased with the progress that we're making. Overall, there's a lot of hard work going on and it's paying off.

Q: What about General Insurance? Are you disappointed with the performance there?

A: We do face some challenges in our General Insurance business in the UK and I think we should acknowledge that. Firstly in 2007, clearly we saw some particularly bad weather - about £475m of claims which generated from the January storm and the floods in the UK last summer.

Now, if you just look at the floods, we had 45,000 individual claimants and 6,000 small businesses. Now, we're in the business to help people when things go wrong - I think we've done that extremely effectively. About 99% of those claimants have now received a full or partial payment and I think my team has done a great job.

But if you look more broadly at our general insurance business in the UK, I think we do need to improve our efficiency. We need to bear down on costs in that business and we've set ourselves a target of reducing the cost base by £200m in 2008. We need to be successful in achieving that target. Then we will really reap the benefits of scale that we, as a large business, the number one business in the UK, should be reaping. So we'll be working hard on that in 2008.

The rating environment, which is the other key condition for success in that market, I think we're seeing a little bit of a turning point. We've seen motor rates go up in the last year, we've seen household rates go up in the last year and just latterly, in the last few months, we've seen commercial rates bottom out and start to see some increases. That's very important to our profitability - that commercial book is a very large contributor to profits in the UK.

So the next six months, I think, can still hold some uncertainties, but I think there are grounds for optimism.

Q: But hasn't the General Insurance result been considerably helped by the inclusion of reserve releases?

A: Profits emerging from prior years are a very positive development for general insurance businesses and we run our business very conservatively. You are always going to see some profits coming through from prior years where we've put up reserves which have proved to be more than we actually needed when it came to settling final claims.

In particular, in the UK, in Ireland and in the Netherlands in 2007, we've seen the final settlement costs of bodily injury claims somewhat less than we expected, particularly for years 2004-2005. Now, as I say, that's a positive development. Those are real profits coming through in cash terms for our shareholders and it's something I think we should be pleased about. We will go on managing our business in a conservative way and I would expect those sorts of profits to continue to emerge, albeit perhaps not in quite the same quantum that we've seen in 2007.

Aviva Investors

Q: You've just announced Aviva Investors. What is it and why is it going to make such a difference?

A: The first thing to say is, when you look at Aviva, we run a composite business model. We have life, asset management and general insurance and we passionately believe that that mix, that composite model, is a great strength for our shareholders and actually, that's been demonstrated, I think, in spades in 2007 where the Life business has performed so well while the General Insurance business perhaps has performed more weakly.

But the asset management side of our business is a hugely important business for us. Investment performance is one of the things that we sell to our customers. Now historically, we've had a dozen asset management businesses around the globe working pretty separately, not talking to each other very much, and under my "One Aviva, twice the value" theme, it is very important to me that we manage that in a more globally integrated way and that's exactly what we're going to do with this move to Aviva Investors.

We have a new team led by Alain Dromer who headed the HSBC Global Investment business for six years before he joined us in September of last year. A new strategy has been formulated, and we've brought together now some of the very successful businesses that we have around the globe and to name one, for example, our French asset management company, Aviva Gestion d'Actifs which has consistently been rated extremely highly in the French market over the last five years or so.

To give you an example of the opportunity, we have there a great asset management capability in France. We have never sold that in terms of products that, for example, a UK investor can buy through Aviva and perhaps through a SICAV, for example, based in Luxembourg, to give them access to that great asset management capability that we have in that particular local market. So that's one of the things we'll do. The other thing we'll do I think is to say, "okay, which activities can you actually manage globally, in an integrated way?" - and I think index activities certainly come to mind in that regard. But, at the same time, keep all of the virtues of the real, local knowledge that we have in a particular market that drives what's known as the alpha returns in equity markets across the piece.

So I'm really excited about it as a development. We'll be working hard on implementing it in the course of the next six months and there'll be a more formal launch of it in September when certainly the benefit of new products will come through and be more evident.

Q: So you see Aviva Investors delivering synergies, greater growth, greater profitability?

A: Greater profitability, of course, is the name of the game and I do think that by harnessing the power of the businesses that we already have in a more integrated way, that's where we'll get to.

Norwich Union Life potential reattribution

Q: If I could turn to your potential reattribution. You've recently made an offer to the Policyholder Advocate, so if you could tell me what's happening there?

A: What you're talking about is the reattribution of the inherited estate in two of our with profits funds in the UK. We have pursued this project now for a couple of years. We've led the industry, in fact, in making a decision to try and reattribute the orphan estate.

The most recent developments I think are that we've announced a distribution from those two funds and that distribution is first of all, £2.1bn that goes to policyholders but also £230m that comes to shareholders. That's split on a 90/10 basis and actually, if all we were to achieve to shareholders was that £230m of profit flowing through, it probably would make the project as a whole attractive. But, that is not all that we're trying to achieve. The next step, and probably the most important step, is actually pursuing the reattribution. We've made a third offer to the Policyholder Advocate which we believe represents a fair outcome for shareholders and policyholders and that policyholders would receive what's known as a 'policyholder incentive payment' that would more than adequately repay them for giving up rights to receiving profits in the future.

Now, that's a negotiation we're in. We hope the Policyholder Advocate will come back in the next few weeks. It's very important to us now that this is brought to a close quickly. We've been at it for two years, it's an expensive process and it does divert the attention of my management in the UK away from plenty of other things that are important. I'm hopeful that we'll still reach an agreement but we'll only do that if we believe that the outcome is fair for both policyholders and shareholders.

Q: Can you tell me the detail of that new offer?

A: No, I can't, that's a private matter and that's the way it will stay. At some point it may become more public but right now it's entirely appropriate that we're communicating that only with the Policyholder Advocate.

Outlook

Q: You have announced a new group target for growth - could you tell me about that?

A: Absolutely. We have a number of targets that we've already announced to the market but we judged it to be the right time to add an overall target with a timeframe attached around IFRS earnings, which drive dividend growth. So what we've announced is that we aim to double IFRS total earnings per share by 2012 at the latest. But I think it's important in as much as I think it gives us now the right balance in the targets that we have. We still have targets on growth in sales, growth in embedded value operating profit. But I think a focus, a stronger focus, on capital and cash generation which the IFRS earnings, I think, better represent, gives us now the right balance for our management teams to drive this business forward.

Q: It's been six months since you announced the "One Aviva, twice the value" strategy, so could you sum up where you've got to so far and what's to come?

A: I think we've made a lot of progress but there is a lot still to come. Some of this change takes a little while to work through the organisation. A great example that we're announcing today is the Aviva Investors approach. I can't think of a better example of the "One Aviva, twice the value" vision. It's bringing businesses together, it's generating further profit in the future.

We've done some things that have gone rather unseen, I think, by the wider market. We've appointed a new Chief Information Officer for the group, a new Chief Marketing Officer, a new Chief Risk Officer. These are important appointments which signal a more centralised approach to the management of some key issues across the group. I think in terms of risk management, for example, the decision we made to sell down some equities in 2007 very much came out of the group centre and then was implemented across the group. I think that was a great example of One Aviva in action.

Q: How do you see the outlook for 2008?

A: I actually think it's pretty good. Yes, there are uncertainties around in terms of the economic outlook but when I look at the businesses that we have, fundamentally, I think our markets remain attractive. Our customers are going to go on needing the products that we sell, people are still going to have to buy motor insurance policies, they're still going to insure their houses. And on the savings side of the business, actually recessionary times have a habit of making people think about their financial circumstances. I think we're going to see debt being repaid and we're going to see saving in a number of those markets probably increase as people feel less comfortable with the economic outlook.

In some of our markets, particularly the US for example, where probably recessionary conditions look worse than anywhere else right now, the particular products that we sell give us protection. The equity indexed annuity product there provides income in retirement. So the people that we're selling to have already accumulated savings and they're looking for a way to give themselves protected income in retirement. That's a product that gives you downside protection against equity market volatility. It was a product that grew very strongly in the years 2001 to 2003 when equity markets are falling. Well, equity markets are falling right now and I think there is a concern in our customer base about that sort of issue.

So we feel good about prospects in 2008. We've set some targets, we're absolutely prepared to stick to those targets and we're going to drive forward hard in this business to make sure that we deliver against them.