

Full year 2023 results presentation transcript

Speakers

Andy Briggs, Group Chief Executive Officer

Rakesh Thakrar, Group Chief Financial Officer

Introduction

Andy Briggs, Group Chief Executive Officer

Good morning, everyone. Good morning to all of those of you in the room here in London. And good morning to all of you, those of you joining us on the webcast. And welcome to Phoenix Group's 2023 full year results presentation.

Our presentation this morning has three objectives. First, we'll explain our strong 2023 financial results and the strategic progress we've made. Second, we'll update you on the next phase of our strategic journey as we seek to deliver our long-term vision. And finally, we will outline the clear financial outcomes that shareholders can expect as we deliver our strategy.

When I joined Phoenix in 2020, the Group was firmly established as the UK's leading consolidator of closed life insurance businesses and had just completed two transformational M&A transactions in Standard Life and ReAssure.

However, Phoenix was, by definition, a business in run-off. And I was given a clear mandate by the Board to evolve from having a sole reliance on M&A for growth. We've therefore spent the last three years focused on two key areas.

Firstly, integrating these acquisitions and delivering significant synergies, some of which we shared with our customers by, for example, capping charges. And this is why our Consumer Duty provision is only a modest £70m, as Rakesh will cover shortly.

And secondly, we've separately built several competitive growing open businesses. Our successful execution has enabled us to prove the 'wedge' hypothesis, with the new business cash from our Open businesses more than offsetting the Heritage run-off. And that means we are today a sustainably growing business no longer reliant on M&A.

I'm delighted that we've completed this initial phase quicker than expected, as evidenced by the achievement of our 2025 growth targets two years early and the strong Annuities and Workplace businesses we have built.

We're therefore moving to the next phase of executing our strategy. This will see us investing in our business to grow, optimise and enhance as we fully transform into a purpose-led retirement savings and income business that delivers sustainable cash generation over the long term.

We will do this by filling the remaining gaps in our full-service customer proposition, by building compelling retail market propositions and developing innovative retirement income solutions.

We will also now combine our Heritage and various Open businesses together on a single Group-wide operating model. This will enable us to grow faster by offering all of our customers, whether in an Open or Heritage product, a seamless journey across their savings life cycle. And it will support us in becoming even more cost efficient.

And that is why we've evolved our business reporting segments, with our Pensions and Savings business now comprising our Standard Life Workplace and Retail businesses as before, as well as the Unit-Linked Retail business from our former Heritage segment.

In order to deliver on the next phase of our strategy, we will balance the investment of our surplus cash across our strategic priorities of Grow, Optimise and Enhance. This will be done in line with the new capital allocation framework we are outlining today, which Rakesh will cover in more detail later.

Our first strategic priority is to grow. Our investments here will support us in building our Retail propositions and enable the continued growth of our Workplace and Annuities businesses.

Our second strategic priority is to optimise. Here we will continue our journey to pay down M&A-related debt as we target a 30% Solvency II leverage ratio and invest in further enhancing asset and liability optimisation capabilities to support recurring management actions each and every year over the long term.

Our third strategic priority is to enhance. This will see us complete our remaining migration and transformation programmes and move to a single, more efficient, Group-wide operating model. The combination of which will support £250m of annual cost savings by the end of 2026.

Executing on these strategic priorities will in turn deliver strong financial performance across our evolved financial framework of cash, capital, and earnings.

And this investment spend is comfortably funded from the surplus cash available as we deliver substantial cash generation over the next three years.

So, turning next to what this means for shareholders on slide six. We are today introducing our new primary reporting metric, Operating Cash Generation, which Rakesh will explain in more detail later. Simply put, it is the sustainable level of surplus generation in our Life companies each and every year that is then remitted as cash to our Group holding company.

As we outline today, our strategy will deliver strong growth in Operating Cash Generation over the next three years as we grow, optimise and enhance. With a target of £1.4bn in 2026, an increase of 25% from today, after which we expect it to then grow at a sustainable mid-single digit growth rate over the long term.

Importantly, this Operating Cash Generation more than covers our recurring uses and a growing dividend, leaving excess cash that can support additional investment back into the business and/or additional shareholder returns.

This means the Board can now move to a progressive and sustainable ordinary dividend policy with a clear intention to grow our dividend every year while still maintaining the long-term sustainability of the dividend. We see this as a pivotal step in the evolution of Phoenix's investment case, and it's a reflection of the Board's confidence in our future strategy.

And with that, I'll hand you over to Rakesh, who will take you through the strong 2023 financial results. Rakesh.

2023 financial results

Rakesh Thakrar, Group Chief Financial Officer

Thank you, Andy, and good morning everybody. Our 2023 financial results demonstrate the clear strategic progress we have made over the last three years. We continue to deliver high levels of dependable cash generation and have continued to grow our incremental new business long-term cash.

Our balance sheet remains as resilient as ever, with Shareholder Capital Coverage Ratio towards the top-end of our operating range. And our improving earnings reflect the investment we are making with a 13% increase in operating profit and a 10% increase in our Contractual Service Margin.

As a result, the Board has recommended a 2.5% increase in the final dividend to 26.65 pence per share.

So, turning to the detail on slide nine. At Phoenix, cash generation is the actual cash remitted from our Life companies to Group. We have generated just over £2bn of cash in 2023. This was supported by the Part VII transfer of Standard Life and Phoenix Life, one of the largest UK insurance Part VII transfers ever completed, which enabled us to release the previously recognised capital benefit held in our Life companies.

We have therefore beaten our revised 2023 target of £1.8bn due to the higher levels of management actions delivered in the year. And with £5.2bn generated over the past three years, we have over-delivered the three-year target we set in 2021 by £800m.

Turning next to our new business growth. We have increased our incremental new business long-term cash by 23% year-on-year to just over £1.5bn. We have therefore achieved our 2025 target two years early, and so we are replacing our previous growth targets with a new set of 2026 targets that I will talk to later.

Our 2023 performance comprises an increase in our capital-light Pensions and Savings business to £395m, primarily driven by our success in Workplace, while our Retirement Solutions business remains the largest contributor at nearly £1.1bn.

As a result, our new business net fund flows were up 72% year-on-year to £6.7bn, driven primarily by our Pensions and Savings business, which I will explain on slide 11.

Our capital-light fee-based Pensions and Savings business is growing strongly. The investment we have made into our Workplace proposition is enabling us to retain our existing schemes and win new schemes in the market. This drives the compounding 'flywheel' effect we have talked about before.

New joiners and increased member contributions, including salary inflation, add growth to existing schemes and together, with transferring new schemes, drives the increased revenue that falls straight through to the bottom line. This supported a 59% year-on-year increase in new business long-term cash and a near doubling of our Workplace net fund flows to £4.7bn, partly due to the transfer of the Siemens workplace scheme. This was one of the largest workplace scheme transfers in the UK market in recent years, a clear endorsement of the strength of the Standard Life brand.

The growth we are seeing in assets and our expanding margins through operating leverage translate straight into our earnings, with a 27% increase in our operating profit year-on-year.

Turning next to Retirement Solutions on slide 12.

Our Retirement Solutions business has been competitive in a busy annuities market. New business long-term cash increased to £1.1bn in 2023, with £6.2bn of premiums written at an attractive mid-teens IRR.

We have further reduced our capital strain in the year to 2.7% on a pre-Capital Management Policy basis. This is supported by a diversified business model and includes the risk margin reduction from the Solvency II reform. This new baseline strain level means we can deliver attractive returns in a competitive market, and it will support our disciplined capital allocation approach going forward.

From an earnings perspective we have seen a 14% year-on-year growth in the Annuity CSM due to the new business growth and positive assumption changes, while operating profit grew by 8%.

Turning next to capital on slide 13.

Our resilient Solvency II capital position continues to support investment into our business, with our Shareholder Capital Coverage Ratio of 176% at the top-end of our operating range.

Operating surplus generation is a metric used across the industry. It comprises the underlying operating surplus emerging from our Life companies and our recurring management actions. Including recurring management actions is a standard industry practice, reflecting the day-to-day balance sheet optimisation we all do to create value. In 2023 our operating surplus generation totalled £1.1bn.

Phoenix also has a long track record of delivering value from one-off efficiency actions and M&A integrations. We consider these to be non-recurring management actions which therefore fall outside of operating surplus generation. These totalled £400m in 2023.

Our closing surplus was £3.9bn and this provides us with the capacity to invest in our business going forward. And as a reminder, our reported surplus includes the accrual of our final dividend.

I wanted to take some time today to talk about management actions. They add value which means they increase cash, capital, and earnings. Over the last three years we have developed a highly skilled in-house asset management team whose day job is to optimise our assets and liabilities and improve shareholder returns.

On the slide I have shared some examples of the day-to-day actions we undertake each and every year. Which includes optimising our £38bn credit portfolio and delivering enhanced returns on the investment of our new BPA assets. As well as the balance sheet efficiency actions we are more typically known for, such as delivering capital model efficiencies and optimising our hedging. A small yield pickup on the assets can accumulate into sizable management actions given the long duration of our business. As you can see on the chart, we have grown the recurring element of our management actions over the past few years to just over £300m.

Looking forward, we expect to deliver a growing level of recurring management actions to around £400m annually by 2026 as we further invest in our capabilities and grow our business.

Turning next to the impact of Consumer Duty on slide 15. As a retirement and savings income business we are a provider of products and services and do not provide regulated advice, which is important when thinking about the impact of Consumer Duty on our business.

Phoenix has a strong track record of delivering good customer outcomes with an ongoing programme of product and service reviews. And we have provisioned over £200m over the past seven years to proactively reduce the customer charges.

It is important to note that Consumer Duty's focus is on delivering fair value for customers and is not just about charge reductions. Consumer Duty was effective on our open book last year with few changes required for compliance. And we are on track for meeting the July deadline on our closed book.

We have completed our comprehensive review across the whole closed book and have identified some instances where we need to cap charges to deliver fair value where we can improve our customer communications. That is why we have taken a prudent £70m provision to cover the cost of implementing these changes. We have, as you would expect, engaged closely with the FCA throughout the process.

Turning next to IFRS earnings. 2023 has seen the adoption of the IFRS 17 by the insurance sector and an increased focus on earnings. Today we have reported a 13% increase in adjusted operating profit to £617m. This was driven by a 27% growth in Pensions and Savings to £190m, supported by growth in assets and expanding margins. And growth in Retirement Solutions, which was up 8% to £378m. The growth in the Other and Europe segment reflects the higher investment returns on our shareholder funds in 2023.

This slide also shows that our non-operating items remain elevated due to the expenditure on the planned Group M&A migrations, further IFRS 17 implementation expenses and investment into growth.

Economic variances were a small positive, reflecting lower interest rates partially offset by adverse variances from equities. And this has driven the reduced IFRS loss after tax of £88m.

Finishing on the CSM on slide 17. Our Contractual Service Margin or CSM is £2.1bn net of tax. This represents a significant store of future profits that will emerge over time. On a gross of tax basis, the CSM grew by 10%, supported by strong BPA new business growth, positive assumption changes and the acquisition of Sun Life of Canada UK.

The release of CSM into operating profit was around 8% in the year. And over time, we do expect that this to normalise to more like 5% to 7% as annuities become a bigger part of the CSM.

Our earnings performance has resulted in a reduction in adjusted shareholders' equity to £4.6bn in the year, with lower shareholder equity partly offset by growth in the CSM.

And with that, I will hand you back to Andy for the strategic update.

Strategic update

Andy Briggs, Group Chief Executive Officer

Thank you, Rakesh.

It's important to start by saying our strategy is unchanged. We have a single strategic focus to help people secure a life of possibilities, which is why we're building a business that can support customers across every stage of their savings life cycle from age 18 to 80 plus.

We'll do this by offering them the products and services they need as they save for, transition to, and secure an income in retirement. And we are the only business seeking to do solely this at scale.

Importantly, this market is already huge today with an estimated £3trn of stock and it's structurally growing due to an ageing population with around £150bn to £200bn of annual flows. So, a significant growth opportunity which we are well placed to leverage.

Our vision is to become the UK's leading retirement savings and income business. And we start with strong foundations that we've built over the past few years.

Our capital-light fee-based Pensions and Savings business already has around £175bn of assets and generates just under £200m of IFRS adjusted operating profit. And this grew over 25% last year as we delivered both growing assets and an expanding margin with the benefits of operating leverage.

While our spread-based Retirement Solutions business is capital-utilising and highly profitable, and we choose to keep it to a small proportion of our total assets, currently about 14%.

So, what do we need to do to get to our long-term vision? Well, we start with the customer and what it is they tell us they need. And it's clear from our research and customer feedback that people need help to understand where they are on their financial journey and solutions to improve their financial futures.

To win in this market, we therefore need to offer a compelling customer experience. That means offering the complete range of retirement savings and income solutions with a simple, a selection of simple fund investment options supported by strong customer service on a slick digital platform, and which is sold at a competitive price.

And that requires us to add to the strong capabilities we've already built and evolve our business through building the remaining capabilities required to deliver a truly full-service customer proposition. When we do that, we will become the UK's leading retirement savings and income business.

Our strategy will deliver this vision organically and means we are no longer reliant on M&A for growth in the way we were when I joined. M&A can add further scale to our business and create shareholder value which is attractive. But the bar for acquisitions is now much higher as we have a range of organic growth opportunities in which to deploy excess cash at very attractive returns.

The journey to our vision has required us to build new capabilities. Back in 2020, we had a single core capability which was executing M&A and integrating those businesses. And there is still nobody in this industry better at doing that than Phoenix.

What we've done over the past three years is build a number of sustainably growing organic businesses too. This has seen us acquire and invest in the trusted Standard Life brand and re-establish it amongst customers, corporates and advisers.

And we've used that brand to help turbocharge our growth as we built a competitive and capital efficient Annuities business followed by a now large and rapidly growing capital-light Workplace business.

On top of that, we've built a highly skilled in-house asset management capability, enabling us to optimise our strategic asset allocation and our third-party asset manager partnerships. And to create long-term value through optimising the £38bn shareholder credit portfolio. All of which supports our ability to deliver recurring management actions into the long term.

The next phase of our strategy is therefore about building on the strong foundations we have developed and completing our full-service customer offering. We'll do this by building an innovative range of retirement income solutions and a compelling set of Retail propositions supported by a digital customer interface with personalised data, guidance and advice.

And as I said earlier, we are also now at the stage where we can further simplify our organisational structure through integrating our Heritage and Open businesses onto a single Group-wide operating model.

So, turning to the investments we will make on slide 22. In order to deliver the next phase of our strategy, we will balance the investment of our surplus Group cash across our strategic priorities in order to both deliver on our purpose and realise strong shareholder returns.

Our first strategic priority is to grow and here we will invest around £100m over the next three years into developing our growth propositions. Most of this will be allocated to developing a range of attractive Retail propositions as we build the final pillar of our full-service customer offering.

There are two Retail markets we need to target. The first is the adviser market for the 10% of customers who pay for advice at retirement. Here we're bringing together the capabilities of our Retirement Solutions and Pensions and Savings businesses to develop a range of innovative retirement income solutions that advisers can offer to their clients.

The second is the direct to consumer market for the 90% of customers who do not utilise a paid adviser at retirement. And here we need to build the tools to engage and support them.

This Retail market is huge. Indeed, it's around half of the £150bn to £200bn of annual market flows that I referred to earlier. And with one-in-five UK adults already a Phoenix Group customer, I'm really excited about the opportunity to further accelerate our growth in line with our purpose.

Alongside very strong growth in our capital-light Pensions and Savings business, we will continue to grow our Annuities business to take advantage of the strong demand from corporates and consumers in this market.

But we remain focused on delivering balanced new business growth and keeping annuities to a small proportion of our balance sheet. And due to the success we've had in achieving our BPA capital strain target of less than three percent two years early, we are now choosing to invest less capital going forward. With around £200m of capital annually enabling us to broadly maintain our current volumes. This combined investment will support us in delivering sustainable mid-single digit growth in Operating Cash Generation over the long term.

Our second strategic priority is Optimise. Here we plan to continue our approach of repaying M&A-related debt with surplus cash with at least £500m of debt repayment by the end of 2026 on top of the £800m we have repaid since 2020. This will support us in getting to our 30% Solvency II leverage ratio target. And with our cost of capital elevated at present, it delivers strong risk-adjusted returns when compared to other immediate growth opportunities.

We will also invest around £100m to further develop our capabilities in asset and liability optimisation. This includes direct origination of liquid and illiquid credit and further investment into our modelling systems and capabilities. And this will support us in delivering increased recurring management actions over the long term with around £400m per annum expected by 2026.

Our third strategic priority is Enhance. Here our focus is on delivering our remaining migration and transformation programmes, as well as integrating our businesses onto a single Group-wide operating model to realise additional cost efficiencies. We will therefore invest around £500m into our Group migration, transformation, and cost efficiency programmes over the next three years, with around £300m of this being costs that we've previously guided to.

And our continued focus on cost efficiency means that we now expect to be able to deliver £250m of annual cost savings by the end of 2026, which will enhance all of our key reporting metrics, as Rakesh will outline shortly. We're already cost efficient today and these additional cost savings will further strengthen our competitive advantage.

And finishing with what all this means for our shareholders on slide 23.

As I said in my introduction, Operating Cash Generation is our new primary metric. This is the sustainable level of cash generation from our Life companies, which funds our recurring Group uses and pays our growing shareholder dividend with excess cash to spare.

We are targeting strong growth in Operating Cash Generation of 25% over the next three years, as we grow, optimise, and enhance our business. After which we then expect it to grow at a mid-single digit growth rate over the long term.

And this sustainably growing Operating Cash Generation is what now gives the Board the confidence to move to our new progressive and sustainable ordinary dividend policy with a clear intention to grow our dividend every year.

I'll now hand you back to Rakesh, who will talk you through the financial outlook in more detail. Rakesh.

Financial outlook

Rakesh Thakrar, Group Chief Financial Officer

Thanks, Andy. We are today introducing a new capital allocation framework that will support the next phase of our strategy.

There are two key underpins to our framework. The first is that we will operate a progressive and sustainable ordinary dividend policy. And the second is that we will maintain our strong and resilient balance sheet with a 140% to 180% Shareholder Capital Coverage Ratio operating range.

Andy has already outlined a clear set of priority investments that we will make over the next three years, balanced across our strategic priorities of Grow, Optimise and Enhance. We believe this is the best allocation of our capital to both deliver attractive returns for our shareholders and deliver on our purpose.

Surplus capital that is available over and above these investment priorities will be allocated to the highest return opportunities. This could include investing more into growth, further deleveraging, M&A or share buybacks.

We expect to deliver £250m of annual cost savings by the end of 2026, which are broadly split into four buckets, as outlined on this chart.

Almost half the savings are ongoing migration and transformation cost savings that we expect to be realised over the coming years. The other half is new and comes from product and supplier rationalisation and organisational and governance simplification. This is the work to integrate our businesses onto a single Group-wide operating model that Andy mentioned earlier.

Over time, these cost savings will flow through to all our key metrics across the financial framework of cash, capital, and earnings. We expect around half of the cost savings to benefit Operating Cash Generation and Solvency Capital, as most of the ongoing migration and transformation savings have already been reserved for. And our operating profit will benefit from the majority of the £250m as the savings are delivered.

We are today introducing our evolved financial framework that focuses on the three financial outcomes we deliver for our shareholders: cash, capital, and earnings. Phoenix has always managed its business for cash and capital, but we have evolved our key metrics to provide clearer line of sight to the underlying business performance and more comparability with peers.

We are also elevating the importance of IFRS earnings in our framework following the transition to IFRS 17. And we are today setting our first ever IFRS earnings target with a target of £900m in 2026, a 50% increase.

As Andy explained earlier, we are introducing Operating Cash Generation as a new metric to demonstrate the long-term sustainability of our business model. Our Operating Cash Generation includes the ongoing surplus emergence that is created in our Life companies, comprising the margins we earn on our products and the release of the Solvency Capital Requirements.

On top of that, and in line with standard industry practice, we include our recurring management actions, which, as I outlined earlier, are the sustainable actions that we will generate year in, year out into the long term.

There is also a cash contribution from the release of the Capital Management Policy that we hold in our Life companies.

Non-operating cash generation comprises other management actions that we do not define as recurring, such as our M&A integration synergies, as well as the release of historic excess capital that has built up in our Life companies over time.

The two added together make up the total cash generation, which in 2023 was £2bn.

We are confident in delivering sustainable growing Operating Cash Generation, and so we thought it would be useful to show the evolution of this metric through a familiar diagram. As you would expect from a growing business, the cash emergence from our future new business will continue to more than offset the in-force business run-off.

On top of that, we expect to grow our recurring management actions to around £400m by 2026, supported by the investment in our capabilities and ongoing business growth. Which means that our Operating Cash Generation will sustainably grow over the long term, and we will accelerate that growth over the next few years through our cost savings programme.

We also wanted to address the feedback we have received by sharing some new cash emergence disclosure in the appendices to this presentation, which includes the timing profile of our 2023 in-force and new business cash emergence.

I just wanted to explain in more detail the investments we are making into our strategic priorities to drive a 25% increase in Operating Cash Generation over the next three years, from £1.1bn in 2023 to a targeted £1.4bn in 2026.

We will deliver this through a combination of Grow – from our Retirement Solutions and Pension and Savings new business; Optimise – from the delivery of increased recurring management actions with a £100m annual increase expected by 2026; and Enhance – from the benefit of around £125m of cost savings I mentioned earlier.

We expect to see progress every year with a bigger step up in 2026 as the full cost saving run rate benefits emerge.

Importantly, Operating Cash Generation more than covers our recurring uses and annuity capital allocation, as well as our growing dividend, and generates excess cash which can support reinvestment into the business and/or additional shareholder returns.

So, moving next to total cash generation. While Operating Cash Generation is our primary metric, total cash generation remains important as we invest in our next phase of our strategy. We expect to continue delivering high levels of total cash generation with a one-year target of £1.4bn to £1.5bn in 2024, and a three-year target of £4.4bn.

So, looking next at our uses of this cash on slide 32. Of that £4.4bn target, we expect around £3.7bn to come from Operating Cash Generation. This will more than cover our recurring uses that include our growing dividend, operating costs, and debt interest, as well as our planned investment of around £200m into annuities each year, reflecting our lower strain.

This means we will be generating surplus cash on an operating basis over the next three years. Which, together with non-operating cash generation of £700m provides us with a significant surplus that we can invest across our strategic priorities as we have already outlined.

And as a reminder, around £300m of the migration transformation and cost efficiency spend is the remainder of the integration costs we've already previously guided to.

The investment spend is more front-end loaded, but the phasing of our three-year cash generation comfortably allows for this.

Our HoldCo cash position is a healthy £1bn today, providing us with the financial flexibility. We expect this to remain broadly consistent over the three-year period.

So, looking next at leverage on slide 33. We manage our leverage position by balancing against capital and liquidity and then considering a range of factors. This includes our cash interest cover, the interplay of our balance sheet hedging, and our capital tiering headroom. It also includes a number of output metrics, such as the Fitch leverage ratio and the Solvency II leverage ratio.

Our approach to leverage has always been to gear up for M&A and then pay down that debt with the surplus cash as it emerges. And over the past three years, we have repaid nearly £800m of debt.

Despite reducing our absolute debt levels, our Solvency II leverage ratio has increased from 31% in 2020 to 36% today. This is due to the impact of higher interest rates on our Own Funds, which we do not hedge, as our hedging strategy is designed to protect our surplus and therefore our dividend.

We plan to continue repaying M&A-related debt with surplus cash and therefore want to issue clear guidance today of our intention to repay at least £500m of debt by the end of 2026. We expect to repay the £250m Tier 2 bond that is callable in June, subject to regulatory approval, and will look at further repayment opportunities across 2025 and 2026.

This will support us in getting to around 30% Solvency II leverage ratio by the end of 2026 on a regulatory basis, which is a steady-state level that we feel is appropriate for our business absent M&A.

This debt repayment will reduce our Solvency Shareholder Ratio by around 10 percentage points, all other things being equal, and we will therefore remain comfortably within our operating range. And of course, if we choose to pre-finance any future calls or maturities, then our deleveraging path may not be fully linear.

Turning next to our IFRS earnings slide on 35. The transition to IFRS 17 means the market is placing more weight on insurers' IFRS earnings. So let me explain how our earnings will evolve over time.

The investment we are making across our strategic priorities will support growth in adjusted operating profit. We are targeting £900m of IFRS adjusted operating profit in 2026, a 50% increase from today, delivered through a combination of Grow – from continued new business growth in Retirement Solutions and Pensions and Savings; Optimise – from the delivery of increased recurring management actions over the long term; and Enhance – through the benefit of the majority of the £250m cost savings we expect to deliver.

As I explained earlier, we have an elevated level of non-operating items at present, but once we are through the investment phase of the next three years, these will normalise as outlined on the slide.

Our shareholders' equity will decline over the coming years; however, we expect it to remain positive over the long term. Most importantly, we believe that adjusted equity, inclusive of the CSM, is a far better measure for Life Insurance companies in an IFRS 17 world rather than shareholder equity. And we expect our adjusted shareholders' equity will remain broadly stable near term and then begin to grow, supported by strong future CSM growth from our Annuities business and future management actions.

So, to conclude with the financial outcomes for shareholders, we are embarking on the next phase of our strategy to deliver on our vision as we balance our investment to grow, optimise and enhance our business.

We will deliver a clear set of financial outcomes for our shareholders, including £1.4bn of Operating Cash Generation in 2026 that will then grow at mid-single digit growth rate over the long term. And which is underpinned by our other targets we have set today across our evolved financial framework of cash, capital, and earnings.

With that, I will now hand you back to Andy for the summary.

Summary

Andy Briggs, Group Chief Executive Officer

Thanks Rakesh. So, let me summarise. We have a crystal-clear vision here at Phoenix. We want to become the UK's leading retirement savings and income business. We are therefore on a journey as we transition from being a consolidator of closed Life Insurance businesses to a sustainably growing, purpose-led retirement savings and income business. And we have made significant progress in executing our strategy to date as our strong 2023 financial results demonstrate.

Looking forward, we have surplus cash available to invest to deliver the next phase of our strategy. And so, we are balancing our investment across our three strategic priorities as we grow, optimise and enhance our business.

This investment delivers attractive financial outcomes for our shareholders, with sustainable, growing Operating Cash Generation over the long term that more than covers our recurring uses. Which gives the Board the confidence to move to a progressive and sustainable ordinary dividend policy, with a clear intention to grow our dividend every year.

Phoenix has transformed significantly over the past three years, and we are excited about the next phase of our evolution as we journey towards our ambitious vision.

And with that, we will move to questions. So, we are going to start with questions from the audience in the room. If you can raise your hand, and we will direct one of the roaming mics to you. Please can you start by introducing yourselves and the institution you represent. For anyone watching the webcast, please use the Q&A facility, and we will come to your question after we've answered those in the room.

So, let's kick off. I think we started that end last time. Let's start this end now. Andy.

Q&A

Andrew Sinclair, Bank of America

Thanks, Andy. Andy Sinclair from Bank of America, three for me as usual, please.

First, it was just on M&A. I know we've talked a lot about organic today, but just – it feels like M&A is maybe a little bit less prominent in the story. Just thinking about that going forward, where does that sit? And when you're looking at M&A, would that be funded by cash, by debt, by equity, given the slight amendments to your framework today?

Second was just on shareholders' equity. You've said it will remain positive, good news, but can you give us a little bit of colour in terms of that, in terms of what have you assumed for the economics, which have had a big impact over the last few years, and roughly when do you think shareholders' equity would trough? You've given kind of total comprehensive equity is about now, but what about shareholders' equity?

And third was just thinking about With-Profits – I'm just wondering how you can use that? I mean, you've got some big With-Profit funds within the business. Any opportunity to weaponise that and use that to support some of your growth, rather than just annuities and Unit-Linked-type savings? Thanks.

Andy Briggs, Group Chief Executive Officer

Sure, thanks, Andy. So, I'll take the first and the third, and then Rakesh will take the second.

So, look on M&A, what's changed here is that we now have really strong organic growth within the business, and so we're no longer in a position where M&A is our sole route to growth. But it's also raised the bar because we've got lots of places we can deploy excess cash to generate attractive returns.

Just to give you one example, say we're investing £100m into building out our asset and liability optimisation capability through Mike's team, and that's going to deliver £100m per annum of recurring management actions, so – and that's a 100% return. You know if I can find an M&A deal that does that, I'd very happily do it, but we've got a higher bar around M&A.

But M&A still remains something that we're interested in. There are a finite number of books in the market overall. We've got a long track record of delivering a lot of value from M&A. We're really good at it. And I continue to build strong relationships with all the players in the market that have existing books. We'd still be the first port of call for anyone that was considering an M&A deal. We do think we have good financial flexibility going forward, and M&A at attractive returns would still be very attractive to us.

I think on the third one, in terms of With-Profits, so we're – what we – we've actually recently launched a smooth managed fund with one particular platform and network, and that was in the media the other week. We're doing it on a very slow to build up basis, but really optimistic about the outlook and the feedback we're getting on that smooth managed fund. And in time, we would consider potentially using With-Profit funds as a means of delivering.

So basically, in the UK, consumers currently, largely get offered a fully exposed investment fund or a traditional UK style annuity locking into relative low interest rates for the long term. What they want is something in the middle ground, which is exactly where that smooth managed fund proposition is playing, and we're really optimistic about that being a key leg of our Retail growth.

The other area of With-Profits we're looking at, it comes into that product simplification that we talked about on the cost reduction side. We have, I think, 22 different With-Profit funds, and we think there's a real opportunity to simplify – simplify all of that down. Rakesh, do you want to pick up the shareholder equity question?

Rakesh Thakrar, Group Chief Financial Officer

Yeah, thanks, Andy. So, you know shareholder equity will remain positive in the future, so how do I see this? So, you see operating profit growing, we mentioned it'll get to £900m. It'll continue to grow thereafter.

You've just seen some of the numbers today on Pensions and Savings, and which is – you know all our items outside of IFRS 17, you've seen that grow from £150m to £190m. We continue to see growth on the annuities side, so we'll get to £900m, and that will continue to grow thereafter.

The non-operating items will reduce because the fact that a lot of the investments we are making will go down to almost close to zero – after the three years we made those investments. The third element is we continue to see the CSM growing as well.

Now in terms of the economics, you know we've been impacted by higher rates, so once rates go back to their normalised levels, that will be you know getting back to – you know to providing a benefit. But even absent of any changes in economics, we'd expect the – you know shareholder equity to be positive.

Andy Briggs, Group Chief Executive Officer

Thanks, Rakesh. Rhea, why don't we, it'd be easier with a microphone to move along.

Rhea Shah, Deutsche Bank

Yeah, thank you. Rhea Shah, Deutsche Bank, three questions for me.

The first one is around flows. You used to have an aim of getting to positive Group net flows from 2024 onwards compared to the minus £3bn in 2023. Is this still achievable, and where would it be driven from? Would it be mostly Workplace related?

Secondly, kind of going back to slide 21 where you talk about the retirement income solution, the market propositions, and kind of going more into digital as well with guidance and advice. What – I mean, can you provide some more colour around this? And going back to Andy's question on M&A, would you consider looking at M&A to grow these propositions as well, or would it all be internal building?

And then third on the dividend, you've got Operating Cash Generation growing around 8% per annum if we just go from 2023 to the 2026 target, and then you've got that growing mid-single digits per annum after that. How should we think about the dividend – the progressive dividend policy – compared to that level of growth?

Andy Briggs, Group Chief Executive Officer

Sure, okay I think they're all three for me. Thank you. Thank you for that. We normally split them about a bit more than that, but.

So on the first one, we remain very confident we will get to overall fund flow positive, but I have to say our overall kind of, you know, thinking here would be we've set out a very broad comprehensive range of targets. They are focused on value rather than volume, and that's our primary focus in the business, but we are confident over time we will get to positive net fund flows.

Just to give a bit more colour on the retirement income side, so yeah, the way to kind of think about this is roughly 10% of the population, who have roughly half of the assets, will pay fees for advice, and advisers do a great job for those clients and what we need to do is to have the right propositions for those advisers to advise their clients on.

And the smooth managed fund I talked about earlier is a great example of that. We're really, really optimistic. Get the right proposition in that space, and ultimately you see several billions of fund flows come each year from that type of proposition. So, Tom and the guys are doing a great job on that. We're really optimistic.

We are doing it in a considered way, and you know, platform and adviser by adviser, so don't expect it to be enormous in the numbers this year, but if I look over the three years, we'd expect very, very strong growth.

The other 90% of the population, that have the other half of the assets, don't pay fees for advice at retirement. And the key point here is one-in-five of them are Phoenix Group customers, and ultimately, they need someone to turn to, to help them think about – they end up with multiple workplace pension pots through their lifetime, and they need to turn to someone to help them consolidate those pots together and develop a plan into retirement income.

So, what we're building out there is much more of the front-end, the digital capabilities at the front-end, the ability to engage those customers, to offer them personalised data and information. We're right in the thick of the FCA's review of financial advice. We will build an advisory capability, but before we start to worry about that too much, it will be entirely salary-based. There'll be no variable remuneration involved at all. Every single journey will be digitised as part of that with an adviser helping customers, so we've got the track record of everything.

And our view is ultimately that those customers will turn somewhere for help to think about consolidating their pots, and that's where we're focusing the development of our capability.

So, on the dividend, so we've moved to a progressive and sustainable ordinary dividend policy, and that very much reflects the Board's confidence in the organic growth strategy of the business going forward, and I think it's a real pivotal moment for the Group.

That dividend increase is 2.5% this year. That's the same as the organic element of the dividend increase last year. And the reason for that is we have lots of opportunities to deploy capital at really attractive returns, and it just gives us greater financial flexibility.

Going forward from here, the Board will make a decision on the level of future dividend increases each year based on a range of factors, and that will be a judgement the Board makes at the time.

Shall we carry on to Dom?

Dominic O'Mahony, Exane BNP Paribas

Hello. Thanks. Dom O'Mahony, BNP Paribas Exane. Thanks for the new plan and the explanation, really very helpful indeed, looking forward to getting stuck into the numbers. Just three questions.

Firstly, just on the Annuities business, so a reduction in the expected strain, clearly the strain per pound of premium has fallen dramatically, which is very helpful. Should we expect that the contribution to lifetime cash will be lower versus the 2023 levels for annuities from here?

Second question, I wonder if you might just give us a little bit more colour on the recurring management actions side. Clearly in the way you guys think about it, there's a recurring element and a non-recurring element. Management actions sound often to us like, almost by definition, non-recurring. I wonder if you might just flesh out why you're confident that that can just keep going?

And then the last point, just on the beyond 2026 mid-single digits, a very confident statement. I would hypothesise the bulks market will start to slow down in the latter half of the decade. Clearly by the time you get to 2026 you would have written a fair amount of business. That slowdown I guess would be a headwind to growth. What gives you confidence of mid-single digit growth even beyond 2026? Thank you.

Andy Briggs, Group Chief Executive Officer

Sure, so I'll take the first and third of those and Rakesh will take the second.

So, in terms of the annuities, we are really pleased with the job the team have done of improving the capital efficiency and it obviously means that a certain amount of capital will go that much further. We do expect that the volumes we write will be broadly similar to what we've done historically. And we're really focused here on return on capital against the financial framework measures. So, we're - I'm not saying we'll never ever talk about undiscounted cash again, but we've had a clear message from the market. What's the level of sustainable cash year by year? And we're focusing on growing that Operating Cash Generation each year going forward.

In terms of the point about beyond 2026, I mean, that really comes down to Pensions and Savings. I mean, personally, I think, you know, I'll just quickly talk about bulks. You've got £1.5trn of assets in the UK in Defined Benefit schemes. I've never met a single finance director that's pleased to have it. Over £1trn of that is well advanced on the journey to buy-out. They want to get rid of it. Last year, the market grew substantially to about £50bn. So, I think there's a lot of years left, if you're going to get through £1trn, a lot of years still to go of BPA.

But having said all of that, the reason we're really confident is the Pensions and Savings side. And just to kind of quickly showcase that all again for you, because it's the first time we've introduced that as a holistic segment.

So, we've got £175bn of assets, £190m of operating profit. That operating profit was up 27% year-on-year. And that was a combination - in not far off equal measure of growth in assets through the strong Workplace growth and growth in expanding margin, because we're benefiting from operating leverage. So, the Workplace business we're bringing on board is really accelerating that operating profit growth.

Now, we're doing that largely based on Workplace. The retail market is twice the size of that, basically the workplace market. And so that's why we're really confident with the investment we're making into the Retail, with the structural advantages we have with one-in-five adults in the UK, that we can really accelerate that growth into the long term.

Rakesh, do you want to pick up on the recurring management actions?

Rakesh Thakrar, Group Chief Financial Officer

Yeah, thanks, Andy.

So, you know we built the capability in our organisation with Mike and the Asset Management team. And if you actually look back, and you probably know, many of you know, if you look back in history, the management actions, this has been year in, year out for us. But where we've got the, you know, additional confidence in it, it's where it's coming from.

So, we've identified what they are at the start of the year. So, we know exactly what we are doing. And you can think about them as balance sheet actions and liability side. So, on the balance sheet side, you know, trying to – you know having the ability to directly originate liquid assets. And that's huge.

Also, just having the ability to move up the – you know, where you just increase your risk adjusted yield, you know, because of the long duration of the asset portfolio, a small change and just getting an uptick in the risk adjusted yield, staying on the same credit curve can make a substantial impact, because you're talking 10, 15 years, sometimes 20 years, you know, that has a huge impact.

And then you think other actions that we do. So, for example, a regular item is ERM securitisations. You know, each year, we have to redo the securitisation because you get excess cash, securitise, get more value coming through. It's an ongoing item.

And then you look at the liability side as well. So, you're looking at making sure we're always hedged the right way, you know, minimising our SCR, etc.

So, when you bring that together, that gives me confidence that we've got this element that is recurring year in, year out. And on top of that, you get these one-off items as well. And that's - when you add that together, as you know, that's what's driven our £2bn cash generation in 2023. Thanks.

Andy Briggs, Group Chief Executive Officer

Great answer, Nasib.

Nasib Ahmed, UBS

Thanks. I've got a good segue onto - from what you just said, Rakesh, on Dom's answer.

The £400m recurring management actions, it seems like they're mostly BPA related, and it seems like, on your pricing basis, you're putting in a little bit of prudence in getting some of that back. Why not just put it into the pricing basis and get your strain a little bit lower? And, if you have the number to hand, what would your pricing strain look like if you had those management actions already baked in, hedging, liability and asset optimisation already baked into your pricing basis?

Secondly, on the operating IFRS 17 profit growth, it seems like if I add £250m to the £617m I get to around £900m, so there's not any other growth in there. Am I missing anything, anything there? And, if you look at the net profit, can you give us a number on that? I've calculated about £600m by 2026.

And then finally, on the Advice Guidance Review by the FCA - Andy, you kind of mentioned a little bit about that, but is there a preferred outcome? So, there are three scenarios that they're looking at, is there a preferred outcome from a Phoenix perspective that would be more beneficial for you? Thanks.

Andy Briggs, Group Chief Executive Officer

Sure. So, I'll let Rakesh take the first two. I'll take the third one.

So, we're working very closely. I mean, I do think it's, I really worry that only 10% of the UK population get advice on the journey to and through retirement. We've got to do better as an industry and help more people on that journey.

And so, I'm not going to get the terminology completely right, but what was the middle ground one we're excited about? What's it called? Anyone? That's it, Targeted Support, thank you very much. We've very excited about Targeted Support, and we think that'll be really, really beneficial. And I think, as part of that, just building personalised data into this I think would really help customers, you know, so, it's not just some generic thing they're getting, it's something more specific to them.

We also, at the moment, the proposal is that Simplified Advice is just for ISAs, and we think that should include decumulation as well. So, I'd say we're very positive about what's in there. We would like Simplified Advice to extend into decumulation opportunities as well.

And, ultimately, just help more people get their heads around it. As I said, people end up with multiple workplace pension pots from different places they've worked during their lives, they get into their, you know, late 40s, early 50s and they need help, and, you know, one-in-five of them are customers of Phoenix and we're determined to help them. It's core to our purpose but it's also a significant commercial opportunity as well. Do you want to take the other two questions, Rakesh?

Rakesh Thakrar, Group Chief Financial Officer

Yeah, sure. So, the first one, so I think the question was around what's in our pricing basis versus management actions.

I think, you know, we take a view on what's appropriate for our pricing basis and we will use that, and then I would look to my Asset Management team and saying – actually, now, you've got to out-deliver on those year in, year out - and certainly, you know, that's how we think about it. So, our pricing basis is what's appropriate to manage the business with and then we look to do better.

But you've got remember, so those opportunities also arise because, as our business runs off, you know, we'll get the churn in the assets, and when new BPAs come on and then, you know, you'll get that constant churn to give you additional opportunities. It's not always right to put it all on the pricing for that. You've got to have, we've got a separate team focusing on that. And the direct origination is, again, focused on adding additional value over and above that growth.

On the second bit, it was on the operating profit. So the way I think about going from £600m to £900m aligns to the way - our priorities, you know – Growth, Optimise and Enhance.

So, we will see growth – you've seen the growth in Pension and Savings. That will continue. You've seen the growth in Retirement Solutions. We've got a future stock of profit already in the CSM because most of that CSM relates to annuities. That will also emerge over time. So, you've seen that.

Then you've got the Optimise where it's, you know, the fact that we're looking to increase those recurring management actions, and, if they're value accretive, they will be going in there as well.

And then the third, but the biggest, important part, we've talked about, is those cost savings where I've said the majority of that £250m, by the time we exit 2026, will come through in operating profit during that run-rate.

So, then, looking, I think, below the line items and, you know, clearly, I can't say what that number is going to be afterwards, but what I will say is that non-operating items will drop as our investment comes to an end over the three years.

Given the deleveraging that we're doing, you know, that will ensure that our, you know, debt interest costs are not increasing, certainly, you know, and are broadly flat, recognising the increase in rates currently and any future refi, but we'll be expecting to be broadly flat on that. And you know that our amortisation of intangibles runs off at 8%.

Now, clearly, on economics, you can take a view. We know we're at elevated interest rate levels given the long-term rates currently, but, you know, that's not for me to comment on.

Andy Briggs, Group Chief Executive Officer

And so, Farooq next. We will get to you Andrew, and we'll come along one by one.

I'm smiling to myself here because Farooq said to me outside that that IFRS target, I think you said 34% above or 37% above what you had, but, for Nasib, it's not quite high enough [laughter], so I can't please all the people.

Farooq Hanif, J.P. Morgan

Maybe I'm not a good modeller!

So, Farooq Hanif from J.P. Morgan. Just going back on IFRS, I mean, that Pension and Savings result is massive growth, so I'm thinking about the economics here. You have an upfront cost obviously which you can't DAC, you have ongoing costs, then you're getting, you know, recurring fees on a bigger asset base. It just seems to me that that bp on AUM is going to increase. How do you think about modelling that? I mean, can you give us some sort of steer on, you know, if you had £10bn more or £1bn more of assets what the flywheel effect actually is in numbers?

And then, allied to that, doesn't it make sense for you to buy a workplace pensions book if it consolidates, if other unprofitable businesses out there, you know, many of them you can see are not making money on this, doesn't a plug and play make a lot of sense for you in workplace pensions?

And then the third question for Mike and all, just what does direct origination mean in illiquid and liquid credit? I mean, I get liquid credit, but what does direct origination in illiquid credit actually mean? Thank you.

Andy Briggs, Group Chief Executive Officer

Okay. So, I'll, sort of, take the second and third and let Rakesh take the first, although we do have - Rakesh is running a lunch next week with the analysts to do a deep dive around a lot of the modelling in this, so he may well want to pick up some of the modelling questions there.

So, in terms of buying workplace books, I mean, absolutely, it's something we would consider. We've got a very clear capital allocation framework here. We're looking to allocate capital where we can get the highest returns. If there's high returns from doing something that's consistent with our purpose and strategy we would look to do it, and workplace books would be a potential option there.

In terms of the question on direct origination, so up until, sort of, the very end of last year, every single pound of our £280bn of assets we invest on behalf of our customers was being done with a third-party asset manager. So, we're, kind of, paying fees on everything to

the third-party asset managers to do that. What we can now do is, and what we've been doing on illiquid assets, is basically doing that on a non-discretionary basis.

So, Mike and the team have been making the investment decisions, but then paying 25 to 30 basis points to an external, third-party asset manager to run it for us. So, we now, can administer that in-house and, obviously, financially, that can be very attractive, it's, you know, part of what will drive these recurring management actions. What we're doing this year is doing that same capability on liquid credit. So, we've got the ability to run the liquid credit in-house as well, yeah.

So, we've got no plans to go beyond credit, I should be very clear. This is only UK-based credit as well in both cases, you know, it won't be all types of illiquid assets, but we've made an investment in building out that capability. It's giving us this, you know, recurring management actions of £300m a year, we're investing a further £100m which will take us up to the £400m a year. So, that's what we're looking to do. Do you want to pick up the IFRS one or kick it to next week?

Rakesh Thakrar, Group Chief Financial Officer

Yeah. So, very briefly, just to cover it off and then we can pick the detail up next week. So, the way - I mean, you've absolutely right, so, when we make an investment it goes through non-operating, yeah, so you've seen that. But what now you'll see the benefit of is the fact that we've got asset growth. So, within that asset growth, we'll be getting more revenues coming through. It's a straight, you know, function of that.

We continue to win new schemes. So, when those new schemes come, you know, we're getting that asset growth and we're getting that revenue. We get this increase in salary inflation coming through. You know, if there are any future changes in auto-enrolment, you know, that could potentially be a benefit as well. And we've talked about expenses, you know. I've talked about, you know, reducing our expenses as well. So, that will, you know, reduce the cost margin as well.

So, when you bring all that together, and once we've built the proposition, what we'll also be doing is stopping those legacy outflows that we have, you know, circa £10bn year in, year out. Currently, that's, sort of, effectively a dampener in our operating profit growing because there are policies are going out. We can slow those out, so all our cashflow profiles that we've currently shown assume that that business goes out, you know. If we can get that Retail as well and, when we slow those outflows, that will, again, will help reduce that dampening effect. So, you can see that business growing, but we can pick more up next week.

Andy Briggs, Group Chief Executive Officer

Thanks, Farooq. Andrew?

Andrew Baker, Citi

Hi. Andrew Baker, Citi. Two from me, please. Thank you.

The first one's on the BPA volumes. So, in the old world, it was £300m to be invested targeted, sort of, medium-term at 5% strain, so £6bn or so in volumes. Now, you're saying similar volumes, £200m to be invested, so that's 3.3%-ish. Obviously, there will be some, sort of, slight variance there. But you achieved 4.7% at the end of '23, so it feels like you've still got quite a bit to go on the strain side. How are you going to get there is the question?

And then, secondly, just on I think it's slide 32, the cash roll forward, so your cash balance for '26, there's £700m of non-operating cash generation to come through, so maintaining the balance relies, obviously, on that £700m. Can you just give a little bit more colour on those non-operating cash generation?

And then similarly, but on the other side, we've seen some negative non-recurring uses of cash in recent years. What's the risk that we see more of that come through? So, essentially, the risk to that £700m not coming through on the positive and the risk to more non-recurring negatives coming through? Thank you.

Andy Briggs, Group Chief Executive Officer

Sure. Okay, so I'll take the first and Rakesh will take the second.

We're not setting a further new business strain target. We've got quite a few targets already but they're, sort of, holistic targets across the profitability of the business overall.

We still have - we've always talked in the past, and it's still the case, there are three levers we can pull to further improve that new business strain. So, one is that the yield we can get on assets, so the range of assets, and Mike and the team are continuing to build out a broader range of illiquid assets in different geographies. It's one of the advantages of our model - we can partner with the best asset manager in each asset class in each geography, and we think that's an advantage.

The second is our actuarial modelling, our Solvency II internal model. And, again, there's a whole programme of work, and that's part of the investments we've talked about here. So, not only that will help us with recurring management actions, it'll also help us with the strain on new business.

And then the third area is reinsurance arrangements, and, in particular, what we've done there is we've now got Phoenix Re up and running. We've done our first internal trade of some annuities from our European business into Phoenix Re, so it's up and running with business in it. And what Tom and the team are focused on this year is starting to explore potential for external capital into that.

So, all of those will be ways in which we could continue to improve the capital efficiency of the annuity business and always looking through our capital allocation framework to optimise the return on capital.

Rakesh, do you want to pick up the second question?

Rakesh Thakrar, Group Chief Financial Officer

Yeah. So, looking first at, you know, what's in that non-operating cash generation, you know, most of that, the majority of that will be the non-recurring management actions that we expect to be delivered.

And, in relation to your second point, you know, I expect, you know, this is it. I don't expect it to be going materially out of what's reported here.

Abid Hussain, Panmure Gordon

It's Abid Hussain from Panmure Gordon. Three questions, I think.

Just, firstly, coming back to the asset management business, you've already talked about the in-house capabilities that you've built with Mike and the team. Just wondering are there any more capabilities that you can build within - in house in the asset management business? I know you've just mentioned, sort of, you just want to focus on credit but is there anything else that you can bring in-house, add more capabilities there because it seems very critical to the £400m or perhaps, dare I say, £400m becomes £500m down the line, or whatever it may be? So, any more colour on that?

And then the second question is on M&A and it's, sort of, related to the first. I know you've de-emphasised M&A in terms of back books, but would you consider M&A to bring in capabilities to enhance the business? Are there any gaps where you'd need the capabilities and M&A is the priority, whether it's asset management or elsewhere?

And then the third question is on Consumer Duty. Thanks for the colour on the slide, but just is there any more detail that you can give in terms of which products, which cohorts or policies were at risk of failing the fair value measure? And then why do you think the £70m provision fixes that?

Andy Briggs, Group Chief Executive Officer

Sure. Okay, so I think I'm probably doing all of those. So, on the asset management side, in terms of, you know, building out capabilities, we've talked to some of them. There's a number. I mean, we're deepening our quant capability, for example, through some recent hires Mike has made, and that will enable us to, you know, enhance the real-time retuning of our hedges, for example, across the liability side of the balance sheet.

So, there's a range of different areas we're working on there. We think there's a lot of potential and, obviously, the returns are very attractive. But, you know, Mike's sat at the front row here so you could probably catch him at the end and just get a bit more colour from him on that.

You said we're de-emphasising M&A. I think the point here is that, in the past, when we were a closed-book consolidator, the only thing we could do to grow was M&A. We now have a range of options of how we can grow. We're allocating capital where we can get the highest returns.

M&A is still part of our toolkit, so I don't want anyone to go away thinking it isn't. It's still part of the toolkit. It's got to compete with other things, you know, other opportunities to deploy excess cash at attractive returns, but it's still part of the toolkit.

From a capability perspective, we're really confident that we can build organically all the capabilities we need to execute on the strategy we've outlined here, but I wouldn't rule out accelerating that through acquisitions. We don't need to. I wouldn't rule it out as something we definitely wouldn't do.

And then, on Consumer Duty. I think, you know, just to reiterate, you know, our whole business model is about - we buy the books of business, we migrate the customers to more modern technology. That gives them a better experience, a better outcome. And we have our Value for Money framework. We apply that at the same time, and we share some of the benefits of the migrations with customers on charges.

So, there's, you know, quite a decent proportion of our 12 million customers will be seeing an impact in that £70m, so it's a decent proportion of them, but it isn't - just to be clear, value for money isn't just about charges, it's about the overall outcomes.

So, a lot of our customers are in products with attractive guarantees. A number of customers will choose, for example, an investment fund that is a higher charge investment fund, and we will tell those customers, you know - that's your choice entirely, but, just so you're aware, there's one over here that's a lower charge fund - I mean, we're agnostic to that on a value perspective. It's all external fund manager fees, so it's value agnostic to us.

I think the other thing probably just worth drawing out, a lot of our customers have smaller pots. So, even if there's a 100 basis points charge for a customer, for example, if they've got £500 with us then 100 basis points is £5 a year. I would say running a pension pot for someone for £5 a year is really good value for money, yeah.

And I think the key point to emphasise is that we've done this working very closely with the FCA. We're big fans of Consumer Duty. Ultimately, it's all about delivering better outcomes for customers. That's what we get out of bed in the morning to do. That's what our purpose-led retirement savings income business is all about. So, we work really closely with the FCA throughout, and we're very confident that the £70m is a conservative provision having gone through, in detail, every single product in our book.

Andrew, we've got to you!

Andrew Crean, Autonomous

It's Andrew Crean at Autonomous. Can I do three questions as well?

The non-recurring management actions, what proportion of those are basically shifting surplus capital from the Life company to the Group, and what is the level of surplus capital that you see in the Life companies at the moment?

Secondly, on - your debt leverage calculations are based on the regulatory Solvency II equity, not the shareholders'. All other companies are basically going down to 30% debt leverage on that basis. You will still be, with £500m, you'll still be up at around 39%, 40%. Why do you think you can run with so much greater levels of debt leverage than that?

And then, thirdly, and related to that, your European businesses, which I know you entertained at one stage, the sort of selling, if you need to get debt leverage down, why don't you sell some of the Europeans? Is that something which you consider?

Andy Briggs, Group Chief Executive Officer

Okay. I'll let Rakesh take the second of those and I will take the first and the third.

So, we're not dividing out the non-recurring management actions into those elements. What I'd say, if you look in the appendix, at the end of last year, there's £2.2bn of surplus in the Life companies above the Capital Management Policy, and what I can tell you is that our plans over the next three years keeps the majority of that there. The reason being we're doing a lot of stuff here and so we want a bit of a buffer if you like to be confident that, if we hit headwinds in any shape or form, we have a buffer. So, we're being pretty conservative in terms of that Life Co capital which, hopefully, gives some comfort.

In terms of Europe, what we've said previously is that we're going to spend the next couple of years focused on two things, and today I'm going to add a kind of third onto that.

So, the first thing we did is move to a partial internal model. That was beneficial to the capital position but also made it much less volatile.

The second thing we're in the process of doing is we're migrating the customers off the old technology onto the TCS BaNCS platform, and we're doing that both in Ireland and in Germany.

The thing I'm going to add on is that a lot of the German business is With-Profits business reinsured back into the UK. And so, as part of our product and With-Profit simplification, we're going to explore the extent to which we could simplify that down and improve it through simplification.

And what I'd say is those three things are absolutely the right things to do for that Europe business organically. They also would give us greater optionality as well. Rakesh, do you want to pick up on the debt side?

Rakesh Thakrar, Group Chief Financial Officer

Yeah, sure. So, you know, when looking at the leverage ratio, we looked at what was widely used by debt and equity investors, and certainly the Solvency II ratio calculation was one that is consistently used by both equity and debt investors, and they understand it.

In terms of comfort on the level of debt, you know, so, when I said in the presentation, you know, it's a balance between capital, liquidity and leverage. And then, underneath that, is then looking at, you know, what is the cash interest cover? How do we manage the balance sheet on a day-to-day? Recognising the hedging that we do, and also looking at that tiering headroom, and then looking

at those output metrics of what those ratios will look like. And, looking at the balance of all of that, you know, getting to 30% on a regulatory basis was appropriate for us.

Andy Briggs, Group Chief Executive Officer

Thank you. We'll come across to Steven.

Steven Haywood, HSBC

Thank you. It's Steven Haywood from HSBC. Just two questions here.

On the £250m cost savings, I'm surprised you have managed to announce £250m cost savings considering I always thought of Phoenix as quite a lean business with its outsourcing to Diligenta, so if you can go in a bit more detail about where these £250m cost savings are coming from that would be helpful?

And then secondly, by the sounds of it, what with the launch of a smoothed fund product, I think you called it, it doesn't sound like you would be willing to put the PruFund on your platform from M&G. Can you comment about that?

Andy Briggs, Group Chief Executive Officer

Okay. So, in terms of the first one, so what we're saying, you know, £250m cost reduction target, but just to be clear, half of that is what we've talked about before, in particular, things like the ReAssure migration from the ReAssure platform across, and half of it is a new announcement today. And the reason we're putting both in front of you is just we're trying to make it easier for you when you're modelling to see which things hit which metrics. So, we're trying to give you a kind of, holistic view and be very transparent in explaining the business to you.

So, in terms of the new half, that's coming from a combination of organisational simplification and then supplier and product rationalisation. And the key point to draw out there is that we, basically I made the call very consciously to keep the Heritage infrastructure in place and continue doing what it does with the Heritage business while we invested in creating organic growth Open businesses.

Now they've grown into, kind of, big, strapping adults, we don't need to keep those separate anymore and, actually it's beneficial to us because we can then help all our customers, whether they're in a heritage or open product on that journey to and through retirement.

So, as we bring together this enlarged Pensions and Savings and Retirement Solutions business going forward and no longer have this Heritage and Open split, we can be significantly more cost efficient.

I mean, I agree with your point though - we're already cost efficient today, and this just takes us, you know, gives us, you know, material further competitive advantage in terms of cost efficiency. And that's how we're delivering the Pensions and Savings IFRS operating profit, just to kind of put some hard numbers on it. You know, the expanding margin and the strength of that margin, the strength in that profit is coming because of the cost efficiency we have in our business, and we will enhance that further going forward.

On the smooth managed fund, so, we have a kind of, open architecture for our customers. One of the projects we're working on is to have a platform capability. We're not going to build our own platform; we're going to work with a partner to rent a platform. And so, ultimately, the decision on whether or not we put any particular fund on that will come further down the track.

But, you know, I mean, I look fondly at PruFund. I was – I led the team that invented that at Pru back in the early noughties, and if our smooth managed fund could achieve comparable performance, we'd be very happy. Where next? Larissa.

Larissa van Deventer, Barclays

Larissa van Deventer from Barclays. Just one question, please.

If we take the £900m of targeted profit by 2026 from the £600m-odd that we are now, and we take off the £250m of cost savings, it's actually very little implied top-line growth. How should we think about the top-line?

Andy Briggs, Group Chief Executive Officer

I mean, maybe if I kick off with that first, our primary focus is on Operating Cash Generation. That's ultimately the sustainable level of surplus generation in the Life companies that's been dividend-ed up to Group, and that's our primary focus. And we're saying that's going to grow from £1.1bn to £1.4bn. And we're being pretty transparent that that £300m of growth, £125m will come from cost savings, £100m will come from recurring management actions and, therefore, the balance is coming from growth. And then, once we get beyond 2026, we're basically saying that the growth is going to be sufficient to drive mid-single digit growth in that, in that going forward.

So, we've put the IFRS targets in place here just to give everyone comfort on the future trajectory around shareholder equity, but we are running and driving the business primarily around Operating Cash Generation. Anything you want to add?

Rakesh Thakrar, Group Chief Financial Officer

Yeah. Just to build on the operating profit bit. So, what we talked about, the £250m cost savings, was that, you know, it was over the three years. And, by the time we exit 2026, we would achieve that target.

And, you know, so, when you think about it of when it actually emerges in your profit line, you won't get the full – so, we've already said the majority of the £250m will come through, and, even that, you won't get all of it because the fact that you're still delivering those cost savings during 2026.

So, therefore, the actual top-line growth is actually much higher than if you just took £250m from that £900m. So, it's a lot higher than what you're assuming because that £250m - and that's why there'll be more growth coming on after the £900m, after 2026, once the full £250m is actually developed and implemented, you'll see that in '27 onwards.

Andy Briggs, Group Chief Executive Officer

And I will let the team outperform the targets [laughter]. That's allowed. Any final questions for anyone, in the room? Andrew, any questions on the webcam?

Andrew Downey, Investor Relations Director

Nothing we haven't covered here.

Andy Briggs, Group Chief Executive Officer

Okay. Fantastic. Well, look, thanks, everyone, for your time this morning.

I'm conscious there's a huge amount to digest that we've covered today. Rakesh has got a session with you, with the sell-side analysts next week. We'll be out on the road for the buy-side watching over the weeks ahead as well but very keen to engage with you with your thoughts and reflections as we go forward.

But thanks for your time today. We'll be around for a bit afterwards if there are any further questions as well. Thank you.

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