Phoenix

Capital Markets Event 2022 transcript

Strategic Overview

Andy Briggs, Group Chief Executive Officer - Phoenix Group

Thank you, and good morning everybody and welcome to Phoenix Group's 2022 Capital Markets Event. I have to say post COVID I still get a buzz seeing a big group of familiar faces all together, so thanks very much indeed for joining us in person today.

Phoenix is the UK's largest long-term savings and retirement business. With 13m customers and £270bn of assets under administration which gives us scale businesses across the markets we play in. We offer a compelling equity story, through the delivery of our clear financial framework, that creates shareholder value.

Starting with cash. We deliver high levels of predictable cash from our existing in-force business. Not many companies can talk of an 8.5% dividend yield that is covered by today's in-force business for over 20 years, even if we don't do any new business or any further M&A.

We're also uniquely resilient. In turbulent markets, investors often worry about insurer's balance sheets. With Phoenix, you don't need to worry. With our comprehensive hedging approach ensuring that both our cash generation and capital position are highly resilient. A key differentiator compared to peers. And that attractive, resilient dividend is now growing both organically and through M&A.

So how are we performing this year? I'm sure many of you will have seen the trading update we published this morning, which reaffirmed another year of strong delivery in 2022. We remain on track to deliver at the top end of our cash generation target range of £1.3bn to £1.4bn for the year. And confirmed that we have remained as resilient as ever, with the impact of the recent change in economic conditions on our Solvency II capital position limited. And broadly in line with our published sensitivities, as you would expect from Phoenix.

And finally, growth. Where I'm delighted to report another year of strong, organic growth in 2022, delivering around £1.2bn of incremental new business, long-term cash generation. With strong contributions from both our Retirement Solutions and Pensions and Savings businesses. And this is on top of the cash funded acquisition of Sun Life of Canada UK that we announced back in August, which supports a 2.5% inorganic dividend increase and is expected to complete in the next couple of months.

We've long been known as the market leader in both running in-force business and in executing value accretive M&A, both of which remain central to our strategy. And we are leveraging the core capabilities that underpin that market leadership to build market-leading organic growth businesses through Standard Life.

So I'm delighted to be presenting here today with Andy Curran who is the CEO of our Standard Life business. Tom Ground who is the Managing Director of our Retirement Solutions business. And Colin Williams who's Managing Director of our Pensions and Savings business. Each of whom will deep dive into our strategy for delivering sustainable organic growth.

So today's presentation is structured to deliver five key messages. Phoenix is a purpose led business and we are helping people secure a life of possibilities through our clear and differentiated strategy. We have significant growth opportunities available to us, both through meeting more of the evolving needs of our existing customers on their journey to and through retirement. And by acquiring new customers, both organically and through M&A.

The scale of our in-force business provides Phoenix with three key competitive advantages which are capital efficiency, customer access and cost efficiency. All of which we can leverage and support our future growth.

And since joining as CEO in 2020, we've been investing to build our capabilities to win in our chosen markets. As a result we are now confident of growing incremental new business long term cash generation from the £1.2bn we reported in 2022 to around £1.5bn per annum by 2025. A 25% increase in just three years. This level of growth will support us in delivering a dividend that is not only resilient and sustainable, but will grow over time.

So turning now to my strategic overview. The UK long-term savings and retirement market is huge with an estimated £3tn of stocks across the markets we operate in. And it's growing strongly, with around £150bn to £200bn of annual flows that we can access. But from a customer perspective it should be even bigger because the UK has a savings crisis. Customers have a massive need for better support in planning for retirement as the stats on this slide illustrate.

Today only around 10% of customers are taking advice on their journey to and through retirement. With 90% not getting the support they need and most likely to turn to their existing provider. With only 14% of defined contribution savers on track for retirement income that maintains their current standard of living, there is a clear need for more support and solutions.

It's also clear that when people do retire, most are looking for income certainty which as an insurance company we're well placed to provide.

This is a massive social need, to help customers. For me I can't think of a better reason to get out of bed in the morning and come to work than to lead the organisation that plays the leading role in solving this.

Because at Phoenix our core social purpose of helping people secure a life of possibilities drives all that we do. This means having the best people who are highly engaged in an inclusive and diverse environment. Who are customer obsessed and focused on delivering the outcomes that matter to customers. While fulfilling our wider role in society and delivering better outcomes for all our stakeholders, with sustainability embedded throughout. Because by doing this we also deliver strongly for investors. Yes, it's a massive societal need, it's also a huge commercial opportunity, our virtuous circle here.

Our purpose is broad and ensures that we focus on helping more people on their journey to and through retirement. And I believe we're the only organisation in our sector doing this at scale in the UK without the distraction of other business lines. This is all that we do.

So if delivering our purpose is all about helping customers journey to and through retirement, then our starting point is customer's needs. This chart illustrates a typical customer's lifecycle showing the long-term savings and retirement products they will need as they accumulate wealth through the savings phase, and then transition through to securing an income in retirement.

Phoenix is a leading market participant in many of these markets today, but we do not currently support customers equally well across all stages of the savings lifecycle. Now you all know what it's like when you change financial provider, it can be a real pain. Our existing customers often have to seek out other product providers to fill out the gaps particular in retail savings, pension consolidation and draw down markets, where when we offer good, strong, good value for money propositions it will be very easy as a decision for them to stay with us. These are the capabilities we've been investing and building, and which Tom and Colin will talk to you about later.

But the key message here is that this market is unique because the growth comes from existing customers by meeting more of their evolving needs as they journey through their lifecycle. So with one in five UK adults as Phoenix customers this is a huge growth opportunity for us.

Our strategy drives growth by meeting more of the evolving needs of our existing customers and it is clear and simple. We are the experts in optimising a scale in-force business for cash and resilience. And we grow both organically and through M&A. Our in-force business is the £270bn of assets that we look after for our 13m existing customers. This is highly cash generative and provide surplus cash that we can reinvest into growth.

Organic growth comes from meeting more of our existing customers' needs as they save for, transition to, and secure an income in retirement. And we will also acquire new customers who we can then help through their lifecycles.

We have attractive M&A growth opportunities too, where we acquire new customers at scale and deliver better outcomes for them. And in the process, we transform the acquired businesses to deliver significant cost and capital synergies.

What's particularly attractive about our business model is that the whole really is more than the sum of the parts. With our organic and M&A growth generating more in-force business that we then optimise. And with M&A giving us more in-force customers where we can then meet more of their evolving needs over time.

So our scale in-force business provides us with three unique competitive advantages. The first is capital efficiency where we get greater diversification from our breadth of in-force products. We're also highly resilient through our core capabilities in risk management and capital optimisation. The hard evidence here is the significant reduction in our BPA strain that we've already delivered and will enhance further going forwards.

Secondly, we have an unrivalled level of customer access with around one in five UK adults being a Phoenix Group customer, who give us deep customer insights and whom we retain through our excellent customer service. This is a key competitive advantage, with for example over 90% of our new workplace long-term new business cash generation currently coming from our existing customers.

And thirdly, we have a significant cost efficiency advantage, enabled through our customer administration and IT partnership with TCS, with our focus on delivering a simplified operating model. This cost efficiency is demonstrated in the cost per policy savings we're delivering across our recent acquisitions. With a 25% reduction in the cost per policy for the Reassure business through the synergies we've delivered. And from an organic growth perspective, the 50% reduction in marginal cost per policy of the Standard Life workplace new business that's migrating to TCS.

Now Reassure and Standard Life were already strong, scale, competitive businesses. But bringing them into the Phoenix Group has enabled us to run them much more cost efficiently. Our in-force business therefore gives us real competitive advantages that are very hard to replicate, which means we are confident that we can and will win in our chosen markets.

We have three strategic priorities which cover the investments and programmes of work that will further enhance our competitive advantages and enable us to help people secure a life of possibilities.

Optimising our in-force business is the bedrock of what we do. This is about leveraging our scale to become ever more capital efficient and deliver higher returns. We do this by delivering management actions through our actuarial expertise, risk management and asset management capabilities. And here we are committed to investing in a sustainable future.

We also grow organically and through M&A, as we engage our existing customers to enable us to meet more of their evolving needs and by acquiring new customers. Here we will leverage our expertise in Retirement Solutions to deliver innovative Retirement Income Solutions that customers need, continue to enhance our Workplace proposition, and develop our Retail channels. While M&A remains a core part of our strategy and we see a sizeable market of opportunities over time.

And underpinning both of these we continue to enhance our operating model and culture. This will maintain and enhance our cost efficiency by completing our planned migrations and through driving simplification to a single best way of doing things. Which means as well as a customer platform with TCS, we also move to a single set of modern finance and actuarial systems, a single internal model, a single legal entity and so on.

We're also committed to being a leading responsible business which attracts and retains the best talent through a diverse and inclusive high-performance culture. And as you can see sustainability is embedded throughout this. Our priorities are to address climate change and support nature and biodiversity, as well as promoting financial wellness and the role of good work and skills.

Delivering our strategic priorities will help us deliver our financial framework of cash, resilience and growth. This means Phoenix delivering high levels of resilient cash while growing both organically and through M&A.

Our key growth metric is incremental new business, long-term cash generation. And we need to generate of £800m per annum to offset the natural run off of our in-force business. I'm absolutely delighted with the progress we're making as a business. As for two consecutive years now, we've delivered £1.2bn per annum. So not just offsetting this run off but delivering material growth.

This track record is evidence of the strong progress we have made in building our capabilities. It means we are now confident of growing incremental new business long-term cash generation to £1.5bn per annum by 2025.

So today we are setting Phoenix's first organic growth target, an impressive 25% increase on our strong 2022 performance, which I believe emphasises the evolution of Phoenix from being a run-off consolidation business to a growing, sustainable business.

To be clear we're not signalling a change of strategy here today. We have market leading capabilities in optimising our in-force business and M&A, and they both remain central to our strategy. What we are saying is we can leverage those same capabilities in building a market-leading, organic growth business too.

And with that I'll now hand you over to Andy Curran who will cover our organic growth strategy in more detail. Andy.

Organic Growth Overview

Andy Curran, Chief Executive Officer – Standard Life

Thanks Andy, and good morning, everyone. I am absolutely delighted to be here in person today, as last time we did this was back in 2020 and I was still locked down in Scotland. Although that day I didn't have a very sore throat so if I run out of things to say it's because my throat has gone, not because I've nothing to say.

So I'm extremely pleased to be here today. This morning I'd like you to take away the following key messages. How our growth opportunities align to the larger stocks and flows in the long-term savings and retirement market. How we will combine Phoenix Group's competitive advantages with Standard Life's strengths to grow organically. I will explain the significant progress we have made in building our Retirement Solutions and Pensions and Savings businesses and our clear strategy for the future. All of which underpins our confidence that we will grow incremental new business long-term cash generation to around £1.5bn per annum by 2025.

But before all of that I want to start today by setting out how the organic growth business is organised. Our Savings & Retirement division comprises of four complementary businesses. They support us in meeting a wide range of our customer's needs and underpin our organic growth strategy. Let me take each of those in turn.

Firstly, Retirement Solutions. This includes Defined Benefit Solutions, Retirement Income and Mortgage Solutions. All of which, Tom will cover in detail shortly. Secondly, we have Pensions and Savings which includes our Workplace and Retail channels, and Colin will explain our strategy in these markets later. These are our two largest organic growth businesses, both of which operate under the Standard Life brand and will be the focus of our presentation today.

In addition we also have Standard Life International. Our European business where we will continue to focus on improving our cost and capital efficiency and enhancing the customer proposition.

And finally Sun Life our direct-to-consumer business which offers life insurance and funeral plans to the over 50s market. They both remain important parts of our longer-term growth strategy.

Now I'd like to cover the market dynamics. The UK's long-term savings and retirement market is very large, complex and continues to grow. Andy talked a moment ago about the customer lifecycle. The need for people to think about savings through their working lives has never been greater. The need for people to think about their retirement income needs has never been greater. This slide shows how our growth opportunities align with the larger stocks and flows of assets in both long-term savings and retirement markets. With legislative and regulatory changes such as consumer duty and patient dashboard, supportive of our future ambitions.

Focusing on the savings side since the introduction of auto-enrolment in 2012 defined contribution workplace pensions are now the single largest, long-term savings product in the UK. A market which has an estimated £500bn of assets and annual flows of around £40bn to £50bn per annum.

Outside the Workplace there's an extremely large market for individual savings and income products. We refer to this as the Retail market, which spans retail savings, pension consolidation and income drawdown. We estimate the retail market totals around £1tn of assets today and has around annual flows of between and £80bn and £100bn. We currently operate across all of these markets and are already a scale player with £82bn of assets under administration and around 3m customers.

Turning to the retirement section of the slide, the equity release market continues to grow as individuals look to access their property wealth in retirement, with an estimated annual flow of between £3bn and £6bn.

And finally we continue to see defined benefit pension scheme de-risking as a material opportunity. With £1.4tn of defined benefit liabilities expected to generate annual flows of approximately £30bn to £60bn. We have scale in this market too, with £36bn of assets under administration and around 2m annuity customers.

Now after 33 years in this industry, I know that is hard to believe, this is the biggest market opportunity I've ever known. The need for savings and income solutions has never been greater. The markets are structurally growing and the opportunity for a focused scale player like us is clear.

As I've just outlined the markets are both large and growing, but they are also competitive. And we have a uniquely powerful opportunity as we bring together the competitive advantages of the Phoenix Group with the strengths of Standard Life. This is genuinely differentiating.

As Andy said earlier, being part of the group brings together three key competitive advantages. Capital efficiency, customer access and cost efficiency. These are really powerful on their own but when you combine them with the Standard Life brand, we have the potential to be genuine leaders in our chosen markets. The Standard Life brand has a deep history and heritage and is well known to both advisors and customers.

Perhaps some of you will have seen our recent TV ads focusing on pension consolidation as we re-establish the brand in the Retail market. I am pleased to say that the initial feedback from advisors and customers has been really positive. Without doubt it's a brand people know and trust. There are also opportunities to develop innovative customer solutions using our coming strength across the Group.

And finally to customer platform and service. Standard Life has always had an excellent reputation for customer service, but the strength of our digital capabilities is definitely underestimated. However, our investment in both these areas has seen us win a number of industry awards.

And when you bring all of that together, which we are doing, I am confident that we will be a formidable competitor in the markets and can deliver on all of our growth ambitions. And we can achieve all of this with modest investment as we build on the existing Phoenix Group infrastructure.

Having outlined the market dynamics and our strengths, I thought it would be worth taking a brief look at our progress so far. At Capital Markets Day two years ago I outlined our ambition to firstly build a market-leading BPA franchise, quickly generating momentum in our new business long-term cash generation. And I am pleased to say we have demonstrated another strong year of growth in 2022. With £4bn of premiums announced today, with an improved capital strain and cash multiple we are now an established player in the market.

Next on our journey was to enhance our workplace proposition. Here we started as a business in decline, so we set about reinvigorating this business by investing in the proposition, capabilities and infrastructure. And then we turbo charged it by acquiring the Standard Life brand. We know our success here will be measured in years not months. Nonetheless I am encouraged that in the past year we have crossed an inflection point. Turning small scheme wins into winning some of the larger schemes in the corporate pensions market. We clearly have momentum.

Now, as planned, we are turning our attention to our retail channels where we've taken our time to understand our customers' needs. Our knowledge has improved significantly as we've benefited from the investment in customer analytics and our market capabilities. For example, we have a much clearer understanding of advisor behaviour and attitudes of our direct customer base.

We are now building a market leading Retail business using the same structured approach which we used to build our corporate channels. I am pleased with the progress we have made, which is evidenced by the growth we have delivered. If you look at the chart on the right-hand side our progress has enabled us to deliver 35% CAGR and long-term cash generation since the end of 2019. This gives me great confidence that we can achieve the ambitious new target we are setting today.

As ever, long-term success is dependent on continually evolving and innovating to meet our customers' needs. I mentioned earlier that we now have a much better understanding of our customers. They have told us that they are increasingly looking to both protect their income in retirement, and to maximise their risk adjusted returns. This has only been heightened by the current economic environment.

These needs can best be met by insurance backed investment solutions and the potential here is substantial. We are therefore investing to meet these evolving needs through innovative, new tailored products using the balance sheet and risk management expertise of Retirement Solutions, combined with the distribution and investment strengths in Pensions and Savings.

Phoenix today has a large in-force book that generates a very predictable stream of cashflows over time, which we estimate is around £17bn over its lifetime. Importantly this cash generation estimate is based on conservative assumptions. As it assumes that most of our customers maintain their policy to maturity with no additional contributions made. We also assume an annual policy lapse rate and that virtually all of our customers leave us at retirement. We therefore have a clear opportunity to grow our in-force cash generation, with growth from our existing customers coming from a number of sources.

For example the embedded growth within our Workplace business, principally annual pay rises and new members to existing schemes. And by extending our customer relationships through product innovation and engagement, and that's not to mention follow-on BPA transactions. On top of all of that we can also acquire new customers across all of our organic growth businesses.

So to conclude we operate in structurally growing markets and over the past 2 years we have made significant progress. Looking forward we see substantial opportunities to grow further by leveraging the Group's competitive advantages and combining them with the strengths of Standard Life.

We will be building on the strong capabilities we already have, and we will continue to innovate as we develop our retail capability.

I am delighted that today we are setting our first ever organic growth target, a £1.5bn of incremental new business long-term cash generation by 2025, which as I like to remind Andy, is a 25% increase on our strong performance in 2022. And it is important to know that this target is net of acquisition costs. With around £1bn of this target expected to come from Retirement Solutions and around £500m from Pensions and Savings which is presented here inclusive of Europe and SunLife for simplicity.

And with that I will now hand you over to Tom, who will cover his strategy for the Retirement Solutions business. Tom.

Retirement Solutions

Tom Ground, Managing Director – Retirement Solutions

Thanks Andy, and good morning everybody. For those who don't know me, my name is Tom Ground and I run the Retirement Solutions business at Phoenix. I joined the Group right at the start of 2021, prior to which I grow similar businesses for Aviva and Legal & General. And prior to this I spent ten years as a management consultant at Accenture.

My objective this morning is to demonstrate that we operate across three large, growing and attractive retirement markets. We have built the key capabilities that we need to win. This will support us to deliver sustainable new business long-term cash generation of around £1bn annually for the Group, while limiting the credit risk exposure we add to the balance sheet.

And we are focused on delivering mid-teen IRR for our shareholders. The Retirement Solutions business is focussed on helping customers secure income certainty in retirement and we participate in 3 retirement markets. Defined Benefit Pensions, Retirement Income Solutions, currently limited to individual annuities, and Mortgage Solutions, currently home equity release. We distribute these products through a combination of both the Corporate and Retail markets. These are huge and existing markets with substantial flows that offer us significant opportunities for growth.

So turning to how these market trends fit across our 3 Standard Life branded business units. Firstly our Defined Benefit Solutions business which includes bulk purchase annuities or BPA, is focussed on supporting corporates in de-risking their defined benefit pension scheme liabilities. And it's currently the largest part of the Retirement Solutions business.

This is a huge market with around £1.4tn of outstanding liabilities, only 10% of which are currently insured. Market volumes are expected to grow significantly over the coming years, with one of the leading brokers in the market, LCP, expecting volumes of £30bn to £60bn next year. Growing up to a potential £90bn by 2025.

The recent rise in interest rates has helped improve the funding positions of many schemes, with scheme funding ratios now at around 88%. And the proportion that are now funded within easy reach of a buy-in or buy-out solution likely to be well over a third.

Secondly, is our Retirement Income solutions business which is all about providing income certainty to individuals in retirement. The opportunity here is again big, as each year there are potential customers with around £40bn of assets coming into retirement. Currently 10% of this is going into individual annuities which we think will grow, as rising rates have meant customers now getting around 50% more income when converting their pension pot into an annuity.

We've also seen searches on Google for annuities going from 50,000 a day to over 90,000 a day over the past few months, as more customers are falling back in love with annuities.

Finally our Mortgage Solutions business unit seeks to enable individuals to access their property wealth in retirement through funding solutions such as lifetime mortgages. With around £4tn of housing equity owned by the over 55s, we also see a growing customer need with 44% of people now considering using property wealth to maintain their lifestyle in retirement. Not only do Mortgage Solutions meet a clear customer need, they also offer an attractive asset class to back the growth of our annuity businesses.

So in summary we have a complementary portfolio of businesses focused on helping customers secure their income in retirement.

As Andy outlined earlier the combination of Phoenix Group's competitive advantages coupled with trading under the Standard Life brand has been really powerful. Capital efficiency combined with the scale from our large customer base and cost efficiencies are the key to having a competitive product in the annuities market. A genuinely diversified balance sheet also means that we are much better able to diversify the annuity product risk than a monoline player, which enables us to price competitively.

Combining this with the Standard Life brand has amplified all of these advantages. For BPA switching to the trusted and well-known Standard Life brand was literally the lightbulb moment. Making it far easier for pension schemes to transact with us.

So looking in more detail at each of the 3 businesses. Starting with our Defined Benefit Solutions business. Phoenix entered the BPA market back in 2018 with a team of just 25, we have made significant progress since then and have built one of the leading franchises in the industry. This has been underpinned by the growth in our strong, multidisciplinary team which stands at around 250 today. Over that time we have written nearly £15bn of BPA premiums including £4.8bn in 2022. And generated around £3bn of incremental new business long-term cash generation. We've also delivered a material reduction in our capital strain.

The key initiatives that have driven our growth include the investments we have made into our infrastructure and systems. The implementation of our harmonised internal model and the expansion of our illiquid asset origination capabilities. Our Defined Benefit Solutions business is now firmly established as a leading player in the market delivering around £900m of incremental new business long-term cash in 2022.

So looking forwards, it is from this strong position that we feel confident that we will continue to be a market leader in supporting corporates to free themselves of their defined benefit pension schemes through our range of innovative de-risking solutions. To do that we will focus on both delivering a market leading customer proposition, and on optimising our capital to drive strong returns for our shareholders.

In terms of our financials we will maintain our disciplined approach to deploying capital into BPA. We plan to continue investing around £300m per annum. We are also committed to further reducing our capital strain to 5% by 2025 from 6% today, which will support us in continuing to achieve mid-teen IRRs.

To deliver this we have a number of key focus areas. We will continue to leverage our strong proposition to grow. We will reduce our capital strain further to optimise our returns. We will utilise our best-in-class asset deployment and we will actively manage our credit risk exposure.

So taking each of those in turn. Key to our success in the market to date has been the investment we have made into developing leading propositions for the end customer. It has been a massive advantage to enter the market later than others, because it has enabled us to cherry pick the best from across the market in terms of approaches, infrastructure, partners and people. And offer a genuinely leading digitally-enabled customer service model that makes it much easier for them to manage their policies. It also integrates seamlessly with our Workplace platform, enabling a customer to manage both their Standard Life DC and DB pensions on one portal or app.

We have built strong deal and execution teams with modern tools and systems which has enabled us to build strong relationships and be very responsive. We now quote on over 90% of transactions in the market.

This approach has supported us to win 2 industry awards this year where the judges viewed us as being the best BPA provider in the market.

We've also been positioning ourselves as a partner in de-risking journeys. We have seen this resonating really well in the market with several blue-chip schemes returning to us for second and third tranches of liabilities. In fact, of the near £15bn of premiums we have written since 2018, around 35% has come from schemes that have undertaken multiple transactions with us.

We expect this trend to increase with around 80% of the remaining uninsured liabilities in the market concentrated in schemes of greater than £1bn of assets, which are likely to come to the market in a series of smaller tranches often with a single de-risking partner. In fact we estimate that amongst the schemes we have already executed transactions with, there is a further £12bn of pensions to de-risk over time. So we are confident that our track record of building strong, enduring relationships will mean that we are well placed to continue benefiting from de-risking partnerships over time.

As I said earlier capital efficiency is critical to our success in the annuity market. And by reducing the capital strain we optimise our returns. We have made significant progress over the last four years, reducing our capital strain by over 50% to around 6% this year. And I am confident that we will achieve a 5% capital strain on post-Capital Management Policy basis by 2025. This means that on a pre-Capital Management Policy basis which is more commonly quoted by our peers, we will be around 3%. Putting us amongst the most competitive in the BPA market.

There are three levers that get us there, capital model optimisation, reinsurance and asset deployment. Firstly, we have a very methodical capital model optimisation approach as demonstrated with the successful delivery of our harmonised internal model, that achieved a material reduction in our capital strain last year. There is more we can do to optimise the model further and we have a pipeline of improvements we look to implement going forward.

The second big lever is reinsurance, where we seek to manage our exposure to longevity and credit risk and have enhanced our approach over the past few years. We continue to reinsure the majority of longevity risk on new business and now have a panel of 14 partners. This provides us with deep reinsurance capacity and enables us to source much more competitive pricing. We are also using other reinsurance solutions and have recently set up a Bermudan reinsurance entity, Phoenix Re, that will provide us with longer-term reinsurance optionality.

Finally the third lever is asset deployment, and let me expand on that a bit more. I believe that we have a clear asset deployment advantage. Our approach to asset management is to partner with the best third-party manager for each type of asset. We currently partner with over 20 leading asset managers globally.

The Phoenix Group central Asset Management function has been set up to manage the governance and performance of our asset managers and set the overall strategic asset allocation. This model enables us to access the best assets at a low cost and deliver best risk adjusted returns. It also ensures we do not suffer from any conflict of interest with an in-house asset manager. This approach is unique and genuinely differentiates us.

As you can see on the right our focus on investing into sustainable assets to back our annuity portfolio has had a significant impact, with £3.4bn of investments made in just four years across a range of sustainably focused areas. And going forwards we will be able to put even more of our investments into sustainable assets following the recently announced reform of the Solvency II matching adjustment eligibility criteria.

I wanted to finish on Defined Benefit Solutions by explaining how we manage our credit risk exposure. I know some in the market question the attractiveness of annuity business due to their concerns about the associated level of credit risk exposure. However, we actively manage our credit risk to ensure it does not become too large a concentration within our balance sheet. Our total exposure to annuities is only around 13% of our diversified balance sheet today which is very low by industry standards.

We hold the credit assets backing our annuity liabilities to maturity and so are not concerned by short-term credit spread influence or even downgrades. What we are focussed on is default risk. We proactively manage our credit portfolio, seeking to reduce risk by both active monitoring and diversifying across sectors, geographies and credit ratings. And as I said earlier, we have a disciplined approach to the deployment of capital into BPA where we're seeking to invest around £300m per annum.

It is also important to understand that while we're acquiring around £5bn of BPA assets per annum, our net growth and credit risk exposure is much lower. This is due to the natural run-off of our existing annuity book and the selective use of asset risk management solutions such as Quota Share Reinsurance.

The chart on the right-hand side shows that for 2022 our net growth and credit risk exposure was only around £1bn, which in the scheme of our £270bn balance sheet is not material. So by growing our annuity portfolio in a measured way we will deliver sustainable, long term cash generation without materially changing the prudent credit risk profile we have today.

Moving now to Retirement Income and Mortgage Solutions. As I said at the start, our Retirement Income business is all about providing income certainty to individuals in retirement, which in today's market means an individual annuities. In terms of our current position in this market we have the scale and deep expertise from our £35bn of in-force annuities.

Given the number of our existing customers moving into retirement annually we should really be the market leader. However, we currently only see around 7% of our legacy Phoenix Life and Standard Life customers taking up annuities when their pension policies mature, most with a guaranteed annuity rate. But we do not currently offer individual annuities to our Reassure customers. And we do not have an external market product or distribution channel.

Therefore our ambition is to launch a broader range of individual Retirement Income solutions. This will help us to both retain more of our existing customers at retirement and attract new customers to the Group.

In 2023 we will launch a more comprehensive range of open market annuity solutions. This will include a full medically underwritten annuity and an inflation-linked annuity. Longer-term we will develop and launch a range of innovative Retirement Income solutions that offer increased flexibility to customers whilst aiming to provide security in retirement, where we plan to use a Standard life branded distribution channel for all of these products.

Finally in Mortgage Solutions we are seeking to enable individuals to access their property wealth in retirement. We are a leading player in this market with in excess of £1bn of lending in both 2021 and in 2022. And we have built a really strong team and entered into a long-term strategic partnership with Key Group who are the largest distributor of lifetime mortgages in the UK.

This partnership has enabled the launch of our first Standard Life Home Finance branded product range last year. This product range is now available through more than 2,000 IFA firms with around 3,600 advisors registered to access the products. And over Q3 this year it achieved an 11% market share.

The speed of adoption is exceptional and a real proof point to the power of the Standard Life brand. Our ambition is to be a market leader in offering innovative Mortgage Solutions to support overall retirement journey planning.

Looking forwards our key focus areas including to originate mortgages through our third-party funding agreements. We will also support our wider customer base to consider both pensions and housing wealth when they plan their retirement. And continue to develop solutions to support them in retirement. And of course, Mortgage Solutions will continue to be a very active – attractive - illiquid asset class that we can use to back our annuity portfolio.

And finally, we will continue to manage our risk through thorough prudent underwriting and the use of hedging solutions. We have a conservative risk appetite as demonstrated by the average loan-to-value across our £4bn book being around 30% and a diverse regional split of lending.

So in summary I am confident that our Retirement Solutions strategy will deliver sustainable incremental new business long-term cash generation of around £1bn per annum by 2025. To support the Group in delivering its £1.5bn per annum target.

In Defined Benefit Solutions business we will reduce our BPA capital strain to 5% by 2025. Maintain our disciplined investment of capital into BPA at around £300m per annum. And deliver mid teen IRRs. We will also launch an individual annuity proposition in the external markets whilst maintaining our conservative appetite for credit risk. While our Mortgage Solutions business will continue to originate attractive illiquid assets to back our growth.

As I've outlined in my presentation the scale of the opportunity for this business are huge and we have everything we need to compete. I joined Phoenix because I believed it had a clear opportunity to build a leading Retirement Solutions business by leveraging the competitive advantage of Phoenix Group and the strengths of Standard Life.

I am delighted with the progress we have already made and I'm excited about what we can do going forwards as we support the group in delivering its ambition of helping people secure a life of possibilities.

And with that I will hand you over to Colin who will talk you through the Pensions and Savings business.

Pensions and Savings

Colin Williams, Managing Director – Pensions and Savings

Thank you, Tom, and good morning everyone. For those of you who don't know me my name's Colin Williams and I run the Pensions and Savings business at Phoenix. I joined the group last June, prior to which I ran the Workplace Savings and the Advice businesses at Aviva. And before that I've led pensions and savings businesses in both insurers and asset managers since 2002.

So in this section what I'd like to demonstrate is that we're operating in a large, growing and attractive market across Pensions and Savings. That we have the key capabilities we need to compete and to win. And that we're already making great progress with our clear and distinctive strategy. Finally that Pensions and Savings will be a material contributor to the organic growth of the Group through both net fund flows and incremental long-term cash generation.

So, starting off with the market context. In total across the Pensions and Savings landscape in which we operate there are over £120bn of annual market flows. This presents a huge opportunity from which we can deliver sustainable organic growth. Whilst Tom's spoken about the key products he manufactures in the retirement market. In Pensions and Savings the customer solution is broadly the same, which obviously delivers significant benefits. Therefore my business is organised by the distribution channels to the customer. And those channels are, Workplace, Retail Direct and Retail Intermediated which we've created to provide focus on the unique requirements of the customers in those channels.

The markets of all of those channels are set to continue to grow into the future as people are living longer and they're retiring later. Our Pensions and Savings business helps customers to journey to and through retirement and operates under the Standard Life brand, which is well established and trusted in these markets.

Our Workplace business is focused perhaps not surprisingly on people that save through their workplace pension. And here we serve employees, their employers and the trustees with the full suite of retirement savings products including traditional pension products and Master Trust. This market's huge, around £500bn in size already and growing really fast with an expected 9% annual growth rate over the next few years. This growth is driven by the success of auto-enrolment and rising member contributions. With some 4m net new customers having been added to the market in the last two years.

Whilst we're now an established player in workplace, our retail channels are an area that we're developing. And we've got great foundations to build on with a large existing customer base, common capabilities and infrastructure that we can leverage, coupled with that trusted and well-known Standard Life brand.

In our Retail Direct business we want to help the 90% of customers who do not have a financial advisor, by providing guidance and investment solutions. As around a quarter of our existing customer are in that 45 to 54-year-old age bracket and therefore more actively thinking about their retirement options, we see significant opportunities to participate in this market.

And finally our Retail Intermediated business serves the 10% of customers in the market who do have a financial advisor. Representing around £730bn in assets, here we're looking to support financial advisors to help their customers prepare for and live well in retirement. And whilst I'm talking to each of these trading channels separately today, we do see them as highly interconnected.

For most people, the majority of their saving for the long term will be through their workplace pension. However as people get older and they start to make decisions about their retirement, some will likely need to take advice while others will need more direct support. And we can leverage the common capabilities across all of these channels to better help customers in a cost-efficient way.

Our Pensions and Savings businesses are really quite simple, and we do have a straightforward way to succeed. Firstly, we'll grow our assets and with around 13m customers in the Group we have a clear opportunity to meet more of their needs to drive that growth. We'll also attract new customers through the Standard Life brand and our enhanced propositions.

Secondly, we'll maximise our revenue. We already offer competitive pricing, but we can increase our revenue margin over time with new and innovative Retirement Income solutions developed in partnership with Tom's business.

And thirdly we'll leverage our cost efficiency. Our strategic partnership with TCS means that we can write new business at a low-cost inflation-protected rate which will enable us to price more competitively and drive improved efficiency over time as more schemes are written at this new low rate. We'll also leverage the Group's buying power in sourcing assets for our customers. All of which protect us against margin compression in the market.

So by increasing our net flows, expanding our revenue margin and keeping our costs low, we're very confident that we will deliver increased incremental new business long-term cash generation.

So our success will be enabled by leveraging Phoenix Group's competitive advantages in a slightly different combination to Tom, and using the strengths of the Standard Life. This combination will enable us to become a market leader. Having access to 13m customers is of course a huge advantage for our business. And when combined with our highly efficient business model that will enable us to deliver strong returns in what is by nature a low margin but capital-light business.

In addition the Group's balance sheet allows us to offer the full range of innovative insurance-backed solutions which aim to deliver better outcomes for our customers. But the elements that really differentiate us in the Pensions and Savings markets are cost efficiency, our customer platform and service, and our customer solutions.

So let's look at these in more detail starting with cost efficiency. Phoenix Group has a unique strategic partnership with TCS who are a leading global IT service company. This partnership dates back to 2005 when we were the founding customer of their Diligenta business here in the UK. Our operating model utilises the TCS BaNCS platform, which is modern, scalable and futureproofed. Diligenta manage our general customers operations, whilst Phoenix retains the in-house customer proposition development and some of the specialist customer service operations.

This operating model gives us access to the very best digital and customer service capabilities but with a very low cost per policy that reflects our foundation customer status, and this is evergreen in nature. Moving to this operating model has delivered a 50% reduction in our marginal administration cost per policy on our new workplace business.

So, looking next at our customer platform and service. As Andy said we've built an award-winning digital product which provides customers with simple, convenient and personalised access to the services and the information that they need. If they choose to, customers can self-serve digitally end-to-end without needing to phone up and speak to our team at all. We've also developed a fast and easy to use pension consolidation proposition which we've leveraged across all of our channels. In addition our workplace client analytics supports employers to best help their members prepare for retirement.

And the numbers speak for themselves, where they have seen significant engagement from our customers and with a 94% customer satisfaction score for our Standard Life digital journeys this year. So our digital capability is important because it drives customer engagement and on average, we see £2,500 of higher annual pension contributions from customers that do engage with us digitally.

And finally our leading customer solutions are underpinned by the high-quality investment solutions. Here we leverage our asset partnership model which provides us with access to the best managers across the globe. Our model means that we can be fully independent and not encumbered by the conflicting aims of driving flows to a preferred internal manager or an exclusive external manage. This protects investment performance and helps us deliver better customer outcomes.

We use our Group's buying power to enable our customers to access a broad range of best-in-class, low cost and sustainable investment solutions that meet their specific needs. Whilst leverage for the sustainability capability that we've got across the Group.

Our strategic partnership with Aberdeen is a perfect example of this model in action. We were able to develop and launch a highly successful, sustainable, multi asset fund to our Workplace customers, which delivered cost reductions of between 4 and 14 basis points to them.

And with over 80% of the fund invested in sustainable components, we've already reduced the fund's carbon intensity by over 40%. We've made this fund the default for our Master Trust proposition, and I've just completed the transitions of 1.5m existing Workplace customers and their £15bn of assets across to this fund. And this is obviously a key step in our journey to net zero.

So, I'll now dive deeper into our 3 customer channels, and I'll start with the Workplace channel. As mentioned earlier, we're playing in a large, growing and structurally changing market. This is driven by fundamental customer, economic and regulatory trends. Particularly important are the regulations driving the growth in the adoption of Master Trusts, which as you can see in the chart on the right, you know, is expected to grow from £80bn of assets today to around £570bn by 2031. And as a leading Master Trust provider, we stand to benefit from this shift, so huge opportunity for us.

Our Workplace business is a compounding capital-light growth engine, with growth in flows predominately generated by our existing clients. As Andy Curran mentioned earlier, our current £17bn of in-force cash generation principally assumes that the majority of our customers retain their policy to retirement and then leave us. We also prudently assume that no increase in contributions or new joiners and no new scheme wins.

However, obviously, in Workplace these things happen year in year out with a steady and reliable level of growth through existing members' annual salary increases, and voluntary rises in individual and company contributions.

We also get around 250,000 new customers every year, simply as a result of companies hiring new staff who then join their pension schemes. There are few businesses that can attract a quarter of a million new customers each year before we even start to trade.

These points together mean that most of our Workplace growth, in flows and in long-term cash generation, comes from the compounding effect of our existing schemes. And there is, of course, further upside from winning new schemes in the market as this further compounds the growth effect.

All of this growth is reported as incremental new business long-term cash generation, with existing schemes accounting for over 90% of our growth in both assets and long-term cash generation. It really is a powerful business model, and it demonstrates why retaining existing workplace schemes is critical to success in this market.

Workplace is also a very resilient business during an economic downturn, with pension contributions being deducted direct from salaries by employers and so flows are generally quite stable, even through economic cycles.

We inherited a Workplace business back in 2018 that had once been a market leader, but after a period of underfunding, it was in need of a reboot and some targeted investment. It was a business that was in decline, and it was losing schemes.

Under Phoenix ownership, we've made huge progress in building our capabilities by improving the customer experience and investing in our people and our propositions. On top of this, we first acquired and then relaunched the trusted Standard Life brand. This has allowed us to both retain our existing schemes and beginning new ones in the market.

And you can see on the slide, we've built real momentum over the past couple of years in terms of new scheme wins, going from zero in 2019 to 68 so far this year. Initially, the market tested our capabilities and, at first, our scheme wins were at the smaller end, but I'm delighted to report that, in 2022, we've won schemes of all sizes which has enabled us to secure around £2bn worth of assets this year, which will transfer to us over the next 12 to 24 months. This not only places Standard Life back in the market, but comfortably regains its position as a leading provider.

The pipeline for 2023 is also very strong, with over £5bn worth of assets that we're actively competing for now.

I'm very pleased with the progress that the Workplace business is making, and it's not just me saying that. We're being publicly recognised for our progress, with some great award wins over the last 18 months, down at the bottom of the slide.

Given the nature of the Workplace business that I've described, the conversion from business momentum into improved financial performance has typically lagged, but I'm delighted that in 2022, we've reached an inflection point, and the progress we've made is now being reflected in our significantly improving financials.

As you can see, in 2022, we've stemmed our outflows by materially improving scheme retention and grown our gross inflows. This has supported growth in our net fund flows from around £0.2bn last year to around £2bn this year. This, in turn, has supported us in achieving a strong growth in incremental new business long-term cash generation, with a 40% year-on-year increase to around £200m in 2022.

We expect overall margins to grow over time as our revenue growth will outpace our largely fixed cost base.

So, looking forward, we have a clear ambition and a strategy to drive greater net fund flows to become a Top 3 Workplace provider, and our strategy's clear – we're building a market-leading, comprehensive and convenient Workplace proposition whilst leveraging our scale, infrastructure and customer reach. This will support us in growing our new fund flows, with an ambition for around £5bn of annual net flows into the Workplace by 2025.

And we know where we need to focus our future efforts, which are aligned to the Group's strategic priorities. We'll grow organically by investing in our distribution, providing innovation solutions and assisting customers with enhanced guidance, and by building digital capabilities that will allow us to engage with our customers at the right time with personalised customer journeys.

And finally, we'll enhance our operating model by completing the transition to a new scalable platform on TSC BaNCS.

So, turning now to Retail. As we saw on the market landscape slide, there's a huge market opportunity where we can access some of the £80bn to £100bn of annual flows across the retail markets. Within that, our primary opportunity is retaining our existing pension customers who currently leave us are retirement. This represents around £7bn to £9bn of annual outflows across the Group.

Of course, some of this represents our product working, with customers taking their money in retirement, but there's a sizable opportunity to intercept regretted losses simply by engaging more effectively with our customers and providing the relevant support and the solutions as they journey into retirement. And once we've retained them, there's an additional opportunity to consolidate their other pension savings with us, as individuals typically accumulate, on average, 9 pension pots over their working lives.

We can address these opportunities by building both a Retail Direct and a Retail Intermediated channel to target those two different customer segments. However, we're not building from scratch here. Our ability to build on the existing capabilities we already have in the Group, coupled with access to around 13m customers and the strong and trusted Standard Life brand, provides us with a major advantage.

So, we don't certainly need to buy an expensive platform to access distribution, which I'm sure is much to Rakesh's delight. Instead, we're extending what we already have, and will rent capability or partner to fill gaps, making our approach to winning in this market much more cost efficient.

So, looking first at Retail Direct, we've got some clear existing strengths in this market – our strong and trusted Standard Life brand, the access to 13mcustomers, and a strong presence in the Workplace market – but we also have some gaps in our proposition that we need to address in order to compete.

We have a clear strategy and ambition for building this business. We want to offer affordable guidance retirement solutions to the middle market, and we'll explore options for advice in this market, and this will help us retain existing Phoenix customers transiting to retirement and also attract new customers to the Group.

Our key focus areas here are to enhance our direct marketing capability to better engage with customers and to build on our successful direct-to-consumer digital platform pilot for a broader launch. We'll also be redesigning our guidance proposition and explore the options for advice where we'll work closely with the FCA as we develop our thinking. This area is essential to better support the 90% of customers who don't currently take advice.

And last but not least, we'll re-establish the Standard Life brand as a strong retail market participant again. This work's already begun, and you may have noticed that we're back in the market with adverts on the TV, on radio, online and in the broadsheets, and it's early days but we're really seeing a very positive response to this activity.

Finally, turning to Retail Intermediated. So here we're reenergising our advisor presence with deep customer insight, efficiency through technology, and compelling customer and advisor propositions.

We have some clear existing strengths in this market and, again, the strong and trusted Standard Life brand, the longstanding relationships we have across the intermediary market, and comprehensive investment solutions that have developed through our asset management partnership model. But again, we've got some gaps in our proposition that we need to fill, and whilst the intermediated market is well-served by providers and platforms, opportunities do exist to efficiently serve existing customers looking for accumulation, consolidation and retirement income.

We want to offer state-of-the-art solutions for the journey to and through retirement for both advisors and their customers to support us in retaining and growing customer assets amongst those working with their advisors. We'll therefore continue to re-engage with advisors with a dedicated sales and marketing team and through offering deep customer insights. And by offering competitive platform technology we can give access to both our existing investment propositions as well as developing innovate retirement income solutions in partnership with Tom's business.

So, in summary. I'm confident that our strategy will deliver sustainable incremental new business long-term cash generation of around £500m per annum by 2025 across Pensions and Savings, inclusive of Europe and SunLife, to support the Group in delivering its £1.5bn per annum target. And it's important to note that this target is net of expected acquisition costs.

We'll do this by growing our net fund flows across the business over the next 3 years, with an ambition of £5bn of annual net flows into the Workplace and £2bn across Retail by 2025 with an ongoing focus on enhancing our revenue margin and leveraging our cost advantage to deliver strong returns for shareholders.

As I outlined in my presentation, there is a huge structural market opportunity for us to go at here, both across the Workplace market, where we've already re-established our business, and the Retail market where we're now fully developing the channels.

I'm really excited about the opportunity we have to build a market-leading Pensions and Savings business which genuinely puts customers at the heart of what we do. We'll do this by fully re-establishing the Standard Life brand and the proposition in the marketplace and leveraging Phoenix Group's competitive advantages.

And with that, I'll hand you back to Andy Briggs who will finish with a summary. Thanks, Andy.

Summary

Andy Briggs, Group Chief Executive Officer – Phoenix Group

Thank you, Colin. Thank you, Tom. Thank you, Andy.

So, let me summarise before we move to Q&A. Phoenix has a clear and differentiated strategy aligned to our purpose of helping people secure a life of possibilities.

Now, I want to be crystal clear here, optimising our in-force business and M&A are both still critical, central parts of our strategy. Of course they are, we're market leaders in both. Today is about how we're going to become market leaders in organic growth as well.

As we've outlined today, much of the organic growth is embedded in our business because the majority of future growth comes from meeting more of the evolving needs of existing customers, of which we already have 13m or around 1 in 5 UK adults, with a huge opportunity to attract new customers across all of our organic growth businesses as well.

The competitive advantages we get from our scale in-force business of capital efficiency, customer access and cost efficiency are hard to replicate. And it's these competitive advantages that enable us to create real shareholder value across each of our in-force business, organic growth and M&A.

As Tom and Colin explained, we've made significant progress over the past few years as we invested in building our capabilities to enable us to meet more of our customer needs. And we have now more than proven the wedge over two consecutive years with £1.2 of new business long-term cash generation, both this year and last.

As we look forwards, we expect more of our future growth to come from our existing customers. This means that the Heritage and Open distinction is much less relevant as we really now just focus on customers. As a result, with a tear in our eye, and I'm sure in some of yours too, the wedge is being retired.

Going forward, we are focused on sustainably growing our in-force cash generation through meeting the full range of needs of our existing in-force customers and by acquiring new customers, while continuing to create value through the ongoing delivery of management actions as we optimise our in-force business and through executing value accretive M&A.

As you've heard, we are, today, setting our first organic growth target for £1.5bn of incremental new business long-term cash generation per annum by 2025. If you add to that a modest level of ongoing management actions, and deduct our key ongoing uses, then we would expect to generate around £500m per annum of long-term free cash from 2025 onwards.

This long-term free cash will emerge over time in line with the duration of the business we've written and will be available to fund sustainable future dividend growth in line with our policy.

As you know, Phoenix seeks to deliver a dividend that is resilient and is sustainable over the very long term, currently 20+ years. Now, the level of future dividend is, of course, a Board decision that will be taken on annual basis, but I hope it is clear that when we achieve our £1.5bn growth target, we will be in a position to deliver very attractive organic dividend growth that is sustainable over time, with further growth when we execute M&A.

Phoenix is unique in the insurance sector. We are only the scale organisation in the UK that is focused exclusively on helping people journey to and through retirement, and we deliver cash, resilience, and growth.

We offer an attractive 8.5% dividend yield today that we can sustainably fund with the cash from our current in-force business over the very long term while our business is highly resilient owing to our strong capital position and our hedging, which protects both our capital and our long-term cash generation, particularly important in these volatile times and a significant differentiator versus our peers. And that attractive resilient dividend is now growing both organically and through M&A.

So, just to finish on those five key messages again, we will deliver our purpose through our clear and differentiated strategy. We have significant growth opportunities available to us, both through meeting more of the evolving needs of our existing customers across their lifecycle as well as by acquiring new customers organically and through M&A.

Our scale in-force business provides us with 3 key competitive advantages – capital efficiency, customer access and cost efficiency. And we've invested into building our capabilities, so we are now confident of growing our incremental new business long-term cash generation to around £1.5bn per annum by 2025, a 25% increase on 2022. This will enable us to deliver a resilient dividend that is sustainable and grows over time.

And with that, we'll move to Q&A. So, we're going to start with questions from the audience in the room. If you can raise your hand if you have a question, and we'll direct one of the roving microphones to you. If you can start by introducing yourself and your institution, and then, for anyone on the webcast, please use the Q&A facility and we'll come to your questions after we've answered those in the room. So, why don't we kick off? So, Larissa? We're going to start at the back and come forward rather than the other way round, make a change, yeah?

Q&A

Larissa van Deventer, Barclays
Thank you. I feel like I've won the Lotto! It's Larissa van Deventer from Barclays. I had four, now I have to choose.

Andy Briggs, Group Chief Executive Officer – Phoenix Group
You're only allowed three. It's obligatory, three each!

Larissa van Deventer, Barclays
I know. One on Retail, one on bulks and one on your strategic shareholders, please. So, on bulk annuities, you've reiterated again today that you want to stick to £300m capital invested and that your new business strain should be at 5%. You also showed the slide that showed that LCP thinks the market can come to £90bn. Why not increase that if the market is so active at the moment?

On Retail, and growing the Workplace book, how do you see the impact of the pending recession playing out in continued growth in the near term rather than in the long term?

And then what is the role of your strategic partners, so that would be abrdn and then MS&AD in growing this business, or should we think of them more as passive partners?

Andy Briggs, Group Chief Executive Officer – Phoenix Group
Sure, okay. So, I'm going to take the bulks and the abrdn question, and I'll get Colin to take the Retail question.

So, in terms of bulks, what we're really focused on here is we want to maintain and prise the resilience of our balance sheet above all else. So, what we think is a good balance of capital allocation, we have a rigorous capital allocation framework, the in-force business generates lots of excess cash. We only reinvest where we can get attractive returns. And what we've done this year, with around £300m into BPA, and then £250m into the Sun Life of Canada UK deal feels, you know, a really good balance from our perspective.

We want to manage the overall level of credit risk, but as Tom's slides illustrated, we've only had about £1bn increase this year, so we will selectively use reinsurance options as well.

And so, view the £300m as the capital we're deploying. It isn't absolutely hard and fast, you know. Last year, for example, we did invest £360m because the returns were attractive, and I could see a scenario where, if LCP's predictions, you know, come true and there's £90bn, the demand is going to far outstrip the supply in the market. And in that situation, the returns, you know, could become particularly attractive and then, you know, we would have the flexibility to deploy more, but we would protect the resilience of the balance sheet overall very carefully, and plan A is to go in planning to invest around £300m a year.

In terms of the strategic shareholders, so a slightly different position for each. So, MS&AD have a very conscious strategy of looking to diversify their earnings away from the Japanese general insurance by taking strategic stakes in overseas insurers, something they've done for a long time. They originally took that stake and put the money in, they've kind of roughly got with us at the moment, into the ReAssure business in partnership with Swiss Re. They were very keen and enthusiastic to roll that over into Phoenix, and they remain a committed long-term investor – it's part of their strategy.

From abrdn's perspective, abrdn took the stake as part of us buying the Standard Life business and as part of the strategic asset management partnership. So, whatever happens, abrdn remain a core strategic asset management partner for us.

I've seen the speculation in the market, as you have, that, you know, they may seek to look generally at their strategic stakes. That's very much a decision for them. The way I characterise this is that where abrdn are good at something, then we will tend to give them the assets, but we're completely free to use other asset management partners where they're not good.

The 10% stake gives them a Board seat and it gives them a strategic relationship agreement. So, if they didn't have that, effectively, you know, we'd still be friends, we'd still work closely with them, but the benchmark would be to be the best, yeah? So, that's very much their decision and, you know, we're, kind of, clear on how that partnership works, from our perspective.

Colin, do you want to pick up on the Retail side?

Colin Williams, Managing Director - Pensions and Savings
Okay. So, I've been around long enough to, kind of, see these businesses run through a couple of recessionary cycles. The Workplace business, as I think I stated on my slides that, you know, it's reasonably resilient. That's where the vast majority of, kind of, retirement accumulation will go on because of auto-enrolment. We're keeping a weather eye on that. We're not really seeing anybody materially impact or stop paying into their pension or reducing their contributions as yet, in fact, some of the customer research that we've just completed says that people cut a lot of other things before they get to, kind of, impacting their long-term futures, which is sensible.

The Retail markets, there is a link, the Retail markets, the three bits to that, people saving in Retail for their pension, and I think that that's going to be exactly the same as Workplace, you know, you want to save for your long term. The discretionary wealth elements of the Retail market, I think, will be impacted in the first couple of years, there'll be less discretionary wealth, but that's not really what we're going for. Our table stakes in the market are going to be around retirement savings, as Andy said, you know, and the two great big opportunities there are in consolidation and transitioning into retirement, and our Workplace business will feed both of the Retail businesses, so hopefully that answers the question.

Andy Briggs, Group Chief Executive Officer – Phoenix Group
Shall we go along then? Alan next, yeah?

Alan Devlin, Goldman Sachs
Cool, thanks. Alan Devlin from Goldman Sachs. A few questions on Retail. One of your largest competitors are buying wealth managers to try to capture the in-force running off. Given you've got the biggest in-force, is that something you would consider?

And then, secondly, related to that, your kept mentioning the 90% of people that don't get advice, you know, the FCA, you know, trying to get a simple advice offering. Is that something you would consider investing in as well, and would that, kind of, fit into your plans?

And then, thirdly, you mentioned you don't have a D2C offering or a platform. You know, there's plenty of platforms out in the market, you don't want to build one, but would you consider acquiring one? Thanks. On the Intermediary side that is.

Andy Briggs, Group Chief Executive Officer – Phoenix Group
Sure, yeah. Andy, why don't you take those? Andy chairs the ABI's Long-Term Savings Committee as well, so has quite a strong interaction with the regulators on advice and guidance, and we've often talked about some of the acquisitions in the market.

Andy Curran, Chief Executive Officer – Standard Life
We have. Thank you for the question, Alan. This has been an ongoing debate since retail distribution review where there was a bifurcation between commission and how the end consumer actually pays for advice. And the challenge so far has been that most people have been pushed out of the advice world, fundamentally, because of cost. So, the cost of advice is just too expensive unless you have a lot of assets.

To answer your question directly, we have no intention of purchasing a wealth manager. I wouldn't be going down that route. I don't think it's where it's going because, actually, and I mentioned in my slides, with things such as the Pensions Dashboard coming along next year, with Consumer Duty coming along this year, and the FCA having a think about where does that advice and guidance boundary land, we think this is an interesting opportunity for us. Because, when you think you about Consumer Duty, in a nutshell, what the regulator is looking for us to do is engage in a much more proactive way than we maybe have done the past because they are conscious of this advice and guidance gap.

And we think, through working closely through things like the ABI and, indeed, directly with the FCA, we're working closely with the industry to just work out how do you address that engagement with the consumer, because the fundamental problem still applies that people are not saving enough for their retirement and they're going to live longer. So, working out how do you help in that space is very important.

In terms of individual platform approaches, you have seen many platforms, retail platforms being bought for, what I would describe as eye-watering multiples over the past number of years. Again, we don't see the opportunity to go down that route, or it's maybe an opportunity but it's not a route we're going down.

There are other ways to access that market. So, you can partner to access the market, I mean you could also engage through interesting and new product propositions, which is more towards the bias of what we're talking about. Tom and Colin will work together, along with the broader team, thinking about how do we pull together interesting, innovative, new products in that space which will also sit on a variety of different platforms.

But as to your two questions, no to wealth management and no to buying an individual platform business.

Andy Briggs, Group Chief Executive Officer – Phoenix Group
Does that cover it, Alan?

Alan Devlin, Goldman Sachs
Yeah.

Andy Briggs, Group Chief Executive Officer – Phoenix Group
Yeah, great. Do you want to go along to Gordon then?

Gordon Aitken, RBC Capital Markets
Thanks. Gordon Aitken from RBC. Three questions, please. First, on longevity reserve releases, just the £1.3bn to £1.4bn cash generation you've talked about for this year, is there a reserve release built into that or would any reserve release be incremental to that?

Second question on lifetime mortgages, I mean, I guess the regulator's concern has always been, of course, that at the point of death or moving into care, the rolled-up loan exceeds the proceeds from the house sale. Maybe you can talk about what proportion of lifetime mortgages has the no-neg, sort of, bitten historically, and what do you assume when you give out new lifetime mortgages? And maybe if you just talk about, sort of, relative to 1 in 1,000 because that's the number that I've heard in terms of probabilities, in terms of the no-neg biting.

And the final question is to Tom. I mean, you're probably uniquely positioned to say what the key difference is between the annuity businesses at Legal, Aviva and Phoenix are. Are they all the same or have you, you know, learnt things along the way and said – oh, actually, I did that I won't do it again?

Andy Briggs, Group Chief Executive Officer – Phoenix Group
So, I'll take the first. I'll get Tom to take the second and the third, but just to reassure you he won't be giving 1 in 1,000-year sensitivity numbers out [laughter], and he'll be commenting on Phoenix and our position in the market generally rather than specific competitors, yeah, but he'll do that in a second.

On longevity reserve release, so no update from half year. We remain, we believe, very conservative in terms of our longevity, but we don't expect a material reserve release this year and aren't planning that in the numbers, so we're not expecting a material reserve release, we haven't assumed a material reserve release in the £1.3bn to £1.4bn cash generation target, but we'll give a fuller update on all those matters at year-end.

I've decided that year-end, actually, that Rakesh is going do all the work because he's having a day off today, so I'll just do a quick hello and then just hand to him for the lot, so he can make up for his day off today. But Tom, do you want to pick up on the other two, yeah?

Tom Ground, Managing Director - Retirement Solutions
Yeah, sure. So, in terms of the LTM book, overall, we've got about £4bn worth of LTMs. The loan to value across the book is very low, so around 30%. The number of losses that we've experienced across the whole book is negligible, I mean, sort of, low single digits, and so I don't know how that relates to 1 to 1,000 events, but I'm not going to go there.

And then in terms of the comparison to the BPA practice, obviously, I built out the business at L&G and I also built it out at Aviva. I think, certainly, there's 3 things that you need to be really good at in terms of BPA, the first is assets. I think we've got a very interesting strategy which is to be open source on the asset origination. That's allowed us to be very quick at deploying into getting literally the best assets from the best fund managers. And actually, in terms of cost it's negligible, and so you don't get the overhang of, sort of, internal conflicts of interest with internal fund managers. So, that's the sort of, asset perspective.

The second, sort of, key risk that you're taking on is longevity risk, and so there's probably two things you can do there. The first is you can reinsure the risk, so, we've built out a panel of 14 reinsurers, so pretty much everyone in the market, we've now got a umbrella contract with which allows us to execute the reinsurance fantastically quickly.

And clearly, having built out all of the tools and systems that you're building to support that quote process, having done it a couple of times before, I now know exactly where to go, and so all of that process is full automated and technically enabled with the, sort of, best price systems that integrate automatically with your reinsurers. So, that gives you a really good deep expertise on that.

And then the third thing that you're really taking on is administration. And so, we, sort of, outlined that we've put in place a strategic relationship with Equiniti, but they have, what I think, is the leading platform, which is called Administrator, that services more DB pension schemes than anyone else, and we think that we've managed to build the DB integration capability and link that really solidly with, you know, what we then need for an insurance business.

So, we think that gives us the competitive edge, and because it's all modern infrastructure, it allows us to integrate really carefully with Colin's world so that you can look at a DB and DC pot, if you've got a Standard Life policy on the same system, which we think is quite cool and think it gives us a bit of a differentiator, certainly in terms of scale, but, you know, in terms of the service levels that we can put in place.

So, I don't think I mentioned any in there! [Laughter]

Andy Briggs, Group Chief Executive Officer – Phoenix Group
Perfect, Tom - thank you. I know you guys are all after extra numbers out of us. Well, we'll keep going along.

Mandeep Jagpal, RBC Capital Markets
Mandeep Jagpal, RBC Capital Markets, thanks for the presentation. Three questions from me, two on BPA and one on dividend growth. So, for the capital strain by 2025, you noted 5% as the target. What do you assume is the level for competition in the market by that stage? I'm hearing anecdotal evidence that many schemes are seeing fewer insurers taking part in pitches given the number of requests that they're getting, so are you assuming the competition levels for BPA are the same by 2025, or is it something different?

And just to follow up on longevity, we understand you use a large panel of reinsurers, but Tom also mentioned a Bermudan reinsurance entity to enhance reinsurance options going forward. What's the thinking there? Are you expecting to retain more longevity risk in the future maybe?

It's the final one on dividend growth, clearly, you know, excellent levels of cash generation are expected, £0.5bn of long-term free cash from 2025. Given this is, kind of, a massive increase in the dividend capacity, or a big amount of dividend capacity, how will this translate to actual dividend growth? Could we have a bit more colour on that?

Andy Briggs, Group Chief Executive Officer – Phoenix Group
Sure, okay. So, I'll take the third of those and then Tom will take the first two. So, our dividend policy is we pay a dividend that's sustainable and grows over time, and the Board forms a judgement on that. It's not formulaic, it's a judgement based on a range of factors, but the most important consideration for us is that it is sustainable over time. So, we don't want to get ahead of ourselves, we want the dividend to be sustainable over time, which is why I did the slide towards the end there, that basically, had the walk to the, you know, growth in long-term free cash of £500m a year.

If you, sort of, think the driver of that is basically the new business long-term cash generation. So, that's going to emerge over the lifetime of that business, that's the driver of that, so that's what's going to emerge over time.

But that £500m was after we'd invested £300m of capital in BPA, and it's also the £1.5bn new business long-term cash generation is after both the acquisition costs and any capital we put into any of the other products. It's only BPA we're funding at a Group level, everything else, capital strain is embedded in there.

So, basically, it does mean that that £500m is available for dividend growth. It's not a formula, we are focused on the dividend being sustainable 20+ years, but it's a judgement the Board form rather than a formula, but hopefully that gives you a sense.

And I think a key point I would make is we are confident in the strength of growth of our organic growth franchise that we can hit that, and will hit that £1.5bn target, and that, clearly, is going to be very attractive in terms of consistent ongoing organic dividend growth.

Tom, do you want to pick up on the BPA side?

Tom Ground, Managing Director - Retirement Solutions
Yeah, for sure. So, in the terms of the question, is the market going to get more competitive? So our approach is that we have built the, sort of, pricing systems and processes that we quote on 90%+ of the market. The bit that we probably still aren't quoting on is the stuff that's, sort of, less than – we had it at about £100m, but I think we've probably got a little bit smaller as the rates have gone down, so there's probably, you know, 5% or 6% of the really small transactions that we're not quoting on, not because we don't to, we could if we wanted to, but we just choose not to.

And so, effectively, what we'll see in terms of competition is, if the price is high, I don't think that we'll not be submitting quotes for those opportunities, and we'll, you know, seek to try and maximise the value that we're deploying the capital at. So, it could be that the margins improve slightly as result of that. There are the volumes that we see in, you know, the LTP you're talking about come through.

And in terms of the second question...

Andy Briggs, Group Chief Executive Officer – Phoenix Group
It was the longevity reinsurance and the Phoenix Re in Bermuda...

Tom Ground, Managing Director - Retirement Solutions
Yeah, so in terms of the longevity reinsurance, so, effectively, we see lots of capacity for longevity reinsurance. We're still working through as to whether the changes in the matching adjustment will be more economic to retain more longevity risk going forwards.

I think we've done lots of work to prepare us so that, if we did want to retain longevity risk, we can. So, we've procured a whole series of data sources on the external market, and then, separately, we've married up all of our in-force 2m annuities so that we have a fantastic ability to be able to analyse for longevity risk, which I think is pretty much unrivalled. So, I think the question is up in the air.

In terms of what we're looking to do with Phoenix Re, we principally see it as an opportunity to consolidate all of our annuity books into a single place, and so there's advantages of co-mingling, and we think that's the sort of, initial use case for it.

Andy Briggs, Group Chief Executive Officer – Phoenix Group
I guess I'd just quickly add, firstly, I've never met a finance director in any sector, service, administration, any sector anywhere, that's pleased to have big defined benefit scheme. In fact, the ones I talk to post the LDI crisis, are even more keen to offload it.

Interest rates being higher, as Tom said earlier, make it much more affordable, so I think there is a case to say that the market does grow quite significantly. There are £1.4tn of liabilities here.

The barriers to entry to be a direct writer are high, for the reasons Tom has outlined, so we do see quite a lot of third-party capital interested in coming into this space, and that's one of the options Phoenix Re would give us, the option to effectively, originate. And you saw on one of Tom's slides earlier, the Quota Share Reinsurance, which, effectively, is managing our level of credit risk, but, you know, we're originating at particular terms and then the third-party capital that can't write directly will take a lower return on capital. You end up with origination fee in the process.

So, shall we go on to Farooq and then I will come down the front in a minute, I promise.

Farooq Hanif, J.P. Morgan
Thanks a lot. I've got two microphones! Farooq from J.P. Morgan - three questions, please. Could you talk about the huge jump you've seen in wins in the corporate pensions Workplace? I mean, is that just the Standard Life brand? What are the other levers that have contributed to that, and how is that going to translate into your success in Retail annuities? So, the question there is number one.

Question number two is, again, when you look at that growth in incremental new business cash, it's all coming from Pensions and Savings. Is that you getting to a sort of, level of proposition or is that momentum that we could see beyond 2025?

And I guess, lastly, sort of, added to that, what is the kind of mix in that £500m? I mean, what are you thinking? Is it mainly Workplace or is that sort of, Retail side growing more? Thank you.

Andy Briggs, Group Chief Executive Officer – Phoenix Group
Sure. So, look, Farooq, I'll touch on the third and make an observation on the first two, then pass to Colin to fill in, and, Tom, you might want to just add on the Retail annuities as well.

So, the mix in the £500m, what we're saying is the £300m we've said today, for this year, is roughly £200m Workplace from £2bn of positive net fund flows, and it's roughly £100m from everything else, mainly Retail but also the Europe and SunLife business as well, yeah.

So, we're not giving a split of the £500m, but you can see, if we're going from £2bn of net fund flows in Workplace to £5bn, you know, if we've just won £2bn of new schemes when we haven't got the money yet, that's coming over the next 12 to 24 months, you can see that Workplace is going to be a strong driver of that, and we're not setting heroic targets of what we might achieve on the Retail side, and, therefore, I think there's definitely potential to go, you know, beyond 2025 to go further still. Because, you know, back to one of the earlier questions, 90% of people don't take advice on that journey to and through retirement. The first place they turn is their existing providers because why wouldn't they? – I don't understand this pension stuff. Help. And what we have said, historically, is – we can help you find an IFA.

What we're building a capacity to do, and have built the capability to do, is actually engage with them and say – we can help you with all that. We, the Phoenix Group, own Standard Life, fantastic, wonderful, digital – etc. etc. yeah.

So, on the, kind of, the first two, I guess the comment I would make, which the guys won't themselves, and then I'll leave them to give the rest of it, is I've learnt in my 30+ years in this sector that getting the very best people makes my life easy, getting the very best people around me, and that's what we've basically done with the three gentlemen to my left on and onwards. We've gone in the market and hired the very best.

Because of that sense of purpose around what we do, people want to join us. We have been able to pick the best of the talent in the market, and we haven't had a challenge doing that. And ultimately, this is a relationship game, and the advisors out there want to deal with people they trust, and you don't go and win big workplace pension schemes unless that advisor really trusts you with their biggest most important clients, they're just not going to do it, and they trust people, that's what it comes down to.

But, Colin, add a bit. You're not going to sing your own praises, I'll do that for you, but add a bit of colour around what you think has been behind the Workplace, the jump in Workplace wins and the drivers of that.

Colin Williams, Managing Director - Pensions and Savings
Yeah. Well, I obviously then went out and hired another load of people who actually, you know, are properly doing the job, you know. It is a relationship business, it's a technical relationship-based business, it relies on trust in the marketplace, you know, and it relies on the market really thinking that, you know, we have conviction in this market and we're here to stay. These are long-term contracts, you know, intergenerational contracts almost, and so it's taken a while to, kind of, rebuild that trust. I think we're there now.

We've built the proposition, really pleased. We've got an award-winning Master Trust. It's really going from strength to strength. The investment proposition is one of the best out there in the marketplace, you know, and we're reaping the benefits of that at the moment.

Ironically, over the next couple of years, one of the things, and it kind of touches on the kind of, recessionary environment, but with greater wage inflation, most people will allow that to flow through into their pension contributions in the workplace. So, we're actually expecting to see an uptick over the next couple of years, especially, you know, as that, kind of, greater wage inflation runs through the pipe.

In terms of how it feeds into Tom's business, obviously, you know, Tom's building that business. We have tens of thousands of customers who want to buy an annuity at the end of their end of their retirement accumulation journey. Tom?

Tom Ground, Managing Director - Retirement Solutions
Yeah, so in terms of Retail annuities, we really ought to be the market leaders. We have more customers coming into retirement than anyone else and, at the moment, we don't have a open market offering. So, it's a pretty simple, sort of, win to create an open market offering.

The market's not massive though, so last year it was about £4bn. We do expect it grow a little bit as, you know, you're getting 50% more for an individual annuity. So, you know, it will be an interesting offering to launch, and a good complement to our products, and also is the backdrop to then launch, sort of, more blended-type offerings where, you know, you're providing certainty but not necessarily all of the contractual guarantees that an annuity does. So, we think it's going to be the backstop to then launch a more innovative range.

Andy Curran, Chief Executive Officer – Standard Life
May I?

Andy Briggs, Group Chief Executive Officer – Phoenix Group
Yeah.

Andy Curran, Chief Executive Officer – Standard Life
Farooq, just to say, I wouldn't underestimate the impact of Consumer Duty coming through in all of this. This is a big legislative change, and the responsibility for companies like us to be on the front foot will significantly change over the next 24 months or so, and that gives us an opportunity to really engage on a retail basis, across a myriad of customer needs, and that's why it's important for all of us, the guys to my left, to make sure we work together because we do see a huge amount of opportunity there over the next 3 or 4 years.

Andy Briggs, Group Chief Executive Officer – Phoenix Group

I'm going to come down to Charlie, and we will come back to anyone over that side, I promise, otherwise these guys might leave or fall asleep. Charlie, go for it.

Charlie Beeching, KBW

Thank you, Charlie Beeching, KBW. You currently source, as it's primarily via an external network. Will you be looking to develop alternative asset origination capabilities to back BPA liabilities?

Secondly, more broadly, would you look to have an internal asset manager over time, as a number of your competitors do, or are you happy with the status quo of outsourcing your asset management with abrdn as your key partner?

And then, finally, you point to medically underwritten individual annuities and lifetime mortgages both being appealing growth areas. Might you look at achieving this inorganically through acquiring a certain competitor that specialises in these products? Sorry, a bit of a cheeky one.

Andy Briggs, Group Chief Executive Officer – Phoenix Group

Okay. I think they're all three for me, aren't they? So, taking them in order – so, on asset management, when I arrived at Phoenix beginning of 2020, it seemed to me one of the biggest value drivers, both for our customers and our shareholders on the shareholder assets with annuities, was asset management, and I really wanted to invest significantly in our capability in that space.

So, we created Phoenix Asset Management. Mike Eakins joined us along with Nuwan and a number of others through the ReAssure transaction. And what we've basically got is a team there that are doing, you know, really high calibre investment professionals that are doing the strategic asset allocation. They're thinking, for each of our funds, with-profit funds, customer funds, shareholder funds - what's the right strategic asset allocation?

Whenever there's an asset class we're interested in, we then go and get expertise in that asset class, so we know exactly what we're doing in that asset class. And we then look to partner with the best asset manager in each asset class in each geography.

Where we're at in terms of illiquid assets today is that they're on non-discretionary basis. So, we're effectively already sourcing quite a lot of those illiquid assets, we're making that investment decision ourselves. We're just working on conjunction with a partner for the ongoing management of that. And we are building the capability, and we expect to do direct illiquid asset origination ourselves in due course, probably towards the back end of next year in small scale where we can do that and manage that ourselves. We're building those capabilities. We're always very careful to manage the risk in anything we're doing and make sure we've got the capability to do so.

What is possible is that we'll start to work on a more non-discretionary basis on the, you know, corporate bonds, yeah, that's possible. We're already making strategic asset allocation calls – we made the call to put £1.5bn or so into North American credit earlier this year – that's a possible evolution.

What I don't see us doing is ending up, you know, buying or creating a full-blown asset manager. So, fixed income, credit side, I could see us evolving to do more over time, particularly on the illiquid asset space. The world of asset management, in my view, is either scale players that are doing, kind of, passive or it's, kind of, boutiques with specialism. We think we'll serve far better for our customers and shareholders by partnering with the leading boutiques in different areas, broadly speaking.

In terms of medical underwritten annuities lifetime mortgages, so, across all of the open business, we are confident we can achieve everything we want to organically from where we are. We're building the capability, we can bring the capability on board. We're confident we do all of that.
I wouldn't rule out small capability-based acquisitions, but they would only be small, and so I don't know which competitor you were alluding to, but I would say it's possible that we would look at small capability-based acquisitions. We don't plan to be buying platforms or larger open businesses, wealth managers and so on. We think we can get where we need to get to organically with what we have. Andrew?

Andrew Crean, Autonomous
Hello, it's Andrew Crean here from Autonomous. A couple of questions. That slide where you had £0.5bn of cashflow coming out from 2025 on, could you give us a sense of the decline in the heritage cashflows so that we can get to a sort of, net basis because I think what we're all really trying to do is work out what your organic dividend growth is when you do £1.5bn of long-term cash generation.

And then, secondly, you talk quite a lot about your 13m customers, of which I'm one, there's not a lot of contact between you and I, and I know there's rules around Workplace where you're not allowed to actually attract their customers, so could you just give us a general answer as to how many of those 13m you actually have real relationships with and where the customer actually thinks that you are, you know, a key financial support to them?

Andy Briggs, Group Chief Executive Officer – Phoenix Group
Yeah, thanks, Andrew. So, look, I'll get Andy to pick up the second question, but I think Andy was very clear that we started off on BPA and then we moved to Workplace, now we're moving to Retail, so we're very clear we're in the early stages of looking to do this. My wife also has an old MPI ABC, and she's waiting for the call as well. [Laughter]

So, on the cash generation side, so, what I'd probably do is refer you back to our Capital Markets Day back in 2020 where we talked about the in-force cash and the rate at which that runs off, and then we talked about, as we write new business, what the kind of broad cash profile of that is as well.

But the way I would summarise it as that that £0.5bn of cash, increase in long-term free cash, is emerging over the duration of that business, but it's after what we've invested in BPA, it's after acquisition costs, and any capital on individual annuities as well. So it is available for dividend, and we are looking to be confident that our dividend is sustainable into the long term, which, as we've said today, we consider to be 20+ years, but it's not a formula, it's a judgement formed by the Board each year.

Andy, do you want to pick up on how we're thinking about approaching Andrew for his retirement income?

Andy Curran, Chief Executive Officer – Standard Life
Sure.

Andrew Crean, Autonomous
Well, I've just lapsed actually! [Laughter]

Andy Curran, Chief Executive Officer – Standard Life
It just gets better and better! [Laughter] A couple of things – the reality across the whole Group is different levels of knowledge about our customer base. So, one of the first things we did was recruit someone who would gather up all of our data to make sure we got all of our customer data from all of our various platforms. So, we've had data scientist capability within the business, which you would think, actually, well, that's an excellent step forward, but in fact, if you don't have what the marketing folks call 'marcoms', or a marketing communication capability on top of that, having the data is not enough.

So, we have spent the last two years really getting the data in a good shape. We now have the ability to do much of the marcoms, the marketing communications that go with that, so we're much more tailored. And alongside all of that, what we've also done is done a good deal of customer research, so we understand consumer behaviour across the various books of business.

So, with all of that done, you should look forward to hearing from us very soon. [Laughter]

Colin Williams, Managing Director - Pensions and Savings
Possibly next week. [Laughter]

Andy Curran, Chief Executive Officer – Standard Life
Definitely next week! The serious point in all of this, actually, the reality is we have an enormous amount of headroom, we have an enormous amount of headroom. Regulatory pressure will be on us to improve what we do and how engage, which is good.

The consumer need to engage is obviously there, and it's clear. So, from our perspective, having got that foundational work done over the past couple of years, and got that ability to engage with our customer base, and improve the quality of our user experience, so through products, digital engagement and the like, we can see no reason why we wouldn't be extremely successful.

Andy Briggs, Group Chief Executive Officer – Phoenix Group
I'll just add a quick bit of a colour to that. So Anna Franekova runs our M&A Corporate Development side, sends me out regularly for the cups of teas with the CEOs of people who own these other businesses, so I spend a lot of time doing that, but I always make sure I spend an hour a week with the guys in the frontline dealing with our customers in exactly this sort of area.

I had a session with them recently where they've done a pilot in, basically – so you've said you've recently lapsed, so you know, we've got £7bn to £9bn a year, that's very common. It's already built into our cash forecast, so anyone we persuade not to lapse is upside, yeah, but we get that a lot.

What we've been doing is trying to use the customer data that Andy's been talking about to try and predict who are the customers likely to lapse in advance of them, and we're getting about an 80% hit rate, I think, Colin, on that, yeah, in terms of predicting that.

So, we're actually quite optimistic that, as we work this through, we can get to people before they get to the point they want to do something, and approach them at the right time with the right offer. And, as I said, you know, only 10% take advice but virtually none of them have that advisor when they get there, they just decide to go and find one at that point in time, yeah, so the opportunity with one in five UK adults as our customers is to engage. Andy?

Andrew Sinclair, Bank of America
Thanks, Andy Sinclair from Bank of America. Usual three. Firstly, it was just one Workplace, Workplace schemes coming to market annually, just wondered if you could put some numbers around it. I mean, broadly how much is coming to market each year is genuinely available for you to pitch for in the Workplace market, in terms of new schemes that is, and what do you think your fair market share is, kind of, over the longer term? That's the first question.

Secondly, it was annuities – you talked about mid-teens IRRs, just really wonder if you could tell us on what basis that IRR is calculated? Is that IFRS 4, IFRS 17, Solvency II? How should we think about those mid-teens IRRs?

And thirdly, we're just going back to the £500m of long-term cash left over on slide 57, should we think about any of that being held back for M&A or should we just be thinking about £500m spread over 20-ish years, about £25m a year, and a compare that to your £500m divi cost? Thanks.

Andy Briggs, Group Chief Executive Officer – Phoenix Group
Yeah, sure. Okay, so, I'll take the second and third and I'll get Colin to take the first, but he won't be giving you a market share specific prediction, just to be clear.

So, on the annuities, so what we're looking at there is a post-capital management policy, Solvency II capital basically, so that is what relates directly to cash and capital and dividends, yeah. And what we're saying is we've achieved mid-teens this year and our goal is to achieve mid-teens going forward. So, you know, that's a real genuine what makes a difference to cash and capital and dividends post capital management policy, yeah.

In terms of the £500m of M&A, so, basically that £500m is being driven by new business long-term cash generation, which, by definition, emerges over time, over the lifetime of the business. So, that is what we would then think about in terms of organic dividend.

You want to look more to the management actions, and in that, that only had Own Funds management actions. A lot of the management actions we do accelerate future cash forward, so we've got a target of £4bn of cash generation, you know, so that's the kind of, cash coming out now from the Life Cos up to the Group level, a target of £4bn over the 3 years.

Clearly, within that, that's going replenish our already quite significant M&A war chest, yeah, so almost, kind of, think about those two things separately. One is generation of long-term cash over time, which is how we would think about dividend, you know, you're not going to save a bit of that each year to build an M&A war chest, that's more about the management actions and outperformance on management actions, particularly accelerating capital, and that £4bn target we've got in the shorter time.

Colin, on the Workplace schemes…

Colin Williams, Managing Director - Pensions and Savings
No market share? Okay, good. So, there's a couple of drivers for growth in the Workplace market. Obviously, there's the underpin of, kind of, demographics, people are living, working, saving for longer, retiring later, they're saving into DC, not into DB – which is an opportunity for both Tom's business and mine – but there's also the kind of, structural shift that's going on.

So, a lot of own rules trust business is moving into Master Trust at the moment as well, but normally, as I say, I've run Workplace businesses forever, before this year, I've never seen a pipeline greater than about £2bn in any provider that I've worked for, and it's standing at about £5.5bn at the moment of opportunities, the opportunity pipeline that we're pitching for. So, it's, sort of, an order of magnitude larger. A lot of that's been driven by the growth in Master Trusts, so that's schemes moving around from their own rules, you know, internal, kind of, own rules trust into Master Trust.

There's also a really emergent market now in the secondary Master Trust market. So, I think people originally thought, in our market, you'd, kind of, go to a Master Trust and you'd stick there forever, and I think there was a big dash to go to Master Trust. Now, people are shopping the market, so the propositional quality's really, really important.

I think we've got a great pensions proposition out there, our Master Trust is particularly good, and I'm hoping we'll win more than our fair share of the business that comes into the marketplace going forwards.

Andy Briggs, Group Chief Executive Officer – Phoenix Group
Shall we keep going along?

Nasib Ahmed, UBS

Thanks, Nasib Ahmed from UBS. So, first question related to the questions previously from the two Andrews. Your £800m long-term cash generation that you need to offset the in-force run-off, that was set in 2020, as you said, but you've grown the business since then, and you're, kind of, integrating Sun Life acquisition next year as well, so shouldn't that be a little bit higher in terms of what you need to run off the existing in-force since 2020?

And then on slide 8, the customer journey, are all of those open businesses Standard Life branded and how does TCS customers, out of interaction, fit into that? So, if I, kind of, have a policy, call up a TCS call centre, will they recommend a Phoenix or Standard Life policy, for example, in annuity post workplace? How does that relationship work?

And then, finally, a question for Tom on the £30bn to £60bn that LCP are predicting for 2023. I think you get to the £60bn if there's a couple of big deals there. Would you, kind of, play in the £10bn+ market, and presumably you do some funded reinsurance there, and that means that your strain's, kind of, half's right. So, if you do £10bn, 50% funded reinsurance, so that's an easy way of reducing your strain, but presumably that's not in your 5% target, right, that's now how you're getting there?

Andy Briggs, Group Chief Executive Officer – Phoenix Group

Okay. So, just in terms of the last question, potential for BPA. I mean, I, kind of, wouldn't totally rule it out, but exactly as you say, we would need to put some reinsurance arrangements behind it to consider that. We're not assuming that in getting to the 5% target.

So, we're more likely to play around, you know, the sort of, few hundred million up to, you know, a couple of billion. We did 2 £1.7bn transactions last year, we've done a case this year over £1bn. I wouldn't completely rule it out, and that's part of why we're building Phoenix Re and, as we talked earlier, we have the Quota Share Reinsurance. So, we're not assuming material amounts of that in getting to the 5%, and the extent that we get origination fees would be an upside opportunity.

In terms of your first question, I'll get Colin to pick up the second one in a second, the first question, if you look at the walk on the slide, that's £0.9bn, so exactly as you say, we're growing and, therefore, that walk on the slide that got to the £500m that you're talking about, the uses are on there as £0.9bn, yeah, so exactly as you say, to reflect the growth we're delivering.

Colin, do you want to pick up the second question around the branding and interaction, yeah?

Colin Williams, Managing Director - Pensions and Savings

Yeah. So, across that, kind of, customer lifecycle, you know, it's predominately Standard Life branded for the open division. As we start to look at supporting, kind of, the broader in-force book, actually, it's an active conversation at the moment, you know, because, actually, it can go one of two ways; we can either brand out what we do in the heritage brands, or, you know, we can let them jump the fence into the Standard Life brand. I'd also say that, actually, in terms of open products, the SunLife brand is in there as well.

Nasib Ahmed, UBS

And how does TCS interact with that?

Colin Williams, Managing Director - Pensions and Savings

So, TCS, they run our call centres, and for them, it's just a matter of mapping, so, literally, it's a live conversation, I was having it with TCS earlier on this week.

Andy Briggs, Group Chief Executive Officer – Phoenix Group

But in reality, if you remember Colin's chart, that, sort of, front office, we had some that was in Phoenix Group, and some was with TCS. Once we start getting into these deeper conversations about consolidating pots and helping people with guidance and so on, that would be our in-house teams that would do that, yeah. So, we'll get a kind of, feed through from TCS of where the opportunities are for us to then outbound to those customers. Andrew?

Andrew Baker, Citi
Hi, thanks, Andrew Baker, Citi. Three questions, please. The first two are both on the new business target that you put in place today. So, the Retirement Solutions, you're increasing by £100m, is that primarily just because of the reduction in strain or does that include anything material from the new individual annuity product that you mentioned?

Then, on the Pensions and Savings piece, in 2025, how much of the £500m from Pension and Savings is from, sort of, organic increases from the Workplace that is already on the books?

And then, finally, just in terms of this year's BPA strain and cash multiple, is there any difference, if you exclude the transaction that you did on your own plan? Thank you.

Andy Briggs, Group Chief Executive Officer – Phoenix Group
Okay. So, I'll take all of those. The Retirement Solutions target, the extra £100m, it's a combination of the two basically. So, it's coming from the capital working harder for us as we get more capital efficient, and the work we're doing on Retirement Income and Mortgage Solutions. You know, Tom follows the Phoenix philosophy of under promise and over deliver.

So, on Pensions and Savings, I would say that the lion's share of that increase is coming about from our existing customers, and we'd already, today, 90% of that Workplace long-term new business cash is coming from our existing customers. As Colin said, how many businesses get 250,000 new customers a year before they even start to trade? So, the lion's share is coming there, there's nothing particularly heroic in terms of winning new new business in the marketplace.

And your BPA question? Sorry, I didn't write it down.

Andrew Baker, Citi
Do you exclude your transaction on your own plan?

Andy Briggs, Group Chief Executive Officer – Phoenix Group
Oh yeah, not materially different, yeah, not materially different.

Andrew Baker, Citi
Great. Thank you.

Abid Hussain, Panmure Gordon
Morning, well, afternoon actually, it's Abid Hussain from Panmure. Actually, I am a customer, and I haven't lapsed yet, and I am looking forward to the call, Andy. Two questions from me, if I can, please.

Firstly, on Pensions and Savings, can you just give us some colour around the competitors and the competitive landscape separately in Workplace and in Retail? Are you coming up against other insurers, against asset managers, or both? And is this space more or less competitive than the BPA market? From the outside, it feels like it's more competitive than BPAs.

And then the second question is on BPAs and fronting. It feels like you're missing an opportunity by not focusing on the fronting market by originating deals and passing out the risk through the backdoor given LCP's predictions in the market size there, so if you could just talk to that, please?

Andy Briggs, Group Chief Executive Officer – Phoenix Group
Sure. So, I'll get to Tom to talk to the second one, and I'll get Colin to talk to colour around Pensions and Savings. The one bit I just want to quickly add before I pass to Colin, in terms of competitors relative to BPA, basically, you know, Pensions and Savings is fee-based capital-light business, so very attractive, but it's still a margin and cost efficiency is critical. And when I joined Phoenix, I was really, you know, hugely pleasantly surprised about our ability to leverage the TCS partnership to get market-leading cost efficiency.

So, the fact that our Workplace marginal unit cost is halving from what was already not bad in Standard Life, now as part is Phoenix Group, I mean, that's something that is so, so hard for other replicate in that market, and in a relatively thin margin business where cost is a larger part of the value chain relative to, say, BPA, getting that lower cost is hugely beneficial. But, Colin, do you want to give a bit of colour about the competitive landscape for Workplace and Retail?

Colin Williams, Managing Director - Pensions and Savings
Yeah. So, in Workplace, you know, in the Master Trust market, it's broadly insurers and EBCs who've launched their own Master Trust propositions, so that's predominantly it. There was a massive explosion in the number of Master Trusts before Master Trust authorisation because it didn't require any capital to be put down, so there was an absolute proliferation of them. Then Master Trust authorisation came in, which is why you're now seeing that market contract, because it was an easy way of getting, kind of, around and into the marketplace. And with regard to insurers, kind of, all the normal names, most of which I've worked for over the years.

In terms of the Retail market, it's a very crowded space. There are lots of platform propositions out there. I think that's why we're going to focus on our in-force book because I think that's where the opportunity is. So, it's a combination of some very big, kind of, you know, platform opportunities, you know, that have been bought for hundreds of millions of pounds, you know, and then, obviously, that's going to work through into the economics of how they price that business. That's where we don't want to go. We want to make sure that we retain our cost efficiency because that'll flow through into our pricing.

There are also quite a number of, kind of, fintech-y digital start-ups, and I think where they perhaps struggle a bit more is they haven't got a known or trusted brand, or it's very difficult and expensive to build that, and they don't have the in-force to look after.

Tom Ground, Managing Director - Retirement Solutions
So, the second one about fronting arrangements?

Andy Briggs, Group Chief Executive Officer – Phoenix Group
Yeah.

Tom Ground, Managing Director - Retirement Solutions
So, in terms of BPA fronting arrangements, we've done a reasonably good job of putting in place QSR transaction partners. So, we've put four different umbrella contracts in place with different counterparties. That means there is an option for us. And then, separately, we're working on Phoenix Re, and so I think it's definitely something that would allow us to increase our capacity above our £300m at some stage.

I mean, in terms of healthy competition, the BPA market, you know, there's eight very active players. It tends to be that, for the different opportunity sizes, it tends to filter itself down. We think there's slightly less competition for slightly bigger opportunities in it, and this tends to be more at the sort of, bigger end, and then more at the sort of, slightly smaller end, there seems to be less competition again. So, I think there's a sort of, difference in the market positioning for each opportunity, yeah.

Andy Briggs, Group Chief Executive Officer – Phoenix Group
Steven?

Steven Haywood, HSBC

Thank you, Steven Haywood from HSBC. Two questions, please. Right at the beginning of the Capital Markets Event, Andy, you mentioned that you are looking at the single best way of doing things, you know, single internal model, does this apply to your administration base as well? Are you going down to the single TCS or ALPHA platform as well? Have you made a decision there?

And then, right at the end of the presentation, you highlighted that, from 2025, you see very attractive DPS growth. Can you very define very attractive to us because I would say that would be high single-digit DPS growth? Can you give us any more colour around that? Thank you.

Andy Briggs, Group Chief Executive Officer – Phoenix Group

Yes, so on the second one, nothing more to add to what I've said. Our dividend policy, it's sustainable and grows over time, you know. The £500m is after investment into BPA capital after acquisition costs in terms within the £1.5bn target, and we want the dividend to be sustainable into the long term, which, you know, for us, currently, is 20+ years. But the dividend is a judgement the Board forms each year in March, it's not formulaic, which is what you'd hear from pretty much any company.

On the first question, so absolutely, the philosophy is we invest in a single best way of doing things, and it's the reason why we can deliver those cost efficiency numbers that I talked about earlier on, and that goes across all aspects of the business, you know, finance and actuarial systems, internal model, legal entities, and so on and so forth, as I said earlier.

So, given the number of integrations that we've got on the go, at this stage, we're running TCS and ALPHA together. We haven't made a decision to do anything other than that at this stage. Were we to decide, in due course, to combine to one, there would be further synergies that aren't in our current synergy targets, but, you know, there's a big book of work on the go here, and so we're, kind of, taking things in a sensible orderly fashion.

Quite a few of my team nodded at that, so that was obviously a good answer [laughs].

Rhea Shah, Deutsche Bank

Thanks, Rhea Shah Deutsche Bank, two questions from me. So, the first on the BPA for 2022 and going forwards, so you achieved a 3x multiple this year, are you looking to sustain that going forwards, or at least until 2025?

And then the second question is, you've spoken about having hired very good staff over the last few years and building up for your current capabilities, but for all the new launches that you're talking about going forwards, do you need to hire more staff for that? Are there any capacity constraints that you're thinking about there?

Andy Briggs, Group Chief Executive Officer – Phoenix Group

Okay. So, I'll give you a sense on the first one and I'll ask Andy to pick up on the second one.

So, the first one, you know, we're not giving a, kind of, specific target around that multiple, but generally as you improve the capital efficiency, so the multiple will tend to go up, and we were at a 6.5% strain last year with a 2.6x multiple and this, again, won't be directly formulaic, it depends on the nature of the business, but we've seen the multiple go up to 3x this year with the 6% strain.

So, you know, equally, it does depend on the duration of the business, the nature of the business, so don't, sort of, view it as formulaic, but generally speaking, as the strain comes down, the multiple will edge up.

Andy, in terms of people capability, around what we're doing...?

Andy Curran, Chief Executive Officer – Standard Life
Yeah. Largely, I think most of the work has been done. If I were to think about where our focus is over the next 12 months or so, we'll build out, in Colin's world, we'll build out a bit more scale in the Retail advisor space, the IFA space which we've been really absent from for a number of years, and I think there's things we can do there. But when I was saying building out scale, I'm not talking about hundreds of people, I'm talking about in denominations of tens and twenties rather than anything beyond that.

And similarly, just a bit more strengthening about, probably, our D2C/marketing capability as we adjust to the new, sort of, regulatory landscape.

So, nothing in a kind of, huge way in terms of additional capabilities I don't think. I would say that we do always look for quality people in the environment as well, and my phone certainly rings a lot with people who are interested in being part of the journey.

Andy Briggs, Group Chief Executive Officer – Phoenix Group
Are we done in the room? I think we're done in the room. Andrew, any on the webcast?

Andrew Downey, Investor Relations Director – Phoenix Group
Nothing we're haven't already covered, so we'll probably just end it there, I think.

Andy Briggs, Group Chief Executive Officer – Phoenix Group
Okay. Well, look, thanks, everyone, very much indeed for coming along. What I'm going to suggest is the one in five of you that are Phoenix Group customers [laughter], if you leave by that door, then the four in five, we've got a different team for you over that door. No, I'm only joking.

Really appreciate you coming along today. Thanks for your time. We'll be around for a few minutes afterwards if there are any further things we haven't already covered, but appreciate you taking the time, great to see everyone here face to face, and we'll catch up again soon. Thank you.

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