Phoenix Group Half Year 2021 Results transcript

Andy Briggs, Group Chief Executive Officer

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Good morning everybody, and welcome to Phoenix Group's half year results.

Phoenix has made great progress against our strategic priorities in the first half. We have reported strong cash generation, and maintained our resilient balance sheet.

Key highlights include the sale of Ark Life, the Harmonised internal model application submission, and the Fitch ratings upgrade.

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We have delivered increased new business long-term cash generation, and taken ownership of the Standard Life brand. We also continue to remain focused on delivering for our customers and our people and we are making good progress with our sustainability strategy, on our path to becoming net-zero carbon, and fulfilling our purpose of 'helping people secure a life of possibilities'.

I will talk in detail about our progress against each of these strategic priorities shortly, but first I will cover the financial highlights.

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We have, once again, delivered on our key attributes of cash, resilience and growth, during the first half of 2021. Rakesh will cover this in more detail shortly, but in terms of the headlines…

We delivered strong growth in cash generation, with £872 million in the first 6 months. Our balance sheet continues to be strong, with a Solvency II surplus at £5.1 billion, following a planned £200 million debt repayment in March.

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And, our shareholder capital coverage ratio of 166%, is comfortably within our 140-180% target range.

Finally, we have reported £412 million of new business long-term cash generation, a 15% increase on the prior year. £206 million was delivered in the first half across our Open businesses, with a lower first half contribution from external BPAs, owing to a slow first half for all market participants.

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However, our BPA team worked hard to accelerate the second tranche of our Pearl Pension Scheme buy-in, on the pre-existing agreement. This completed in early July, and delivers a further £206 million of long-term cash.

Delivering cash and resilience are central to our investor proposition and it is our ability to deliver value accretive management actions, from both BAU activity, and our integration programmes, that are critical to this.

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In the first half, we have continued to demonstrate this, with nearly £300 million of management actions delivered, 75% of which were from BAU actions, such as illiquid asset origination, and asset risk management.

Our ability to deliver value-accretive M&A is also clearly demonstrated in the ReAssure transaction, where we have already recouped half of the £3.2 billion consideration paid, in less than 12 months.

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And, in terms of resilience, our unique hedging approach continues to deliver resilience to market events, regardless of the growth in the size of our company, or periods of sustained market volatility, as seen over the past few years. Minimal variances throughout.

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In November last year, we announced that we had received unsolicited expressions of interest for our European operations, and that the Board was therefore assessing a range of strategic options, to maximise value for shareholders.

That process continued throughout the first half of 2021, and included entering into advanced discussions about the potential sale of our entire European operations.

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However, the Board concluded that this would not maximise shareholder value, and instead have agreed that value will be maximised by treating the two parts of the European operations separately.

As a result, we have agreed to sell the Ark Life business to Irish Life, for an attractive price of £197 million, or 91% of Solvency II Own funds. We expect this capital to be reinvested into higher return, growth opportunities.

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And we have chosen to retain Standard Life International. This is a complex business, including with profits products, that is being run on old legacy systems. As the market leader in transforming businesses, and delivering cost and capital synergies, we believe we will maximise shareholder value by retaining it, and progressing a clear set of management actions. These include moving the business onto a partial internal model, and migrating the customers onto the modern Diligenta BANCs platform.

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These are the right actions to create value in the short-term, but also, over the longer-term, these actions will create a platform, that offers us strategic optionality, to consider the European M&A consolidation market.

I am really pleased with the progress we have made in our Open business, during the first half of 2021, as our investment begins to deliver tangible success.

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The enhanced capability we are building in our Bulk Purchase Annuities business, will enable us to significantly increase the proportion of transactions in the market we can quote on, from 35% last year, to around 90% by volume.

We have also made significant progress in reducing the capital strain on this business, which was 6% in the first half, using our new Harmonised internal model.

I am delighted that the investment we have made in our Workplace business is beginning to show. With new scheme wins evidencing the momentum we are building, and the recent award for Master Trust Offering of the Year, a testament to the work our team are doing, to develop a truly market-leading proposition.

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The acquisition of the Standard Life brand is already proving to be a significant catalyst for our Open business growth strategy.

It is a trusted and well-known consumer brand, that we will invest in, including a refresh of the brand, an acceleration in our proposition innovation, and the roll-out of enhanced technology for customers and intermediaries.

All of which will drive future growth, and help meet our aspiration of proving the wedge.

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Critical to our success is our focus on our customers. I am delighted that we have continued to exceed our customer satisfaction targets, in the first half and we continue to invest in our customer proposition, with some great initiatives delivered this year.

For instance, we have now made our market-leading ESG default fund available to our DC Master Trust members, and continue to work with our asset management partners, to expand the range of self-selection, responsible investment funds we offer.

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We have also widened access to in-scheme drawdown, to a further 1.5 million members this year.

Our investment in digital is also resonating with customers, with a 34% year-on-year increase in mobile app logins.

And we continue to migrate our customers to modern platforms, to improve the customer experience.

Phoenix is committed to addressing the challenges of climate change, which have been laid bare this week in the IPCC report.

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And we have laid solid foundations in the first half, to help us deliver on our ambition of being a leader in this space.

We are committed to making our investment portfolio Net-Zero carbon by 2050. And becoming public signatories, to the UN-Convened Net-Zero Asset Owners Alliance, and Race to Zero campaign, evidences this.

As one of the industry's largest asset owners, it is imperative that we take a lead role in driving change, and our recent Open Letter sets out the expectations we have of our asset management partners.

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We are excited to be working with our partners, to find the solutions that will deliver portfolio decarbonisation, and look forward to sharing these solutions in the run up to COP26. We will also be setting our own ambitious 2025 and 2030 decarbonisation targets for our investment portfolio, over the coming months.

We have made strong progress towards our target of being Net-Zero Carbon, from our own operations, by 2025.

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We are on track to reduce Scope 1 and 2 emissions by 20% this year, and expect to have all of our occupied premises using 100% renewable electricity, by the end of the year.

One great example of this in action is that we are installing an innovative photo voltaic glazing roof, at our Wythall office, which will reduce our carbon footprint, and generate our own energy. And it will be the largest of its type in the UK.

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Finally, in line with our ambition to make Phoenix the best place our colleagues have ever worked, we continue to invest in our people.

We are developing the excellent talent we already have, whilst strengthening our current team with high calibre new appointments, to bring new expertise and thinking to the Group.

We remain committed to making Phoenix a Diverse & Inclusive company where people can bring their whole self to work.

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So, we have created an innovative new app, “Who We Are”, to capture powerful data and insights, to support us in delivering on our commitment, and it is great to see that this has been completed by around 75% of our colleagues since launch.

Women account for 29% of our Top 100 leaders, and whilst we won’t be happy until this represents broader society, it is strong progress, up from 21% just 6 months ago.

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We also have 13% of our Top 100 leaders who are ethnically diverse, which is already broadly in line with the wider UK population and the overall investment we are making is once again reflected in our strong colleague engagement score of 79% in the first half and with that, I’ll hand over to Rakesh.

Rakesh Thakrar, Group Chief Financial Officer

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Thank you Andy and good morning. As Andy said, Phoenix delivered a strong financial performance in the first half of 2021, which reflects the scale of the new Group.

We have delivered cash generation of £872 million in the period, and long-term cash generation from new business of £412 million is up 15% year-on-year, including the second tranche of the Pearl Scheme buy-in completed in July.

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We have also delivered increased operating profit of £527 million and in line with our stable and sustainable dividend policy, we have declared an interim dividend of 24.1 pence per share.

With our focus on delivering resilience, our financial position remains strong.

Our Solvency II surplus is £5.1 billion, with a solvency ratio of 166% that remains comfortably within our target range, and leverage is stable at 28%.

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The reduction in assets under administration in the first half largely reflects the announced sales of the Wrap SIPP, Onshore Bond and TIP products to Aberdeen and Ark Life.

Turning first to cash. With strong cash generation of £872 million delivered in the first half, we now expect to deliver at the top end of our target range of £1.5-£1.6 billion for the full year.

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I also wanted to briefly remind you of the guidance we announced back in March, with our existing three-year cash generation target of £4.4 billion, and guidance over the life of the business of £17.7 billion.

It is important to remember that Phoenix's cash generation guidance is based on in-force business only.

It excludes the impact of any new business to be written in the future and also excludes management actions from 2024 onwards.

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Looking over the period from 2021 to 2023, this slide sets out the Holdco uses of cash generation and illustrates how secure our current dividend is.

It also highlights the significant amount of cash that will be generated over this period, with around £2.0 billion expected to be available for growth through BPA and M&A.

Group long-term free cash was £13.4 billion at the end of 2020, which incorporates the impact of selling the platform businesses to Aberdeen and the future corporation tax change, while the recently announced sale of Ark Life is expected to be broadly neutral.

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After the servicing of debt until maturity, this leaves £11.8 billion of cash available to shareholders.

With our current dividend cost of around £480 million per annum, this level of Group cash supports our stable and sustainable dividend for the long-term.

Our Solvency II surplus remains resilient and the small decrease during the first 6 months of the year reflects the planned repayment of a £200 million Tier 2 bond in March.

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We had a strong start to the year for Solvency II management actions, with nearly £300 million delivered in the period, and I would expect broadly the same amount in the second half, with the internal model harmonisation benefit on top of that.

We continue to see the benefits of our hedging policy with only a small economic variance in the period despite market volatility.

Phoenix has a unique approach to managing risk.

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We have a particularly low appetite to equity, interest rate, inflation and currency risks, which we see as unrewarded and therefore hedge to protect our Solvency II surplus.

This translates into the low sensitivities presented here. We do see credit risk as rewarded and so actively manage our portfolios to ensure they remain high quality and diversified.

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The key sensitivity we focus on here is 20% of the portfolio having a full letter downgrade, which is £0.4 billion in the context of our £5.1 billion Solvency II surplus.

It is worth noting that the credit sensitivities we disclose here are prudent, as they assume no management actions are taken to rebalance our portfolio, which is different to how many of our peers disclose.

Finally, we manage our longevity risk through reinsurance, retaining around half of the risk across our current in-force book, and reinsuring most of this risk on new business.

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As a consequence of this hedging approach, we are far more resilient to the major market risks than most of our UK and European peers, as this slide clearly demonstrates.

We see this as a core part of the Phoenix story and a key differentiator to others.

In order to manage our credit risk, Phoenix maintains a diversified £33 billion shareholder debt portfolio.

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Our proactive management has enabled us to uphold the high credit quality of our portfolio, and has minimised our downgrade experience, with 99.9% of cashflows paid on our bonds.

Integral to this is ensuring we keep our BBB exposure below 20% and we always seek to minimise our exposure to BBB-, which remains at only 2%.

Our ability to deliver value-accretive management actions is a key differentiator for Phoenix.

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During the first half, the delivery of management actions contributed £276 million to our Solvency II surplus.

The majority of these have been value-accretive actions that increase Own Funds with 75% delivered from “business as usual” activity, including illiquid asset origination and asset risk management actions.

We often hear that Phoenix is overly reliant on integration synergies, however, since the onset of Solvency II, around 60% of the £4.4 billion of Solvency management actions we have delivered have been business-as-usual, demonstrating our capability here.

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We continue to make good progress across both integration programmes.

We are well on the way to integrating the ReAssure Group Functions and are on track to complete this workstream in early 2022. This will free up more capacity for future M&A.

In our finance and actuarial workstreams, we completed the Standard Life integration in June and have begun the ReAssure Phase 2 integration with cost synergies expected from 2022.

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We also have several Internal Model applications planned, which in turn support our plans for future part VII's, including combining our legacy Phoenix and Standard Life entities into a single life company in Phoenix Life, which we hope to complete in 2023.

With this progress, we have now delivered over 90% of the Standard Life synergy target and 70% of the ReAssure target. We are on track to deliver the balance and that is before recognising the benefit from harmonising our internal models.

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With a decision on our internal model harmonisation application due from the PRA next month, I wanted to explain in more detail the expected impact.

As you can see, there are three immediate impacts that deliver a total Solvency benefit of around £400 million and a future cash benefit of approximately £10 million.

Firstly, having a single harmonised internal model allows us to realise diversification benefits between our legacy Standard Life and Phoenix life-companies at a Group level.

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This will generate a significant Solvency benefit, but does not increase cash as surplus at the life entity level, which remains unchanged.

Secondly, by improving the modelling of our credit risk, and how we diversify risks within the life companies, we can release some of the prudence we have in place today, which provides both a Solvency benefit and a future cash benefit.

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It is worth noting that I would not expect this cash benefit to emerge in 2021, as we will want to confirm the internal model is performing as expected over a period of time first.

Finally, we are holding a temporary Solvency capital strain of around £100 million in relation to Group currency hedges we put in place this year, which unwinds upon implementation of the new model.

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The harmonised internal model also unlocks a wider pipeline of future management actions including future part VIIs and the scope to improve our credit risk modelling further, as well as being supportive to our BPA pricing and future M&A.

The final management action I wanted to touch on is our illiquid asset origination.

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Long dated, or illiquid assets provide excellent cashflow matching for our £38 billion annuity book and are a key enabler of reducing the capital strain on our BPA business too.

Our illiquid asset portfolio comprises 28% of annuity backing assets, and we continue to target increasing our allocation of illiquid assets to around 40% over time.

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Reflecting the ongoing investment in our capability and team, during the first six months of the year we have increased our illiquid asset origination by 67% to £1.3 billion, with an average credit rating of A.

Within that, we have increased our investment in ESG assets by 132% to £78 million.

And you can see on the slide several great examples of the meaningful impact our targeted ESG investment can make, as we seek to deliver on our sustainability strategy and support the Government in “building Britain back better”.

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Moving now to growth, we have reported a 15% increase in new business long-term cash generation to £41 million.

Like most market participants, we saw a slow first half market for BPA transactions and therefore decided to accelerate the second tranche of the Pearl Scheme to July.

Elsewhere, it was pleasing to see the other asset-based Open businesses all deliver increased cash generation year-on-year.

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With £431 million of external BPA transactions completed in the first half, we have maintained our market share at around 7%, in what has been a slow market.

Importantly, we have been able to reduce the capital strain from 8% in 2020 to 6% this year, primarily due to our new business pricing now reflecting our harmonised internal model.

We continue to target a future BPA capital strain of around 5%, with illiquid asset origination and improved reinsurance the drivers of further improvement from here.

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In terms of the second half outlook, we are currently quoting on an improved pipeline of deals. However, we will remain disciplined in our approach and, as ever, we will be focused on value over volume.

We were delighted to reach an agreement with the trustees of the Pearl Pension Scheme to execute a buy-in for a further £998 million of premiums, which completed in July.

Similar to our external deals, the capital strain on this second tranche has reduced substantially, down from 12% in 2020 to 6% this year, reflecting the expected harmonised internal model efficiencies and improved reinsurance structuring.

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Turning to our asset-based businesses in the Open division, where we are beginning to see the benefit of our investment in this business with increased long-term cash generation, despite the increase in tax rates, and improved gross inflows from all business areas.

In Workplace, we are pleased with the momentum we are building here, with new scheme wins in the first half providing a platform for future growth, and higher gross inflows a function of improved pricing and proposition.

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However, we are reinvigorating a business that had been underinvested in historically, and during the first half we saw several scheme losses that led to net outflows in the period.

These scheme losses had been deferred by a couple of years and reflect decisions taken on our legacy proposition, which has improved significantly since then.

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In customer savings & investments, we are very much in the early stages of building a retail offering for the long-term, but saw an improved performance in the period due to proposition enhancements.

In Europe, gross inflows increased due to stronger sales, while the 47% increase in long-term cash generation from SunLife is due to higher volumes and profitability.

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Turning to our IFRS results.

We delivered operating profit of £527 million in the first six months of 2021, 46% higher than the prior year reflecting the scale of the new enlarged Group.

Operating profit in our Open business has reduced year-on-year due to the lower contribution from external BPA deals in the first half, accounting for around £70 million of the movement.

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Group costs and service company movements reflect increased costs owing to the enlarged Group and the build out of additional Group capabilities.

The sizeable swing in investment return variances and economic assumption changes reflects the impact of our hedging strategy from rising rates and equities. We hedge the Solvency position to deliver dependable cash and dividend resilience, and accept that this will cause volatility in our IFRS balance sheet.

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Phoenix is known for the resilience and sustainability of its dividend, which the Board and I see as our priority to maintain.

With our Open business delivering growth, we have the opportunity to consider whether organic growth can support a dividend increase, in addition to the periodic increases we already consider following value-accretive M&A.

I must stress that the Board will only consider an organic increase in the dividend if the business has grown.

Any increase must also maintain our dividend sustainability over the long-term.

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An increased dividend would then establish our new stable and sustainable dividend level going forward. With further increases dependent on delivering further business growth.

The Board has a clear framework for assessing whether organic growth has the potential to support a dividend increase, with two key conditions that trigger an assessment:

Firstly, we must “prove the wedge” and see the cash generated from new business more than offset the run off of our in-force business of circa £800 million per annum.

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The second is that our recurring sources of cash exceed our recurring uses. If the conditions are met, the Board would consider whether it is appropriate to increase the dividend, but will only do so if the Group’s dividend sustainability is maintained over the long term.

To conclude, Phoenix has a clear financial framework, which supports our strategy and delivers cash, resilience and growth.

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In the first half, we delivered strong cash generation, our balance sheet remained resilient, and we delivered growth with increased new business.

And I was delighted with the recent credit rating upgrade from Fitch, which is a clear validation of our business model.

Looking forward, we now expect to deliver cash generation for the year at the top end of our £1.5-£1.6 billion target range, and will continue operating within our target ranges for both solvency and leverage.

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And finally, we will continue executing on our growth strategy, as we look to deliver incremental new business cash generation in order to prove ‘the wedge’, and we will, of course, prioritise value over volume in the BPA market.

I will now hand you back to Andy.

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Andy Briggs, Group Chief Executive Officer

Thanks Rakesh. Phoenix has a clear strategy, that is focused on three key priorities, and leverages the industry drivers of change.

Our priorities are:

1. To optimise our in-force business, to deliver resilient cash generation.
2. To deepen our customer relationships, as we help people consolidate their pensions, and journey to and through retirement.
3. And, to acquire new customers, both organically through our workplace and BPA businesses, and inorganically through value-accretive M&A.

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Our business model therefore flows from this, where we are the market leaders in both Heritage and M&A, and our Open business has unique advantages to succeed and win too, and the successful execution of this strategy will ensure we continue to deliver, against our financial framework, of cash, resilience and growth.

Our business model delivers some unique advantages to Phoenix, by having our Heritage and Open businesses operating alongside one another, with our differentiated M&A and Integration capabilities supporting them.

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Those unique advantages include:

Our approach to risk management, that differentiates us from our peers, delivering resilience to our in-force business, which in turn underpins the delivery of high levels of long-term dependable cash generation, that both supports our stable and sustainable dividend for many years, and; generates excess cash, that we can invest in a range of high-return growth opportunities, aligned to the industry drivers of change.

At Phoenix, the whole is therefore greater than the sum of the parts, which enables us to deliver market leading cost efficiency across both Heritage and Open, significant ongoing capital diversification, again benefitting both Heritage and Open, and an unmatched scale, as the UK's largest long-term savings and retirement business.

At Phoenix, we also recognise that we have a clear role to play in society.

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That's why our purpose is, 'helping people secure a life of possibilities'. This means providing the right guidance and products, at the right time, to support the right choices.

As I have said before, I passionately believe that businesses with the best people, focused on their purpose and their role in society, deliver better customer outcomes, and in turn, stronger returns for shareholders.

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The virtuous circle you see on this slide, and in support of that, I am delighted to announce that we are launching a new think tank later this year, called Phoenix Insights.

Life expectancy in the UK has risen dramatically over the past century. These longer lives are the gift of advances in public health, living standards, nutrition, and medical science. But we are not yet structuring our society, and our lives, in ways that help us to make the most of that gift.

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Phoenix Insights will be dedicated to catalysing the change, and innovation, needed across society, to enable us all to live better, longer lives, and to make that a national conversation.

I am therefore honoured to be chairing an expert advisory committee, that brings together some of the most distinguished experts in this field.

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And I am confident that Phoenix Insights is going to deliver some truly impactful research, inform the public debate, and, of course, enable Phoenix to develop the propositions that will help our customers to enjoy their better, longer lives.

Our purpose in action, helping people secure a life of possibilities.

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So, let me conclude with our priorities for the second half of 2021. We will continue to deliver dependable cash, and resilience, through the disciplined management of our balance sheet, and by executing on our pipeline of management actions and integration programmes.

We will also deliver on our growth ambitions, by investing in our Open business, and the Standard Life brand.

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And we will continue to actively assess value-accretive M&A opportunities. As we have outlined previously, M&A is a core part of our strategy, we see a huge market opportunity over time, and we have the bandwidth, at a Group level, and the financial firepower to do M&A today. But we will remain disciplined in our approach and given the substantial value still to be delivered from our current management actions pipeline, we have plenty to keep us busy.

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As a purpose-led organisation, everything we do is underpinned by, ensuring we deliver better outcomes, and improved propositions, for our customers, delivering on our sustainability commitments, and setting ambitious near-term targets, towards decarbonising our investment portfolio and continuing to invest in our people and culture, and with that, we will move to questions.

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So, can I please can I therefore ask the analysts to now log-in to the Zoom call with the details they have been sent by the IR team.

In terms of the format, for the sell-side analysts who are joining the Zoom call please ask your question using the 'Raised Hand' function, and once you have accepted the invitation which will come up on your screen, the operator will bring you into our presentation live on video.

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For anyone watching on the webcast, please use the Q&A facility and we will come to your questions after we've been to those on the Zoom call.

While we just give the analysts a minute to log-in on the Zoom call, we probably cab take a pre-submitted question, Vicki is there a first question we can take please?

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Victoria Hayes, Investor Relations Finance Manager

Hi Andy, yes while we're waiting for our analysts to join, I've had a question submitted via the webcast, so I'll just read that one first. So, Swiss Re have recently sold half of their strategic stake, ahead of the lockup expiry, do you expect them to sell down more and what are the intentions of your remaining strategic shareholders?

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Andy Briggs, Group Chief Executive Officer

Ok, thanks Vicki, I mean obviously we're delighted to have Swiss Re as a shareholder, and the position was, that Swiss Re have quite a large portfolio of equities as part of their capital base, but when they held 13.3% of Phoenix, that was an outlier compared to the other holdings in their equity portfolio. Now they're down at 6.6%, that's much more in line with other holdings they have elsewhere in their portfolio, it's no longer an outlier, so it is very much a decision for Swiss Re as to what they do going forward, what I would also add, a couple of points…

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Firstly, that I've had a lot of feedback from investors that they like the fact that the free-float at Phoenix is greater, that the liquidity in Phoenix shares is greater and also in terms of other strategic shareholders, so back in February where we did the deal to buy the Standard Life brand, Stephen Bird at abrdn reconfirmed at the time their commitment to the strategic partnership and their strategic investment and then also back in June, MS&AD also reaffirmed their commitment to their strategic partnership and strategic investment in Phoenix Group, MS&AD have a conscious strategy of diversifying their earnings away from Japan by taking strategic stakes in overseas companies and they're very happy with the 7% dividend yield they get from the Phoenix stock.

Do we have our first analyst question Vicki?

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Victoria Hayes, Investor Relations Finance Manager

Yep Andy, we can now move over the questions from our equity analysts. First question is from Steven Haywood of HSBC, Steven could you unmute yourself and go ahead and ask your question please?

QUESTION – Steven Haywood, HSBC

Good morning, I hope you can hear me, thank you.

Andy Briggs, Group Chief Executive Officer

Morning Steven, yes we can hear you loud and clear.

Steven Haywood, HSBC

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Three questions from me if you don't mind?

On your internal model harmonisation, I noticed that one of the bullets on the unlocking management acquisitions pipeline suggests that it will support future M&A, can you give us an indication of how this will support future M&A?

And then, two other questions on BPA. Can you discuss the outlook for the BPA market, for the rest of this year and beyond, and Phoenix's pipeline and secondly, in terms of your BPA capabilities now, you mention in the slides that you can now quote on 90% of all deals coming to the market, I wonder if you can give some more details around your capabilities now, what they were previously and also what you think this 90% quotability can lead to for your pipeline and future years new business, thank you.

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Andy Briggs, Group Chief Executive Officer

Thanks Steven, so I'll take the second and third and then ask Rakesh to take the first one, so the broader outlook for BPA, there's £1.5 trillion of assets in DB schemes in the UK and as I've said before, I'm yet to meet the Finance Director that's pleased to have this big financial services company with a pension scheme attached to the side of his manufacturing business and I'd say we're getting to a place where probably two thirds of that £1.5 trillion is well advanced on a journey to be able to move to de-risking and buying in due course.

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So, in line with other commentators, we would expect over the next decade a £30-40 billion a year market for BPA. What we've seen is the first half of this year has been quieter, we will estimate the external BPAs been around £6 billion in the first half of this year and I think that's quite simply just down to the fact that the pandemic happened last year and Finance Directors had other priorities, we'd expect the market to be more normalised in the second half of this year.

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So, what does all that mean? Basically, what I would say, is if I take a medium-term view, I am really confident that we will be able to exceed the £800 million of long-term new business cash, and more than prove the wedge. If you ask me specifically about 2021, then, if you're asking me about cash generation and management actions, they're all things we control internally ourselves, they're our internal projects. When it comes to predicting future new business, we're in a competitive market out there, and the reality is, that the vast majority of our competitors are mono-lines and they're probably sat there thinking, if we don't write volume BPA this year, we've had a bad year.

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At Phoenix, we won't think that. We have a multi-dimensional business, we play in lots of areas and we will maintain discipline over what we do and therefore there is a chance in the second half of this year, we've got an attractive pipeline of business, but there is a chance that the mono-lines that were starved in the first half, are super hungry in the second half. We will maintain our discipline and only allocate capital where we can get attractive returns.

0:42:32.6

In terms of the capability. Probably the best anecdote to summarise this is, that, I was chatting to Matt, one of the guys in our BPA team, whose been in the BPA team for quite a while, in our London office the other day, and he was saying to me that 16 months ago, as we went into lockdown, the BPA team was 6 and as we come back from lockdown its now 25, so that gives you an indication of the capability we're building. The fact that we can now quote on 90% of the market, we used to be able to quote on only 35%, so we've developed the ability to look at deferreds, for example, we've developed the ability to do buyouts as well as buy ins…

0:43:09.1

We just have more capacity in the team to be able to quote on a broader range of business, and what you should expect from us is, we've allocated £150-200 million of capital a year, for external BPA, and we're targeting a 5% strain, delighted that we've moved down from 8% to 6% on the external business and the Pearl scheme went from 12% down to 6%, I mean that's a real testament to what we're doing here, so we're targeting a 5% strain, that then means £3-4 billion a year of external BPA.

0:43:41.0

I mean, I wouldn't rule out potentially allocating more capital in due course but let's get ourselves to successfully allocate £150-200 million at a 5% strain as a first step on that journey. Rakesh, do you want to pick up on the internal model harmonisation?

0:43:56.0

Rakesh Thakrar, Group Chief Financial Officer

Yeah, thank you and thank you Steven, I think the question was about unlocking future management actions and potential for helping on M&A.

So, first thing, the benefit of the internal model which is still a decision for the PRA at the end of September, will allow us to then combine the life companies within a single entity. At the moment, if they're on separate internal models, you can't do that Part VII, and by having Standard Life, Phoenix Life all in a single harmonised internal model, will unlock that Part VII and allow us to then complete it, which is expected in 2023.

0:44:34.1

But in addition to that, it then sets us up to bring ReAssure onto that internal model over time and finally when it comes to M&A, pricing, we will be able to give a more accurate reflection of the risks involved in bringing a target onto our harmonised internal model and just to finish off Steven in terms of other management actions, what it allows us to do, it gives us an option to further go into more granular detail on our credit risk calculations, because at the moment, when we calculate our credit risk, we use the same capital across a letter, so a BBB would make no difference whether it's BBB+ or BBB or BBB-, the same capital cost. We'll go into the next level of detail by having different capital charges for BBB+ versus BBB, so it will give us a better reflection of our risks.

0:45:30.9

Andy Briggs, Group Chief Executive Officer

Good, thanks Steven. Vicki, next question please?

0:45:34.3

Victoria Hayes, Investor Relations Finance Manager

Hi, yeah, next question is from Andy Sinclair from Bank of America, Andy, please go ahead.

QUESTION – Andy Sinclair, Bank of America

0:45:40.9

Thank you and morning everyone. Three from me as usual if that's ok. Hopefully you haven't covered anything in this Q&A, it's been a busy morning this morning. Firstly, on the remaining European operations, I just really wanted to understand the timeframe for your new plans, just wanted to make sure I'm reading slide 22 correctly, that this should be largely complete in 2022, and just when would we see the admin outsourced. I think in the past you didn't have European outsourcing agreements in place, so just to understand a bit more there.

0:46:17.7

Second question is just on Bulk Annuities and Pearl transfers, what's the timeframe for the transactions, could we potentially see more in 2021 depending on how the annuity market goes in H2 and what those mono-line peers are doing? Or is that just further out? And third question, was just on the UK savings, UK Open savings business…

Probably a little bit surprised to see net outflows in H1, given a pretty strong year for UK asset gatherers. Just really wondered if you could give a little bit more colour here and what you'd be expecting in terms of a return to net inflows going forward, thanks?

0:47:01.1

Andy Briggs, Group Chief Executive Officer

Thanks Andy, so none of those are ones that you've missed having done your other results earlier on, so that's all good. I'll get Rakesh to pick up the third in terms of the savings flows.

In terms of Europe. So, basically there are three core areas of focus there for Standard Life International, one is the move onto the partial internal model, we are pretty close to being able to submit that application to the CBI, but the CBI would typically take a year - potentially longer - in order to work through and approve an application like that to give you a sense of timeframes there.

0:47:38.2

In terms of the administration and migrating to more modern technology, we'll basically do that in tandem with the program to move the UK business off the old Standard Life mainframe across to the Diligenta TCS BaNCS platform, so that's something that will happen over the next couple of years, broadly from here.

And then the third action, just ongoing, is now we've taken ownership of the Standard Life brand which is very exciting for us, we can really start to push that Standard Life International brand from the new business perspective both in Ireland and Germany domestic markets and then the Offshore Bond business back into the UK.

0:48:16.0

So, taking ownership of that Standard Life brand has resonated really positively with employee benefit consultants and intermediaries because they can see we're really committing to those markets.

In terms of the BPA side of the Pearl scheme, so that's basically a dialogue we have with the Board of Trustees of that pension scheme, but they are keen to go the whole way and to buy the whole business out, we're committed to do that by the end of 2023, and so, we can have a significant influence but not totally control that timing and obviously we went to them when we saw the BPA market was quieter in the first half, they were happy to accelerate the next billion which is what we completed in July…

0:48:58.7

So, we can influence the timing of that but we'd need to agree things with the trustees. Rakesh do you want to pick up the flows position?

Rakesh Thakrar, Group Chief Financial Officer

Yes, so, the flows in the first half, Andy as I mentioned in my script was primarily due to people deferring their decision that they took a couple of years ago, that is actually coming through now and that was based on our legacy proposition that was, as we know, was under invested in previously. We're doing a lot of work now, on trying to reverse those net flows and it will take time, but what's really pleasing is that you can see the fruits of that coming through now, the fact that our gross inflows are actually going up, year on year, you can see the benefit of having that Heritage and Open business together to get that cost efficiency, capital efficiency and scale to actually improve our pricing, on that basis. We've got the brand now and that investment in brand will allow us to further enhance that proposition and we're continuing to improve our proposition in this space anyway.

0:50:02.6

You would recently have seen the launch of the ESG default fund within our Master Trust, so a number of areas, a number of initiatives, we're investing in this proposition and it will take time, but we are seeing the fruits of it, because we've had more scheme wins this year.

Andy Sinclair, Bank of America

And for the one-off deferreds outflows that came through in the first half of this year, roughly how much was that? That's kind of one-off in terms of the outflows this year?

0:50:28.0

Rakesh Thakrar, Group Chief Financial Officer

So, I think roughly that was about half of it.

Andy Sinclair, Bank of America

Perfect, thank you very much.

Andy Briggs, Group Chief Executive Officer

I think the key point is, that was decisions those corporates made a couple of years ago, before the investment we made. We won 17 new mandates in the first half of this year, we won 1 last year, to give you a sense of the momentum we're building in our proposition now, but we're the early stages and there's a long way to go and we'll not get ahead of ourselves, you know what we're like, but we are very confident in the medium-term we will build a very much leading business here.

Vicki, next question please?

0:51:03.5

Victoria Hayes, Investor Relations Finance Manager

Hi Andy, next question is from Larissa Van Deventer from Barclays, Larissa please go ahead when you're ready?

QUESTION - Larissa Van Deventer, Barclays

Good morning everybody, three from my side as well.

The first one, now that you've decided not to sell the European businesses, could you give us a sense of your strategy for Europe and also if you see more near-term opportunities in the UK or in Europe?

0:51:26.3

Second question relates to, the hurdles, Rakesh, that you mentioned on the dividend. You seem to be on track to meeting both of them, so the question is, how often and how aggressively would the Board review those, is this a 6 monthly focus, or do you take a longer-term view with respect of potential M&A?

And then on potential M&A, could you give us a sense of what you consider your deployable capital to be for potential M&A transactions please?

0:51:55.8

Andy Briggs, Group Chief Executive Officer

Sorry Larissa, I missed the very last bit there on M&A could you say that last question again?

Larissa Van Deventer, Barclays

What do you consider your deployable excess capital to be?

Andy Briggs, Group Chief Executive Officer

Right yeah ok.

0:52:04.0

Sure, so I will take the first and third of those and then ask Rakesh to cover the dividend side. So basically the strategy for Europe in the shorter term, is, the transformation of that business, so move it from a standard formula to a partial internal model, migrate to much more modern technology, and then invest in the Standard Life brand and the propositions and that's a 2-3 year program of work, which are the right things to do for the business on a standalone basis, but that also then would turn it into a business that would be a platform to consider potential consolidation in Europe.

0:52:42.9

So, don't expect us to be doing any European M&A in the next couple of years, that's not on the agenda, we've got a lot of work to do with that European business organically if you like.

So, our focus of our M&A activity is on the UK and let me just give a bit more colour around that. So, M&A remains a core part of our strategy, we're confident that's a significant driver of value, we say in the disclosures today that currently our fire power for M&A is £1.4 billion, without raising equity, and that's before you take the Ark Life proceeds of about £200 million.

0:53:23.0

So, with that, you're looking more at £1.6 billion. But I guess, we're in the very fortunate position, there's a huge amount of value we can create through the transition with the Standard Life business and the integration of the ReAssure business, and just seeing the £400 million of surplus gain from the harmonised internal model, that's just one of the integration actions in practise, and so, if we were to do an M&A imminently, we would have the bandwidth at a Group level to oversight the business, we would have the financial fire power to do it, so we could do a deal - but we would be able to do the phase 1 integration, and we'd need to leave it on the side from a phase 2 or phase 3 integration perspective.

0:54:08.0

So, what I'd say is we're not desperately pounding the streets, desperately looking for the next M&A deal, if we didn't do another deal in the next year or so, I wouldn't be at all perturbed because we're in the very fortunate position that we've got lots of value, we can still generate through the integration of the businesses that we have.

Rakesh do you want to pick-up on the dividend side?

0:54:27.9

Rakesh Thakrar, Group Chief Financial Officer

Yep thank you Andy, so, Larissa your question was around the dividend and review of the dividends, so as you know Larissa we have a stable and sustainable dividend and maintaining that is the key priority for the Board and the resilience is paramount. We're only going to increase the dividend if we can see and demonstrate that the business has grown, and this is in addition to M&A periodic, to the extent we do an M&A that will be separate. This is just looking at organic growth only.

0:55:03.4

And any level that we then establish is that new level, will be the new stable and sustainable level going forward, there are those two conditions like I mentioned in my presentation. One was around getting long-term cash generation to greater than £800 million effectively proving the wedge and secondly the recurring sources being greater than the recurring uses. So, they're the two conditions, if those two conditions are met, the board will then consider whether it's appropriate to increase the dividend and they'll have a decision and judgement to make in that regard and I would expect this to be an annual process depending on how we've done in that financial year.

0:55:50.2

Andy Briggs, Group Chief Executive Officer

Thanks Larissa, Vicki next question please?

Victoria Hayes, Investor Relations Finance Manager

Hi, yeah next question comes from Farooq Hanif from Credit Suisse, Farooq over to you, would you please unmute yourself?

0:56:00.7

QUESTION - Farooq Hanif, Credit Suisse

Hi everybody, hope you can hear me?

Can you just talk a little bit more about your plans for the Standard Life brand, so is this now going to be the face of your Open business everywhere? And so, you will basically migrate people to use Standard Life proposition and then on the technology, are you basically looking to replace the platform that you've basically given back to Standard Life with your own proposition?

0:56:34.8

Secondly, on BPAs, you're talking about quoting for 90% of the market, what about the really big deals, would you consider major reinsurance partnerships to try and facilitate doing those really larger deals? And then lastly, just a quick one on BaNCS versus ALPHA, looking right now at unit costs now that you've got these two platforms and you've been using them, which is for you the most efficient, thank you.

0:57:05.9

Andy Briggs, Group Chief Executive Officer

Thanks Farooq, good to see you. So, we're absolutely delighted to take ownership of the Standard Life brand and obviously the deal we did in the first half basically means we own all of the life and pensions business of Standard Life, including the brand, the transferring across, the marketing and distribution teams, so that's fantastic.

Just to reiterate, we basically do 3 things at Phoenix, we're the market leader in Heritage business, we're the market leader in M&A and we're building a thriving and growing Open business, so yes, we would see over time that basically the Standard Life brand is the brand we will use in that Open business…

0:57:39.5

It's a fantastic brand, it has very high awareness, very high levels of trust, a strong consumer brand, very deep heritage. So it is exciting for us to have that, but the key for us is focusing on developing our propositions, developing the technology and therefore the service and offering for customers and for intermediaries and building our people capabilities. So we have fantastic people already, and we're bringing some fantastic hires into our Open business as well, creating in my view the strongest team in the market and so, you raised specifically the adviser platform, so our focus at the moment is on Workplace business, that's where basically there's about £40 billion of new money coming into the market every year, we're a top 3 player in Workplace pensions…

0:58:29.4

Customer Savings and Investments, so view that as the individual pensions market as people look to consolidate and journey to and through retirement, and I think it's unlikely that we will try and create an adviser platform in the way that abrdn have, I think that's unlikely. I do think that we will look to play in that market and we're currently working through and thinking through different strategies and options around how we might do that, and then obviously we've got the BPA side and the SunLife and Europe as the other parts of the Open business.

0:59:03.3

To your second question on the BPA market, the way to think about this is that we're happy to allocate £150-200 million of capital and I wouldn't rule out potentially doing more in due course but right now we're happy at £150-200 million of capital, and we're targeting a strain of 5%. So, obviously could we end up doing a scheme at £2 billion? Quite possibly, because that would only use £100 million of our £150-200 million and equally Farooq, Tom Ground and Kunal Sood and the team that we have in place, some of the very best people in the market, in my view, they will look at things like asset reinsurance and other ways of structuring…

0:59:46.2

So, I wouldn't rule out potentially doing something larger, if we had some form of asset reinsurance in place, that's some of the things we're starting to think about, but early days for us and we will take a very disciplined and considered approach to BPA, we will not try and run before we can walk, we will make sure we only deploy capital at attractive returns.

Finally, in terms of BaNCS and ALPHA… so, first of all, we've got a huge agenda on the go, you've just got to look at the slide that Rakesh had up of the transformation and integration activity, so any consideration of BaNCS and ALPHA is not for the next few years, we've got far more value accretive things that we could do.

1:00:29.5

And our view is the outlook for M&A in the UK is attractive, there's a global theme here of insurers focussing down on core businesses. You can see it with AIG, with Prudential Group, with Aviva, you can see it everywhere. That for me, is good news for us, it means there will be M&A opportunities…

And the longest lead time in our M&A is the phase 3 of integration which is the Customer Operations and IT side, so having two strong platforms in BaNCS and ALPHA, is Plan A for us to accelerate the pace at which we can do M&A.

1:01:01.5

If the M&A isn't forthcoming, there would be fairly material benefits in bringing those two platforms together, so that's an option to think about, but Plan A would be to accelerate the pace at which we can do M&A by having the two platforms side by side.

Farooq Hanif, Credit Suisse

Thank you very much, thank you.

1:01:17.1

Andy Briggs, Group Chief Executive Officer

Thanks Farooq, Vicki, next question please?

Victoria Hayes, Investor Relations Finance Manager

Hi Andy, so our next question is from Oliver Steel from Deutsche Bank, Oliver, could you unmute yourself and go ahead when you're ready?

1:01:26.0

QUESTION - Oliver Steel, Deutsche Bank

Hello, Andy Sinclair nicked most of my questions but if I could just add a little bit of extra detail or ask for extra detail? The first is, on Standard Life International, what are the savings that you actually expect in terms of both cash savings, benefit to Solvency II, and also the cost of achieving that, how does it change your long-term free cash build up in other words?

1:01:53.1

And then, secondly, can you just remind us what's left of your own pension scheme in terms of liabilities?

Andy Briggs, Group Chief Executive Officer

Yeah so, I'll take the second and then ask Rakesh to pick up the first.

In terms of the own pension scheme, it's a £3 billion scheme and we've basically done 60% of it now, so there's 40% to go, so £1.2 billion roughly of that pension scheme still to look at in due course. Rakesh do you want to pick up in terms, because it all interlinks with the UK synergy targets as well doesn't it?

1:02:24.1

Rakesh Thakrar, Group Chief Financial Officer

Yeah so, Standard Life International I think there was two parts Oliver to your question about synergies, reduction and impact on long term free cash. So, let me just talk about the capital bit first, on the partial internal model.

So, this is really what we're doing, is moving 2 of the modules to become the internal model because we don't believe standard formula is appropriate for that and those 2 modules will then allow us to better manage those risks going forward. There will be a modest benefit to long-term free cash in doing that because we'll be able to reflect a more accurate picture of the SCR which then has a small knock on impact to the risk margin so we should see an increase in that coming through into the long-term free cash.

1:03:16.9

In terms of the cost synergies, what we want to do is make sure that once we've got it onto a platform as Andy discussed earlier, that will allow us to have a more manageable cost level and again, given it's still open to new business I wouldn't see this as a material benefit going forward but what it will do is allow us to ensure that our proposition in Europe is appropriately priced and can be efficiently sold.

1:03:46.1

Andy Briggs, Group Chief Executive Officer

Does that cover it Oliver for you?

Oliver Steel, Deutsche Bank

Is there a cost to achieving this?

Rakesh Thakrar, Group Chief Financial Officer

Certainly, there will be a small cost for the internal model because we need to get through the process and going from a standard formula to a partial internal model, we need to make sure you have all the governance etc. in place to do that within Ireland, but it will be pretty low compared to the big harmonised internal model.

1:04:18.4

Oliver Steel, Deutsche Bank

Thank you.

Andy Briggs, Group Chief Executive Officer

Thanks Oliver, good to see you. Vicki, next question please?

Victoria Hayes, Investor Relations Finance Manager

So, our next question is from Trevor Moss from Agency Partners. Trevor, would you like to unmute yourself and go ahead?

1:04:28.6

QUESTION - Trevor Moss, Agency Partners

Morning Andy, morning Rakesh.

Andy Briggs, Group Chief Executive Officer

Morning Trevor, how are you?

Trevor Moss, Agency Partners

Yes, very good thank you. Very good. Now, just a few questions. Without wishing to do the M&A theme to death, because you've had a couple of questions on that already Andy, I guess I would say that the financial resources of Phoenix to do M&A have probably never been better and I thought last year both at your interims and at the CMD you were talking quite optimistically about prospects or deals. I sense from your commentary today that you're a little less optimistic about anything happening, although you see the long term effects of various things - market volatility, companies de-consolidating etc., it doesn't sound like there's anything imminent. I wonder if that's because you have been looking at some deals, some deals have gone away, or that there's a change in the market place in the way that people are thinking about deals and there's a lot of deferral going on of that thinking, so that was a little bit more about M&A.

Second thing, I notice that you've dropped about a billion of shareholders equity, this half year, which I realise obviously that you hedge the economics, you don't hedge the IFRS balance sheet necessarily, I get that…

1:05:53.4

But, that's quite a lot of equity that's gone. Now, that's also had an effect on your Fitch leverage ratios, which would have been quite a lot better had you not had that happen, so I wonder if you might talk about that a little bit. Those are the two thank you.

1:06:10.1

Andy Briggs, Group Chief Executive Officer

Ok, I'll get Rakesh to handle the second and in terms of the first. The first thing I'd say is, my intention is no change in tone or messaging around M&A from what I've said before, so, if you're reading something different, please don't, that's not the intention. We remain very positive about the outlook for M&A over the medium term and there's two drivers of that. The fact that insurance Groups are generally focusing in on core businesses, and I think the pandemic has accelerated people thinking about where capital is deployed and how to optimise returns on capital in different parts of their businesses, so we would be optimistic about that in the medium-term.

1:06:56.6

I think we are extremely well placed and I think your point is very well made, with £1.4 billion of firepower. Every deal we've done in the past, we've needed to raise equity, so a big slug of the value created goes to service that equity.

That £1.4 billion firepower we have at the moment, is kind of earning next to nothing on our balance sheet at the moment, and therefore if we deploy that to M&A, the ability for more of that to find its way back to shareholders in the form of increased dividends is clearly much greater, so I think that's all exciting.

1:07:33.9

The bit I sort of temper is that, we've got 2 or 3 years of serious heavy lifting hard work to get all the benefits out of the Standard Life transition and the ReAssure integration, and as I said earlier, looking at the £400 million from the harmonised internal model, these are big numbers f value creation and therefore if we did another M&A deal, as far as the phase 2 Finance and Actuarial side is concerned and the phase 3 Customer Operations and IT….

1:08:02.3

We would need to leave those sat on the side for a period of time, so we have the bandwidth at a Group level, at a Group level we've integrated Phoenix and ReAssure and Standard Life together, we could oversight another subsidiary, we have the financial firepower, but we don't feel a desperate need to pound the streets and find the next deal because if it was there we could do it, but we'd need to leave it on the side for a decent period of time before we could start realising those synergies

1:08:29.7

So that's the nuance and the other piece I'd add Trevor, is that, I see some commentary that only big deals would move the needle, I don't see that at all, if we did a smaller deal, and you could do the maths yourself and you think what the cash generation, if we deployed £0.5 billion into a smaller deal, that's going to generate £50 million a year of incremental cash, well you can take a chunk of that and divert it to more BPA, you could take the majority of it and say, well that's additional cash generation for shareholders that we can feed through I the dividend as what you're forgoing in terms of return is very low indeed on that £0.5 billion of cash on the Group HoldCo balance sheet.

1:09:11.7

So, I think smaller deals or larger deals would be equally attractive from our perspective. Do you want to pick-up on the leverage and IFRS equity side?

Rakesh Thakrar, Group Chief Financial Officer

Yeah, absolutely, so thanks for your question Trevor and your question related to the fall in the shareholders equity and really just putting some context here Trevor, so as you know our focus is on the cash and resilience elements i.e. the cash generation, dependable cash generation, and that's driven from the Solvency II balance sheet, so all our hedging strategy is there to protect that Solvency position and together with the management actions that we delivered nearly £300 million just in the first 6 months of this year, that will ensure that that

Solvency position is protected, that will give us dividend resilience and gives us dividend resilience already over the long-term but ensures that we maintain that resilience.

1:10:06.3

And the impact of that, is the hedging strategy then has a potential adverse impact on our IFRS balance sheet through the rising of rates and equities as you've seen this year, but given that we can focus on the balance sheet and to ensure that our capital position remains robust, and we can deliver dependable cash, the dividend is safe for all investors and we'll have surplus cash to repay debt as and when it comes due so we can mature, we can manage that leverage ratio, so for example, we've just repaid in July £100 million of our senior debt that was coming to maturity, and our Tier 3 bond due for maturity in July of next year, so we have a number of maturities coming up, by ensuring we protect that balance sheet, we maintain that dividend resilience, and we have the cash to repay debt as it falls due to manage that leverage ratio.

1:11:06.6

Andy Briggs, Group Chief Executive Officer

Thanks Rakesh, thanks Trevor. Vicki, next question?

Victoria Hayes, Investor Relations Finance Manager

Yep so next we've got Andrew Crean from Autonomous. Andrew, would you like to go ahead?

QUESTION - Andrew Crean, Autonomous

Morning all, a couple of questions, like Oliver I think most questions have been asked. But a couple of things. Down the line, the internal model harmonisation of ReAssure, should we broadly, I mean it's never certain, but should we broadly plug in the same benefits that you had for the Standard Life harmonisation, so £0.4 billion of capital and £0.1 billion of cash?

1:11:46.2

And then secondly, you were talking about your Workplace business and the fact that you were seeing a number of outflows, is there a pipeline of outflows which people have, firms have told you about which are likely to go into the second half and into next year which will keep you in net outflows?

1:12:06.2

Andy Briggs, Group Chief Executive Officer

Ok, so I'll take the second of those and get Rakesh to take the first. So, I would say these were schemes notified, as Rakesh said earlier, a couple of years ago, and that, it takes a while for the money to go anyway and the pandemic delayed things so, we're kind of through the worst of that storm if you like, and so far this year, existing schemes get reviewed on a regular basis and the team have been doing a great job this year of ensuring we retain those existing schemes as well as a big step up in the schemes won.

1:12:41.6

Again, just to position that carefully, so, we've won 17 new schemes in the first half of this year compared to 1 in the whole of last year, but what happens is the employee benefit consultants, the intermediaries corporate advisers, they will tend to give you their smaller clients initially to test you out, so don't expect this to be a wall of value coming from those schemes, they're generally smaller ones, that's how it works, you win the smaller ones, you do a good job of them and then they'll trust you with their bigger more prized clients in due course. So really pleased with the progress and momentum that we're building in that part of the business. Rakesh do you want to pick-up on the ReAssure internal model?

1:13:22.4

Rakesh Thakrar, Group Chief Financial Officer

Yeah, thanks Andrew and to answer your question I think the simple answer is no, and the reason for that is the fact that when we did our current harmonised internal model between Phoenix Life and Standard Life, its effectively bringing together a Heritage business and an Open business and we can diversify those risks together. They were two different businesses that helped us then in that diversification. When we bring ReAssure, the risks are very similar to what we already have with Phoenix, so those numbers will be no way near than what we've seen in expected impact for the current harmonising of the internal model.

1:14:00.6

Andrew Crean, Autonomous

Thanks Rakesh

Andy Briggs, Group Chief Executive Officer

Thanks Andrew, good to see you.

Vicki, next question please?

Victoria Hayes, Investor Relations Finance Manager

Thanks Andy, next question is from Andrew Baker from Citi, Andrew please go ahead.

1:14:13.2

QUESTION - Andrew Baker, Citi

Morning, hi guys, thanks for taking my questions. So, just 2 for me. The first one is really a clarification on the dividend. Is the £800 million, should we look at that as a hard number or is there some flexibility there, so let's say you're close to it this year but you have a really good line of sight into a strong pipeline, could you still increase your dividend this year or if you don't hit your £800 million there's no dividend increase?

1:14:37.7

And then just on the Pearl Scheme, we've seen a number of insurers now transact with their own plans, just curious as to what the requirements for the arm's length transaction is on those and the independents? Thanks.

Andy Briggs, Group Chief Executive Officer

Yeah, so again, I'll take the second first and then ask Rakesh to clarify on the dividends. So, basically you have an employer with a view, you have a Board of Trustees, Independent Board of Trustees with a view and you have the insurer, ourselves in this case, and all of them will take independent expert external advice, and then there's a negotiation and a discussion around it, and ultimately the Trustees won't agree to a transfer if they're not getting a good deal compared to what they could get in the broader market…

1:15:37.4

But they recognise that the pension scheme is full of ex-employees of the Phoenix Group that would probably rather have their bulk annuity and their ongoing individual annuity with the Phoenix Group because that's who they worked for, so there's strong checks and balances within it. I mean, what actually happened in terms of the Pearl Scheme is it wasn't quite funded fully up to the level to do a buy-out, which is why the economics of the Pearl Scheme transaction last year looked less attractive than the economics of the Open market BPA business, but it's a zero same game for us, because we would have had to put the extra money in ourselves as employer anyway…

1:16:16.3

But what the team have done, which is where we're building the capability of the team, so Tom and Kunal on the team got a fantastic reinsurance arrangement as they brought this extra billion across and that's what brought the strain down from the 12% to the 6% and that just shows the capability that we're building in the BPA business and why we're optimistic about prospects for the medium term there. Do you want to pick-up on the dividend side Rakesh?

1:16:41.7

Yeah, hi Andrew, so I mean just to reiterate again, that our policy is stable and sustainable and resilience is key, clearly what we're trying to do is, if there is organic growth and we can demonstrate that growth, then the Board will then have a decision to make on whether it's appropriate to increase the dividend. To inform that decision, we've got these two conditions, so one is, as you mentioned, the £800 million long term cash generation and that is effectively showing that we've proved the wedge and got the growth in the Open business to offset the runoff of the Heritage, that's the line in the sand, it's not a target, it's a minimum, clearly want to go above that, but that's the minimum we would need and second, is whether the recurring sources is greater than the recurring uses, so to answer your specific questions…

1:17:29.2

I think we'd have to potentially look at both conditions to be met before we would consider looking to increase the dividend.

Andy Briggs, Group Chief Executive Officer

Yeah, I think just to add to that, ultimately, £800 million is the point at which we've replaced the runoff, so we haven't grown the franchise at that point, we've replaced the runoff. So, if we're not at £800 million I wouldn't envisage a dividend increase because ultimately, we need to be above £800 million to have grown the franchise and therefore the increased level of dividend to be sustainable into the longer term. So we're very confident we'll get there in time, we will be disciplined and sensible about this and in the meantime generate large amounts of resilient, reliable cash generation with a very resilient balance sheet underpinning it.

1:18:15.3

Vicki next question please.

Victoria Hayes, Investor Relations Finance Manager

Yep quickly, I'll just remind anyone in the room, if you would like to ask a question, can you please raise your Hand for the analysts. So, we'll now move to Gordon Aitken from RBC, Gordon could you please go ahead and ask your question?

1:18:42.7

QUESTION - Gordon Aitken, RBC

Good to see you, just a couple of questions for me please. Firstly, when you use reinsurance - I'm talking about any risk here that you're offloading on average, what proportion of the future expected cash flows do you keep? And secondly, really in response to Andy's question on flows when he was asking earlier, Rakesh said that the savings business was under invested in that you'd inherited. When Dave initially became CEO in 2010 in Standard Life he spent a fair bit of money, £200 million on, he announced on these propositions, most of which now end up being yours, is it that investment, you just need to continuously invest in these type of businesses? Thanks.

1:19:28.9

Andy Briggs, Group Chief Executive Officer

Yeah so, I'll get Rakesh to do the reinsurance one in a moment. On the Standard Life side, so, for the last several years, the vast majority of the investment that Standard Life Aberdeen made was in the Wrap platform, which they have retained as part of the deal. What we picked up was the Workplace business and the retail pensions business. They kept the Wrap platform.

1:19:53.7

So, the Workplace and retail pensions business had been under invested in, over a number of years, and that's what we're now well advanced in rectifying that, and that's why we've got, the strong pipeline of new scheme wins and we're building the momentum in the market that we are.

Just to reiterate what I said before, buying the Standard Life brand is critical to that, because the employee benefit consultants, the corporates, but first of all in a brand license agreement you spend all your time going back and forth trying to agree things, and Stephen Bird and I were very keen just to simplify that whole relationship down, who does what, and it's now a strategic asset management partnership that we have, rather than lots of other interactions going on at the same time.

1:20:38.6

But also, the employee benefit consultants, the corporate advisers, the intermediaries, the corporates, that they see this company Phoenix, that they might have seen as a back book consolidator before, they are clearly deadly serious about this Open business as well and it doesn't make us any less serious about M&A or Heritage, they're still critical parts of the strategy, but that's also been helpful in building momentum for us.

Reinsurance side Rakesh?

1:21:03.7

Yeah, thank you Gordon. So really reinsurance the pricing will depend on what exactly you're reinsuring and the type of risk, but what would normally happen, say for example on BPA, any new business that we write on BPA, we're pretty much reinsuring 95-100% of that risk, and therefore they'll be a fee charged by the reinsurer of doing that and that would effectively reduce our expected cash. But that's all included in our new business strain and our long-term cash generation numbers, but that just shows the importance of the work that Tom and Kunal are doing to make sure that the reinsurance structuring and the way we do the BPA deals are so important, that we get the best value and help us reduce that strain and get the best returns.

1:21:50.5

Gordon Aitken, RBC

If I could just come back on that, it's actually, the question was really in relation to when you buy a business, so in a big acquisition, what you tend to do is you announce these very large expensive management actions and a lot of that is because of using additional reinsurance and just in these situations so when you've inherited business, what proportion, because clearly you have to give some of the future cash flows away to the reinsurer otherwise they wouldn't do the deal, so what proportion do you keep and what proportion do you give away?

1:22:25.8

Rakesh Thakrar, Group Chief Financial Officer

In the context of M&A Gordon is that your question?

Gordon Aitken, RBC

Yeah, historically say on any of the big deals you've done, I mean is it 50-50, is it? I know you release the capital as well which is a big positive, but…

Rakesh Thakrar, Group Chief Financial Officer

As an example Gordon, with the ReAssure transaction, just do a live case. They were previously reinsuring before we acquired them, about 30-40% of the longevity risk, Phoenix reinsures about 50% so we would then look to get ReAssure up to that 50%, the enlarged Group remains at 50%. So it just depends on where they are, but taking longevity risk, which is our biggest reinsurance that we do, we keep 50% of the risk and reinsure 50% out on whatever we've acquired.

1:23:24.3

Gordon Aitken, RBC

Ok, the questions about future expected cash flows and what you give away but…

Rakesh Thakrar, Group Chief Financial Officer

I can take that offline with you Gordon.

Gordon Aitken, RBC

Sure, thank you.

Andy Briggs, Group Chief Executive Officer

The basic framework is one of, by taking that action we release capital upfront, we need to be confident we can redeploy that capital to get a higher return than it was being deployed and covering that longevity risk and we wouldn't do it, if we didn't, so, we're always taking a very objective financial lens to these things. So, Vicki, I'm conscious of time, as much as we love our end customers, we also love our analyst friends, and they've got I think three different sets of results to get through today, so maybe we'll take one or perhaps two final questions before we wind up?

1:24:11.6

Victoria Hayes, Investor Relations Finance Manager

Yep, we've got 2 analysts left, so we will go to Louise Miles from Morgan Stanley and then we will follow up with Ming, so Louise if you could go ahead first with your question, please?

QUESTION - Louise Miles, Morgan Stanley

Hi, morning Andy, morning Rakesh. Thanks for taking my questions.

Just three quick ones from me. So, you've talked a little bit about the ReAssure and SLAL Part VIIs, are these allowed for, I know they're not until 2022/2023, but are these allowed for in your lifetime cash generation target? And can you give us any idea of the magnitude of these impacts that would be really helpful?

1:24:49.0

You mentioned that you've done some no-neg hedging, I'm curious, how much of the equity's book has been hedged and would you do anymore hedging on the book as well going forwards, and then finally, just a quick question on the outlook for longevity releases in the second half, other UK life players have said they're going to be more conservative because of the uncertainties around COVID and around delayed hospital treatments and things like that, just if we can get a bit of colour on your longevity in the second half that would be really helpful. Thanks.

1:25:20.9

Andy Briggs, Group Chief Executive Officer

All three for you Rakesh there.

Rakesh Thakrar, Group Chief Financial Officer

Ok, so let me just talk about the longevity first Louise, so I absolutely agree with what a number of my peers have said, I think we're in a similar position, I think we've got, when we said our assumptions, we look at the last 5 years, we normally do that review and we'll continue to review in the second half of this year, but we will pretty much exclude what we've seen in 2020, that devastating impact is not a true reflection and therefore rightly should be excluded, and similarly on the CMI 20 tables, we're going to exclude the 2020 results from that. So we will be a conservative view but clearly we'll look at other areas on methodologies etc. but not the experience that we've seen in 2020.

1:26:14.7

On the ERM hedging, we've hedged about 6% roughly of our portfolio, 6-7%, and really whether we do anymore depend on the pricing, so if it's a good risk return and it meets our hurdles rate then we'll absolutely do that, if not, then clearly, we will keep that, but it's really good to get one done at a really efficient pricing, so pleased with that and we are looking potentially to do more.

1:26:44.7

In terms of the Part VII, you're talking about the Phoenix and Standard Life, there is some benefit already in those cash flows that we've announced and it's circa £100 million.

Louise Miles, Morgan Stanley

Thanks

Andy Briggs, Group Chief Executive Officer

Thanks Louise, and then Ming, last but by no means least

1:27:10.6

QUESTION – Ming Zhu, Panmure Gordon

Thank you for taking my question, just two questions, actually three questions if I may. First on dividend, could I just also have some clarification on the two conditions, because it looks like to me you are on track to meeting both of them this year, so does that mean we should be expecting a dividend increase at the full year? And second, I think Rakesh mentioned, this is reviewed on an annual basis, so let's say if we meet it this year, as I asked before, do we expect a dividend increase? And for whatever reason, if say, next year you missed it, so does that mean poor dividend or in a year, you achieve both conditions as well as an M&A, what does that mean for the dividend?

1:27:55.9

And my second question is, on the M&A, could you give some colour in terms of, have you seen any changes in the pricing and the competition landscape with outlook, where we are, in terms of interest rate and inflation.

And my third question is on Standard Life. Now you've got the brand, how does this new relationship or partnership work with you and Standard Life. What stops you, moving away your asset management side from Standard Life to go somewhere cheaper? Thank you.

1:28:31.2

Andy Briggs, Group Chief Executive Officer

So, I'll take the second and third of those and then get Rakesh to cover the first.

So, on M&A we haven't seen any particular changes in pricing or outlook, I think the biggest change is that if there were back books available in the UK, you would have had 2 established players Phoenix and ReAssure and now there's one because we've combined together, so, I think that's the biggest change that we've seen from that perspective.

1:29:01.8

In terms of the Standard Life brand. Just to be clear. Basically we own all of the Life and Pensions business for Standard Life now, and what's left is the asset management side and it's no longer branded Standard Life. I mean there's a couple of bits that are still coming off but there'll get to a point where Standard or Standard Life won't be used at all by abrdn, we own that brand entirely. So what we then have is a Phoenix Group and Standard Life part of the Phoenix Group, having a strategic partnership with abrdn and they are our core strategic asset management partner but we are completely free to use any asset manager we choose in any asset class in any geography and I think that's a real differentiated advantage we have.

1:29:45.5

I spent many years in other, over 30 years in the insurance sector across four different companies. And in all the others, basically there was always this drive, you must give it to your in-house asset manager. We don't have that, we will choose where we think asset management partners will best deliver for our customers and for our shareholders, but having said that, abrdn are great and we have a fantastic strategic partnership and some of the work we're doing together on sustainability, the whole is greater than the sum of the parts…

1:30:17.1

So, the strategic partnership is excellent, but we're not compelled to do it, we can choose where we use to work with different asset managers.

I'll get Rakesh to comment on the dividend in a moment, I just want to reiterate something I said a little while ago, in terms of the outlook for the second half, and hitting the £800 million on long-term new business cash, the asset based businesses, they're what I call fly wheel businesses, so you work to get the fly wheel going faster and when it goes faster it keeps going faster and faster, but it's pretty predictable. So we could predict now quite clearly what we expect to come in, in terms of long-term new business cash on the asset businesses this year.

1:30:58.3

BPA is the swing factor, we would need to deploy the lion's share of the £150-200 million of external capital in order to break the £800 million target and in the first half we've deployed, £25 million capital externally, and we are up against a bunch of competitors who are mono-lines, who have been starved in the first half and are going to be hungry in the second half. So, if I take a medium term view, I'm really confident, we can break through the £800 million, but I do want to be really clear with everyone, that we will be disciplined about this, £800 million isn't a target for us, it's an aspiration. Yes, the £1.5-1.6 billion in cash generation, that's a target and that's something we will take very seriously and ensure we do achieve that target.

1:31:45.2

The £800 million is an aspiration and we will be disciplined around the allocation of capital and if we can get there that's fantastic and we will seek to do so, we will not deploy capital at poor returns in order to seek to try and get there, we will be disciplined about that. I'm conscious there were other aspects about the conditions over time and M&A and next year and so on, do you want to just pick those up?

1:32:07.8

Rakesh Thakrar, Group Chief Financial Officer

No thanks Andy and it's a good segue because I think you answered the first part about what the potential is this year and the fact we're focusing on value over volume but clearly we've got the two conditions Ming and if in that scenario we were higher than £800 million for the rest of the year, and we saw recurring sources greater than recurring uses, and the Board then made a judgement that it was appropriate to increase the dividend, then that would be a new established, stable and sustainable dividend level…

1:32:43.0

And the reason they would have done that is because they would have been confident that this dividend is sustainable over the long term. So the new established level is sustainable over the long term. So if in the next year, we weren't close to that £800 million we would still remain at that new established level. And then briefly around M&A, that would be dependent on M&A when it happens and I think that's a separate decision as I've already said.

1:33:13.4

Andy Briggs, Group Chief Executive Officer

Ok, thank you very indeed much Ming and thank you everyone for your time joining us this morning, I'm conscious it's a busy results season for everybody so I appreciate you taking the time to join us. Needless to say Rakesh and I and Andrew and Claire and the team are all available, both sell-side and buy-side, although we might get a little bit of holiday over the next couple of weeks, but available to follow up with anybody that would like to, but for now, thank you very much indeed and we'll catch up soon. Thank you.