

Wednesday, 30 April 2014

AVIVA ANNUAL GENERAL MEETING

The Queen Elizabeth II Conference Centre
Broad Sanctuary
Westminster
London
SW1P 3EE

Well, thank you chairman. Good morning everyone and thank you all for coming. I appreciate the extra effort it must have taken getting here despite the tube strike.

Now, I was out with my executive colleagues earlier in the morning having tea with a number of you that arrived earlier this morning, and one of our long-term shareholders came up to me and he said, "Mark, what a difference a year makes." Now, I don't think he was just talking about this venue and I was thinking we know very well what he meant. I remember very well the challenging background to my first Aviva AGM last year and their £3 billion loss. A business and share price that had been under-performing in the sector for quite a number of years and of course a few years prior to the AGM we had cut the dividend. It was indeed, I think, a delightful way to be introduced to you all.

But today I think we are in a far better, far more satisfactory position. Still a long way short of where I believe this business should be, but -- and where I want to take it, certainly -- but in a better position nevertheless. Instead of a £3 billion loss we have a £2.2 billion profit. Our share price is up over 70 per cent to the share price at this day at last year's AGM. In fact, over the last twelve months since the AGM Aviva has been one of the

top-performing insurance stocks globally.

But let's not get carried away, I'm certainly not; we are, after all, starting from a very low base.

But Aviva is moving in the right direction largely because of the strength and potential of our underlying franchises, or underlying insurance franchises; I believe we're up there with the best on those.

I want to set out today our results over the last twelve months and how we intend to sustain and build on this progress going forward.

Now, my job as your CEO is to deliver for our customers, our staff and of course for you, our shareholders. To ensure that our turnaround is enduring and sustainable. To build on this remarkable 300-year history and heritage that we have in this business, and it is quite a heritage, isn't it? Now, we meet here in this auditorium, in this shadow of Big Ben, the most familiar British landmark, a central icon of our national story; but compared to Aviva, Big Ben is very much an infant in terms of age. You may not know that this business was supporting its customers through tough times 150 years before the chimes of Big Ben first rang out in 1859. We were in business in fact a whole generation before Isaac Newton (incidentally himself a customer of ours) was buried across the road over here in Westminster Abbey in 1727.

Now, with this extraordinary history comes an equally extraordinary I think expertise in insurance, an experience and a responsibility to do the right thing. The history of Aviva is rich and it's important to what the company is today and this history, I believe, should be celebrated not

denigrated as this business is as relevant now as it was several hundred years ago.

Now, if you'll indulge me just for a moment I'd like to read you a short excerpt from something written by a loyal and long-standing customer of ours. He says: "If I had my way I would write the word 'insure' over the door of every cottage and upon the blotting book of every public man." He goes on to say, "I am convinced for sacrifices so small, families and estates can be protected against catastrophes which would otherwise smash them up for ever."

Now, that was written -- that was written in 1909 by the same individual after whom this auditorium was named: one Winston Churchill.

You know, recently the spotlight, it fell again on our responsibility to help families and businesses during the period of some of the worst weather conditions we've seen in a century, both here in the UK and in Canada as well. I visited the flood zones myself. I went to Somerset, I went to Gloucester. Standing in people's kitchens, in my wellies, in some cases with water halfway up to my knees. I saw and heard how people's lives had been turned upside down, how they had lost their dream home to the rising water. It was tragedies. Now, these are the moments of truth for our business, it's in these sort of moments that we deliver or not.

Now, over this period our customer contact centre was open 24 hours a day, seven days a week for the six weeks over the Christmas period and throughout January to ensure we delivered, and in this case we did. I think our front-line people in particular were quite exceptional over this period

and in this case we lived up to our purpose of freeing people from their fear of uncertainty, allowing them to get on with rebuilding their homes and lives when bad things like the floods happened. That is fundamentally what we're here to do, that's our purpose.

But ladies and gentlemen, shareholders, we can only do this and deliver the returns that you have every right to expect if we have a strong business underpinned by the right value set. Because turning around a business of such a scale and history and heritage presents some very real challenges. It needs the right leadership team, it needs a clear strategy and it needs a relentless focus on identifying and fixing the problems that are holding us back, and we have a number of those. Now, in terms of the leadership team I've been putting in place the right people. Make no mistake - you can't have long-term transformation in a business like Aviva without changing some of the core team. That includes bringing in some new people as well as promoting talented, internal people, promoting them internally; it also involves letting others go...

Now our strategy for our investors is also clear: an investment thesis of cash flow plus growth. We have been busy fixing the problems holding us back that I identified in our AGM twelve months ago: poor cash flows, balance sheet weakness, business complexity and a cost base that was simply too high.

Now, cash was our first focus. Insurance is fundamentally a cash business. Cash flow brings clarity, cash flow brings certainty. It's out of the cash remitted to the group centre that we can pay down debt, that we can

invest in growing businesses and also that we can pay your dividends. So we have been unblocking Aviva's cash flow channels by simplifying our business structures and eliminating these cash flow traps.

Now, the result is that cash flow was up 40 per cent to just under £1.3 billion. That's an increase in the remittance ratio up to the group from 49 to 72 per cent. Now, that's still lower than our medium term target of over 80 per cent but nevertheless it's pretty good momentum.

Second, I set out our determination to resolve the issues of our financial position and balance sheet and the problematic inter-company loan. As the chairman said, our group's economic capital surplus at the end of the year was £8.3 billion, more than double what it was just two years ago. Progress on reducing the problematic inter-company loan, this, I admit, has been much faster than we anticipated; it is down £1.7 billion to 4.1 billion and we have plans to reduce that further to 2.2 billion by the end of 2015.

Now, why is this important? Well, the shareholders and us had very real concerns not just about size of the loan but on the potential drain on our cash flow in reducing it. Our plans that include a lot of non-cash items now end this uncertainty and take this major issue off the table.

Now third, I said we would continue to refocus the business where we had scale, where we had real growth prospects and only where we had a distinct competitive advantage. Now, that's exactly what we've been doing. The sale of our US business that was soaking up a huge amount of capital was completed in October. In fact, since I started at Aviva we've

sold businesses in Russia, Malaysia, Romania, the Netherlands, South Korea and a small asset management business in the US. In addition we have restructured our businesses in Spain and Italy to try and simplify the group and reduce the capital committed to these markets.

I view capital allocation, the allocation of capital at Aviva, as a competitive sport. Capital will only be allocated to those businesses that are aligned with our strategy. It will only be allocated to those businesses that have the strongest financial outcomes and only be allocated to those businesses that show execution and capability in their plans and quite simply capital will be removed from those who do not.

The fourth thing we focused on, we set out our plans to reduce our costs by £400 million by the end of 2014, that's by the end of this year. Now obviously we've achieved this target already so we are ahead of this target on expense savings and ahead of plan and our challenge now is to reduce our cost income ratio year after year after year. If it's a growth business they need to be reducing it, if it's a mature business they need to be reducing it. That's the business reality of life.

Now this has also meant an uncertain time for our employees as we have reduced our staffing levels. Frankly, this was reflected in our lower employee engagement scores in 2013 and I have made it a top priority over the last six months of myself and my team to improve the engagement scores and the morale of our people.

The clarity of our strategy and values, and I would suggest perhaps also our results, now are having a positive impact. In fact just this week we

have just got back the interim results from our most recent staff engagement survey and there has been an average improvement of around 8 per cent. Sure it's some progress but we still have a way to go on this measure.

So we are delivering on our restructuring disposal programme. But let me be very clear: I don't want Aviva to be known solely for cost savings and disposals, we are also re-allocating capital and investing in new opportunities, in particular digital and automation. In addition we have made some strategic investments in geographies and businesses only where it makes sense. Our recent investment in Indonesia with Astra Group, which is incidentally Indonesia's largest conglomerate, fits well into this category as does our recent investment into a bank assurance relationship in Poland.

Finally, I promised to focus efforts on our turnaround businesses of Italy, Spain, Ireland and Aviva investors. All of these turnaround businesses are now remitting cash and dividends up to the group. In some cases, such as Ireland, this is the first time for three years – for five years, actually -- and others such as Italy it's the first time for three years. But there is still a huge amount to do, a huge amount required to get these turnaround businesses into shape.

Ladies and gentlemen, as we fix our financial issues questions will inevitably be asked about our ability to achieve growth. I think we've only just started to answer these questions. Nevertheless, the value of new business, a key growth focus area for us moving forward, increased by

13 per cent last year to £835 million. Our future cash generators of Poland, Turkey, China and the rest of south-east Asia delivered strong results growing 49 per cent. Asia was a particular standout growing 65 per cent and that business is starting to become meaningful.

But I also emphasised last year that I saw plenty of potential for growth in the so-called developed or mature markets, and the 39 per cent growth in value of new business in France I think demonstrates this point well.

But long-term success also depends, as I mentioned earlier, on a business that is underpinned by a very clear and simple value set.

You know, my first months -- my first six months last year -- they were devoted almost entirely to corporate finance issues, the structural balance sheet problems and issues that we had. These were the burning things that we had to address. But now as we tick these issues off my team and I have turned our attention to the strategic, the people and the cultural issues impacting the business.

I believe to achieve a lasting turnaround we need to be very clear about these values. It's consistency with this value set that determines if someone can be a leader in this organisation or not. It's this value set along with the right skill set, of course, that determines who we fire, who we promote and who we let go.

So what are our values? They are: create legacy, care more, never rest and kill complexity. There's just four. They're designed to be edgy, they're designed to be thought-provoking, they're designed to be the

framework on which we make decisions; they are not designed to be posted on a wall, to be superficial window-dressing or to be used as clever advertising slogans, they're not designed for that. Create legacy or, as I call it, being a good ancestor, means ensuring every decision we make is for the long-term benefit of the business. "Care more" means caring like crazy for customers, for staff and of course our shareholders. And "kill complexity" is quite simple: complexity is our enemy in our business. We've simplified our investment proposition and structure but frankly we have a long way to go to live up to that value. The fourth value is "never rest" - I think we've got that one sorted. I want everyone at Aviva to be dissatisfied with the status quo, to always be looking for improvements, to view our very best as not quite being good enough. You see, the problem with a turnaround is that people get tempted to declare victory early. That's not going to happen here because I believe there is zero room for complacency at Aviva. Now, whilst it would be somewhat churlish of me not to acknowledge some very satisfactory progress, I want to focus as much internally on the issues as well as the successes and in a business turnaround, just like in life, it is never linear - we will have some bad days; we'll have some bad quarters. There will be unexpected developments which threaten to knock us off course to which we must adapt, and there are a number of uncertainties on the horizon. Our industry faces a Tsunami of global regulation, and we're planning for this new regulation environment and making some pretty good progress but we do need a period of stability. After all, you cannot build a business on shifting sands.

Although I welcome, for example, the progress on Solvency II -- there's some very good progress -- the final details are still to be ironed out. In addition, as the chairman said, we are being designated a "globally systemic important insurer"; it's quite a mouthful, one of the nine global insurers. Closer to home here in the UK we've seen major changes in the annuity market.

Now, to be clear I agree with the principles of the changes in annuities and the flexibility they bring to our customers, and we need to adapt to this new landscape. I also see a lot of opportunities too for a company like Aviva, opportunities to use our brand, to use our expertise, to use our distribution power, to take advantage of this new regulation. To bring new products to market, particularly in the fund management space. We also have the current geopolitical tensions in the east of Europe, they add another layer of uncertainty that we must plan for. But I think thanks to the disposals we have already made we don't have businesses that are currently directly impacted by that uncertainty.

Now, whilst any or all of these changes could have an impact on a business like ours, Aviva is quite unique as an insurance company in the UK that it benefits from being a large, diversified competent insurer. Our strength rests on providing multiple products across life insurance, general insurance and asset management and across a number of geographies that give us some good diversification. We are a composite insurer, I believe, that is well-positioned also for the changes of the digital age and it's an area that we are actively pursuing.

Ladies and gentlemen, to summarise, have we made some progress this year? Yes, sure we have. Indeed, I guess there have been a few occasions when we have surprised the market on the upside and particularly in 2013 and the beginning of this year, and this has of course been reflected in our share price. But I need to be equally clear that as your Chief Executive I do not and should not judge our performance over just this last year but also years into the future. Aviva is a long-term industry, insurance is a long-term industry and us at Aviva we are very much a long-term business.

Now, over the past year I have been grateful for the engagement and very robust debate from my colleagues on the Board and of course the wise counsel of the chairman. I've also enjoyed immensely the discussion and dialogue and feedback I've had with many of you who are in the room today. I said a year ago that if patience were a virtue, Aviva's shareholders were well on their way to becoming saints. I hope this year, with the significant increase in shareholder returns, over 70 per cent; we have begun to reward your patience. We have come a long way but there is certainly a great deal more to tick off my very long to do list.

So, ladies and gentlemen, fellow shareholders, I thank you for listening and I thank you sincerely for your support.