

2016 half year results interview with Group CEO Mark Wilson

Date: 04 August

00:07 - Financial Highlights

The last six months has been a period of absolutely unprecedented uncertainty. Now, I've always believed that in times of uncertainty, the best antidote to uncertainty is simply the facts and the facts of our results are quite compelling. We've had operating profit up 13% to £1.3 billion. We've had capital generation at £1.2 billion. That of course flows through to dividend and dividend is up 10%. Over the last 3 years, we've actually increased dividend a total of 32%, whilst at the same time, we've increased operating profit by 30%. And also, when you look at dividend, it's important to consider that we announced a few weeks ago that we are aiming for a 50% payout ratio for our dividend. And think about the last six months, we've had floods in the UK, we've had floods and bad weather in France that have impacted our customers there and the terrible fires in Fort McMurray, in Canada – probably the worst fires in Canada's history. We were there right through those periods, we were with our customers the whole way, and do you know what, that's where we really make a difference in our 33 million customers' lives.

01:28 – Our UK businesses

So following the UK referendum on Brexit, there's been a lot of talk about what we think of the U.K as a market. Well let me be very clear, we're investing in the UK, we see growth in the UK, we like the UK. Our brand has a unique position, we structurally are in a unique position as we are a composite insurer and we need to use these structural advantages. So what about the last six months, what have we seen? Let's look at our biggest business, the U.K. Life business. Now the headline number of course is that operating profit is up 26%. Now it's important to get a little bit of balance here, because that number is flattered somewhat by having an extra quarter of the Friends Life numbers in there but if you strip that out that business has grown by mid single digits and in this sort of environment having that steady, consistent growth, that's really what we're striving for. So, in general insurance we really have seen quite a marked turnaround which is the culmination, I guess of a few years of work. What we've seen is net written premiums up 8% and it's been many years since we've seen some real growth in that business and there's a number of reasons for that. Firstly, we've got some excellent new partnerships with TSB and Homeserve and we've started to see them come online. You've got the digital business that's now making a real impact and growing our business there as well.

02:59 – Funds management

And what about funds management? You've seen operating profit up 48% to £49 million. That trend is going in the right direction but of course we expect much more from that business and this is really a key part of our future. AIMS, of course is our flagship product and every asset manager needs a flagship range of products to be successful. We've seen the AIMS funds under management more than double over the period. Another key part of our strategy is of course our platforms. The net funds flow there is up 23% and now the total assets under management on our platform there is £10.3 billion. Again, we have the client base, we have the performance and now were starting to get the fund flows and I would like to see that continue through to the second half.

03:54 – Our international businesses

Now a lot of people when they think about Aviva of course, they think the UK and that is our home market and it's an important critical market to us. But of course, it's easy to forget that in fact over 40% of our earnings come from our international businesses. 40% and growing I might add. Now what's our performance been like internationally? Well it's been mixed for a number of reasons. You've seen some excellent performances from Ireland where we've seen some really strong growth. You've seen some of our turnaround business like Italy putting in another good performance, that's almost becoming a good trend there. You've seen Asia increase as well, flattered a bit by the Friends Life transaction on that one but still performing pretty well. I think Asia is ripe for disruption and the distribution deal we announced there, they've got 250 high quality advisers on board from a competitor. That replaces the lost income from DBS at a fraction of the cost. Canada on the downside was hit by those fires which I think is entirely understandable but do you know what, this is one of the benefits of having the diversity of a group like Aviva.

05:07 - Digital

I've been on record several times before saying I think the financial services industry globally is in the Stone Age when it comes to digital. I think Aviva's now invented the wheel. We've got fire. We've invented some of the tools we need. We've got probably most of the tools we need now and I think for the last six months is really the first time we've been able to show significant progress in this area. Now, the operating profit is actually meaningful, it's £111 million for the first half. The other leading indicator of course is the MyAviva registrations and we've seen that number increased in the first six months and by the end of this year we will also have in the UK, all of our customer systems talking to each other. When we sell to existing customers through our digital platform, our cost advantage is in fact 30% lower than what we believe our competitors can do selling to a new customer. So the customer wins and Aviva and its shareholders win. We've got the client base, we've got the brand, we've got the people, we've got the technology, we have the systems, now let's see what we can build.

06:20 - Balance Sheet Strength

Well I'm pleased to say that over the last couple of good years in the market, we've fixed the roof while the sun was shining and I think Aviva today is in a fundamentally different position with its balance sheet than what it was just a few years ago. Our Solvency II position is in fact at 174%. That's right near the top of our range of between 150% and 180%. A lot of financial stocks including us have been hit pretty hard by the market fear or the market perception that all financial stocks must be sensitive to interest rates. We've deliberately structured our business so that we aren't very sensitive to interest rates. We don't have the guarantees, particularly here in our UK business, we don't have high guarantees, we don't have the sorts of products that are impacted by interest rates and we have structured our balance sheets so it's extraordinarily well matched and we have done that deliberately. We have made our balance sheet resilient to market shocks, to equity market movements, to interest rate movements and we just don't have the sort of sensitivity you'd normally see in a financial services firm. That's a deliberate strategy and in this sort of market, in this sort of time, it is certainly paying good dividends for us.

07:38 - Brexit

A lot of investors and people and staff and stakeholders, all they have been talking about for months is Brexit. The fact is we have been living with the uncertainty of Brexit for the last 12 months. Brexit does not impact us operationally. We are not like many other industries. We have separate subsidiaries with separate regulations in every market we operate in. It's no easier for us to do business in France than it is in Singapore or China, so that doesn't impact us. In terms of our growth aspirations, we believe over the medium term Aviva can get mid-single digit growth year after year after year. Now I am sure there will be some short term economic impacts, particularly here in the UK. But even there we see that we can still get growth and that is what we are planning for. Now it does mean of course that we are going to tighten our belts and we are going to be pragmatic on this and so we are going to do that throughout this year and going forward in the future years as well. Make no mistake our destiny is entirely within our own hands.

08:39 - Expenses

So what about costs and expenses? Well, the underlying expenses, there's a fair bit of noise in it through new government taxes and levies, but if you strip all that out the underlying expenses were flat. Frankly I don't think that's good enough, and there's a lot of ups and downs on that. On the positive side we have started to see the benefits of the Friends Life transaction coming through. In the post-Brexit world we also have to be very pragmatic and we can use the Brexit environment very much as a way of looking closely at our business, looking at the expenses we have. I see Aviva going forward very much as a low cost producer. In some of our markets and some of our segments we really have a major cost advantage. But I think we can do that much more across the board and I do want to move to Aviva being a low cost producer. As we do that we have a lot of work to

do. We have a lot of systems work, we've got a lot of work to improve the efficiency of our processes. But you know what, our people are good at that. We are seeing the benefits flow through. It's one of the reasons why all the headwinds we faced in the first half didn't impact us as much as it perhaps impacted others. And this is something we'll have a continued focus on going forwards.

09:55 - Outlook

So what's the outlook both for the rest of the year and moving forward. We have a position where we are continuing to get growth. A number of our strategic initiatives such as digital and asset management and our initiatives outside the UK are starting to bear fruit. We've got some extraordinary franchises around the world from the UK to Canada to France to Singapore to Ireland to Poland. And I believe as a Group our role is a simple one. I want us to deliver results and growth year after year. We need to watch our expenses. We need to focus on capital generation. We need to focus on operating profit and you know that then flows through to a consistently improving dividend year after year. I want Aviva to be as predictable as a Swiss clock and I want us to continue to deliver.