Transcript

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Legal & General Interim Results August 2017

Wednesday, 09 August 2017

Nigel Wilson: Good morning everyone and welcome to our 2017 half-year results. As the title says our excellent execution has delivered a consistently improving financial performance. As you move through the building you will have seen many great images of what we are achieving; accelerated evolution in practice. Images showing both our investment in physical assets to deliver growth but also our technological innovations in digital assets which is also delivering growth.

A couple of bits of housekeeping, here are the usual forward-looking statements, please switch off mobiles and if there is a fire alarm the home team will shepherd you downstairs.

This has been another terrific period of delivering performance and indeed once again I'd like to thank all of my colleagues. The key reason delivering accelerated evolution which drives our EPS and our ROE growth is the increasing capability of my colleagues. That is right across our organisation, by division, by function and by country. We have a positive supportive culture, morale is high, engagement is high and our net promoter scores from our customers keeps increasing, so thank you once again.

In terms of our key numbers, operating profit is up 27% to almost £1 billion. Profit before tax is up 41% to £1.2 billion. EPS is up 41% to 15.94 pence. Net release is up 6% to £724 million. ROE up to 26.7% and our formulaic dividend is 4.3 pence. Jeff, Kerrigan and Mark will discuss the financials in more detail later.

Whilst these results are good, in fact they're very good, there is so much more we can achieve. We have the capability, we have the capital and we have the opportunities to continue to grow. So much has been written about the accelerated decline of many UK industries; what's happened, for instance, on a global scale to the UK's brewing industry? What's happening to our retail industry?

Legal & General has prospered for 180 years because we manufacture and deliver economically and socially useful products. It is clear that we have been accelerating on our evolution for several years. Our successful strategy is based around six long-term and increasingly important growth drivers, ageing societies, globalisation of asset markets, creating real new assets, welfare reform, technological innovation and providing today's capital.

The creation and management of long duration of assets and liabilities sits at the heart of our business and sits alongside a positive supportive culture. We believe in team work and we are indeed a team. This explains how we've created sustainable competitive advantages resulting in market-leading positions and increasing relevance to all of our stakeholders. Our key achievements in H1 are shown here. We are making progress in all areas. In ageing demographics Chris Knight and the team have delivered around 100% growth in lifetime mortgages and individual annuities; an extraordinary achievement by Steve Ellis and our colleagues in Solihull.

And John Towner and Pretty Sagoo are driving thought leadership in action for pension risk transfer. In globalisation of asset markets Aaron Meder and the team have seen our US business grow to $164 billion of AUM, that's up 23% in H1. In real assets, Bill Hughes, Laura Mason and others have grown our direct investments to around £12 billion with new build to rent sites, successful urban investment in Cardiff, in Stratford, in Newcastle and with last week's announcement, investment into later living. On welfare reform, Paula Llewellyn and John Hyde are helping change attitudes to retail protection with innovative new campaigns driving people to think about the need to protect themselves and their families. Emma Douglas and colleagues are helping the vital growth of retirement savings through our market-leading workplace pensions and DC products. And Jackie Noakes is working very closely with me on accelerating our technological innovations some of which I'll share with you later.

This slide highlights the share of profits made by each line of business and our market share. Our markets are attractive and they are growing and we typically have a 25 to 40% market share. And as shown on this slide we are number one in nine UK markets. Where we are not, like individual annuities, our market share has climbed but is still only 13%. We are confident that as the industry sees more consolidation and the demand for security of income in retirement increases, we'll have the opportunity to continue to grow that share.

We produced a version of this slide at our last set of results; our ambition for 2015 to 2020 continues to be ahead of market consensus. We delivered 17% earnings per share growth in 2016. We've made a great start in H1 and we are confident about H2 and we will be increasingly ambitious going forward.

With that I'll hand over to Jeff for more detail on the financials.

Jeff Davies: Thank you, Nigel and good morning everyone. As a mini agenda I'm going to cover the financials for the first half at a group level, our dividend, the group's capital position and then the performances of our Insurance, General Insurance and Savings divisions. Kerrigan will then cover retirement, Mark, LGIM before Nigel returns to cover L&G Capital, Group strategy and finally the Q&A session at the end.

As Nigel noted it has been a strong half-year as a result of our excellent execution and clear focused strategy with all our key businesses growing well. 13% growth in LGIM assets, now £951 billion with £21.7 billion of net inflow. £3.2 billion of new business sales in LGR. 27% increase in LGC's DI with growth from new investments offset by profitable disposals.

Total group-wide DI is now at £11.8 billion, up 18% since the yearend. And LGI's premiums up 7% to £1.3 billion with the US performance particularly strong. The 27% increase in operating profit to £988 million benefited from a release of £126 million as a result of changes we've made in our base mortality assumptions following recent greater than expected mortality experience. Even without this the growth in operating profit was a strong 11% at a group level but there will be more on the outlook for further releases from Kerrigan later.

Our key divisions performed strongly in the first half contributing to the 6% increase in net release from operations for our retained businesses. An additional £100 million of dividend from the LGAS legal entity to group in respect of the base mortality release is not included in the net release from operations. When added together the group generated £824 million total release up 13% on first half 2016.

PBT was up 41% on the back of the strong operating profit result combined with a positive investment variance and our post-tax return on equity grew to 26.7%. As a high level summary of our capital position the group's Solvency II surplus at the end of June was £6.7 billion up £1 billion since yearend. This was underpinned by good operating surplus generation. This equates to a coverage ratio of 186%.

And finally our dividend which shouldn't have been a surprise to anyone given that a year ago we moved to a formulaic basis for the interim dividend, calculated at 30% of the prior full year dividend which gives 4.3 pence. Turning to operation profit from the divisions which was up 19%, as already mentioned LGR grew 40% and excluding the change in our base mortality assumption is up 9% as a result of the excellent 2016 and strong new business sales so far this year in both our retail and institutional subdivisions.

LGIM grew 13% whilst maintaining discipline in its market-leading cost income ratio and against a backdrop of industry-wide fee pressure. Management fees and costs grew in line with each other by 15% as we continued to invest in the business. LGC was up 5% benefiting from a growth in the overall equity portfolio within the divisions, £3.9 billion traded assets and continued strong performance in the £1.3 billion of direct investments.

Our Mature Savings business contributed a robust £52 million. And in LGI two of its three subdivisions performed well: LGI US and UK Retail Protection. However, these results were offset by decreases in Group Protection which was affected by adverse experience. In total the division was flat year-on-year. Additionally, GI's result was down £15 million from £31 million due to the impact of increased costs from non-weather related claims in Q1. Predominantly escape of water in line with industry experience. I'll explain more about how we are addressing these last two items later.

Moving on to PBT I thought I would briefly take you through some of the key investment variances we had in the half-year. Firstly, LGC saw £52 million positive variance from the traded assets portfolio, outperforming the long-term economic assumptions as well as profit on disposals realised in the direct investments portfolio. At group, the £77 million gain was primarily driven by the group's defined benefit pension scheme reflecting accounting valuation differences arising on annuity assets held by the scheme. The figure was also inflated by some catch-up from last year.

As highlighted last year the comparative for LGI saw a negative experience of £100 million driven by a large reduction in UK Government bond yields. Moving on to our balance sheet and in particular our capital position, the group's Solvency II surplus increased by one billion since the year end to £6.7 billion. Our Solvency II coverage ratio calculated on a shareholder basis increased to 186%, up from 171% at the year end.

As usual we have recalculated the transitional which actually reduces the surplus by a few hundred million on this occasion. Our economic capital showed similar growth as expected. To explain the Solvency II surplus increase of a billion we've provided a bridge. Our operating surplus generation was £0.6 billion contributing 10% to the coverage ratio and covered the larger of the two dividends paid each year, in this case the final 2016 dividend.

Similar surplus generation in the second half will more than cover the dividend just declared of £256 million. Within surplus generation we've included the impact of the amortisation of the opening transitional, offset by the corresponding release in risk margin which cancelled out. The impact of writing new business in the first half was a strain of £0.1 billion. However, the majority of this figure is in respect of our US term sales. As per last year we will reinsure and finance this business in the second half, significantly reducing the strain. It is important to note for the remaining businesses the strain was less than £50 million.

As you know, we disposed of Cofunds and Netherlands which together improved the coverage ratio by 2.5%. The £0.4 billion improvement from other operating variances included the impact of experience variances as well as changes to assumptions, in particular the change in our base mortality. And it also includes matching adjustments management action. As previously disclosed, the net sub debt issue of £0.5 billion resulted in a 6% increase in the ratio.

And finally on Solvency II this slide gives you our estimate of the present value of Solvency II surplus emergence from the key elements of the new business we wrote. Our margins continue to be resilient with much of the change from the yearend attributable to changes in business mix. We have continued to maintain good margins and pricing discipline. For a small strain we have created almost £300 million of value.

In terms of divisional performance I will start with Legal & General Insurance which combines our UK and US protection businesses. The numbers presented here all exclude L&G Netherlands which was disposed of in April 2017 as we want to show you the contribution from the ongoing business division with the main impact of this exclusion being on net release from operations.

In total gross premiums were up 7% to £1.3 billion with operating profit flat. However, within that the US protection growth of 33% was offset by a 13% decrease in UK protection. Let me cover this in a little bit more detail starting with LGI UK. Operating profit from the UK businesses was down 13%. As discussed at full year we have continued to see poor experience in our Group Protection business. A range of actions have been taken including pricing action of scheme renewals, however, the impact of these will take time to be fully reflected in our experience.

So we expect some adverse experience to continue emerging but at a reduced level in the second half of 2017.

Our highly automated retail protection business in the UK continued to perform well with gross premiums up 5% and generating good profits reflecting the consistent performance of this business and its leading market position with 25% market share in 2016. We are increasingly using predictive analytics and improved underwriting approaches to reduce the time it takes for advisers and our customers to apply for policies.

Our US protection business is the second largest provider of US term life assurance through the brokerage channel and has 1.2 million policies in force. Our premiums increased 3% to $618 million, this was up 17% on a sterling basis and operating profit grew 16% year-on-year to $72 million, up 33% on a sterling basis. This was due to business growth and favourable mortality experience. The digital transformation of our US Protection business is just beginning but we'll catch up fast fully using the wealth of experience and capabilities we have from digitising our UK business.

Some of you will have seen earlier in our foyer a newly launched selfie quote which provides a life insurance quote by estimating an individual's age and BMI using a selfie photo. Now it worked well for all of us but suspiciously Nigel was 45 and light as a feather. We are the first in the life insurance industry to rollout this approach which is an example of how technology can improve the application process for consumers.

Moving to GI, gross premiums increased 11% to £173 million, despite the pressures of a competitive market. And our direct business delivered gross premiums of £63 million in the first half representing 17% growth year-on-year now accounting for 36% of gross premiums. Operating profit for our general insurance division did decrease from £31 million to £15 million, however. This was primarily due to the impact of increased costs from non-weather related claims in Q1, predominantly escape of water claims which was in line with wider market experience.

We've taken action to address this and saw improved claims experience in Q2. We continue to monitor this closely and will take further action if required.

We are continuing our digital innovation here too. Our new SmartQuote will enable customers to achieve a quote for household insurance in about 90 seconds by answering five simple questions. GI has now won five distribution agreements in the last two years with UK financial institutions and we are on track to increase gross premiums by over 10% by the end of 2017.

Our savings division now comprises just our mature savings business. Our focus is on customer service while continuing to deliver good profits. Operating profit remains robust at £52 million on our £30 billion of assets through the introduction of robotics and automation to reduce unit costs.

And with that I'd like to hand over to Kerrigan to take you through LGR's continued growth and more on our longevity assumption.

Kerrigan Procter: Thank you Jeff. Good morning everyone. LGR had a strong first half with net release up 8% to £307 million and operating profit up 40% to £566 million. New business flows were particularly strong in the LGR retail business with total new business up 98% comprised of retail annuity volumes of £345 million and lifetime mortgage loans of £424 million.

UK bulk annuity deal volumes sourced directly from UK defined benefit pension plans was £1.5 billion which compares to 0.6 billion in the first half of 2016. We completed the Aegon transaction in the first half of 2016 so overall annuity volumes were down. However, new business surplus of £51 million was a strong figure given volumes as we used the new business flow to fund lifetime mortgage lending and direct investment at attractive yields. Our total new annuity sales were £2 billion with new business value add of 8.9% achieved with the regulatory capital strain of less than 4%.

This continues to support our expectation of low to mid-single digit regulatory capital strain in the medium-term. Total new business was £3.2 billion including £115 million of US bulk annuity business and an £800 million longevity insurance deal with a UK pension plan, which compares to total H1 2016 business of £4 billion.

So let me now move on to longevity and our longevity release. LGR's gross longevity exposure is £61.4 billion across annuity and longevity insurance business. We have reinsured £15.9 billion of longevity risk with 11 reinsurance counterparties leaving a net exposure of £45.5 billion. In the first half of 2017 we reviewed mortality experience for our overall net longevity exposure. In the light of more than expected actual deaths we have decided to release £126 million of prudence in our reserves. At this point in the year we have not adjusted our assumptions for future mortality improvement. They remain consistent with those used at the end of 2016 but there is increasing evidence that the high level of recent mortality is in part due to medium or long-term influences rather than short-term events.

We will be reviewing our longevity improvement assumptions in the second half of 2017. For the technicians, we moved to an adjusted version of the CMI 2014 model for the 2016 results and we will be investigating the appropriateness of the CMI 2015 model for longevity improvement in the second half of this year. This review will also cover how our annuitants differ from the broader population and to what extent adjustments should be made for spikes in mortality in the underlying data, such as the high death rate in January 2015.

We continue to scrutinise the likelihood of a sustained slowdown in mortality improvement and gain confidence as we see more years of evidence. Based on the current view of the data and level of certainty if recent mortality experience continues we would expect to reflect this in our best estimate assumptions in stages over several years.

Our asset portfolio has seen the continuation of the defensive and diversified theme with, for example, over half the portfolio in sovereigns, utilities and infrastructure, £7.2 billion in gilts alone, and low percentages of the portfolio in banks and energy, oil and gas. On the direct investment side we added a further £1 billion of assets in infrastructure or assets delivering or secured on stable rental income, this is in addition to new lifetime mortgage loans.

LGR's institutional business supports a promise of a defined benefit pension to 518,000 people and holds £34.1 billion of assets to back these promises. Pension risk transfer adds to this business, both in the UK from buyouts, buy-ins and longevity insurance and in the US through buyouts and buy-ins. Client interest from UK pension plans remains substantial and LGR's connections with LGIM's institutional business are working well with approximately £1 billion of the £1.5 billion bulk annuity business in the first half originating from LGIM clients.

The US business is progressing steadily with $141 million across three deals in the first half meaning that we have now executed over $1 billion of US PRT deals since opening for business in the second half of 2015. The US market looks set to grow in 2017 from the $14 billion market size in 2016 and we will continue with our measured approach to growth in that market.

LGR's retail business manages £21.5 billion of assets to back pension promises to 541,000 customers, with a further 16,000 lifetime mortgage customers. LGR retail's new business has seen terrific growth this year and we expect new retail annuity business in the second half to be in line with the first half. Lifetime Mortgages has the potential to be a rapidly growing market and our market share has been steady at around 30% in the past three quarters.

Finally, further industry consolidation seems likely with the potential for annuity back books to add to either the institutional back book as with the Lucida deal we completed in 2013 or to the retail back book as with the Aegon deal last year. LGR has seen strong growth in both its institutional and retail businesses but the potential for the markets in which we operate is huge. There are £2 trillion worth of liabilities in UK private sector defined benefit pensions currently transferring to the insurance industry at £10 billion to £14 billion per annum.

There are $3 trillion of liabilities in US private sector defined benefit pensions of which we expect around $20 billion to transfer to the insurance industry this year up from $14 billion in 2016. There is £1.5 trillion worth of UK housing equity with over 55's of which we expect £3 billion to be released this year in the form of lifetime mortgage loans up from £2.2 billion last year.

L&G have a leading role to play in the unwind of this legacy of wealth accumulation but we will also have a leading role to play in its replacement through defined contribution and decumulationwith guarantees as the burgeoning LGIM retail and LGR retail work ever closer together.

I'll now hand over to Mark.

Mark Zinkula: Thank you, Kerrigan. LGIM continued to experience strong, consistent growth with external net flows of £21.7 billion in the first half of the year and a 13% increase in profit. We continue to grow our UK DB business and remain the largest manager of assets in this market and the largest provider of LBI solutions. We are seeing positive growth in our DC business and we are now the largest manager of DC assets in the UK.

Mark Zinkula: And the UK retail business is also growing rapidly, ranking first in net flows during the second quarter, and we're experiencing accelerating growth internationally with AUM up 31%. I'll focus on all three growth areas in more detail in later slides.

We've maintained a stable margin of around 50% due to the scale and nature of our business model, and fund performance continues to be strong, and our investment in technology and overseas distribution will help us maintain our current positive momentum. In an industry experiencing consolidations and multiple challenges, such as the upcoming Brexit negotiations, MIFID II and the FCA asset management market study, we're well-placed to continue delivering for our customers.

Positive flows across virtually all of our channels, regions and investment areas demonstrates the breadth of LGIMs business model. The de-risking of DB schemes and the growth of the DC market are allowing us to increase assets across our range of solutions, which includes LDI and multi-asset strategies and fiduciary management. A strong performance in active fixed income is leading to increasing inflows, especially from the US and UK institutional clients, while demand is growing in other regions.

Index net outflows are once again due to UK DB clients switching out of equities and into other products, primarily solutions, as they continue to de-risk. However, we had strong net inflows from international and retail clients as our index business expands in new markets. We're also successfully expanding our product range and factor base at ESG strategies and there's growing demand for real assets. As part of a broader solutions mandate, or on a stand-alone basis.

We made over £1 billion of investments across real estate infrastructure and corporate debt, and we're experiencing success with our Build-to-Rent fund with approximately £1 billion in capital raised. Although we're still expanding our presence in the UK DB market, as it continues to mature it's important that we grow our UK DC and retail businesses.

The DC business has net flows of £1.7 billion driven by our bundled business which offers investment and administration services to DC schemes. Our master trust is the fastest growing in the UK and together with our other workplace pension schemes now has over 2.4 million customers. We've seen a 20% increase in customers over the past year and expect this growth to continue. The number of pension schemes supported by the DC business has increased by 29% during the first half and our investment in Smart Pension, a Fintech firm focusing on auto enrolment for small companies, has helped drive this recent growth.

Our retail business is also performing well with £1.7 billion of net inflows and assets have increased by 25% to £27 billion. We're confident we'll continue to benefit from trends in the retail market, such as growing demand for index and multi-asset funds, and we're expanding our distribution focus to wealth management in key European markets.

In addition to expanding our presence in the UK, we're also experiencing accelerating growth in international markets. Over the past six months we had record net inflows in our international businesses of £17.9 billion and total international AUM stands at £198 billion. Our US business continues its rapid growth with a 27% increase in total assets in the first half of the year.

In Europe we had £6.6 billion of net inflows and now have £35 billion in client assets. We had £2.5 billion of net inflows from clients in the Gulf as we deepen our relationships in this region. We've also established a distribution office in Tokyo and trading and fund management capabilities in Hong Kong, and we expect our Asian business to experience accelerating growth.

As I mentioned earlier, our US business had a very good first half with net inflows of £8.6 billion. We're now managing assets of £126 billion in the US across a range of strategies. This rapid growth has been driven by thought leadership we've provided in the US pension market as DB plans increasingly implement LDI strategies and consistent strong performance in our range of active fixed income funds. A more recently established index team is also helping drive growth in the US business.

Good progress has been made in raising assets outside of the corporate DB channel as we begin to target public plan and DC markets, and we're also developing multi-asset and real asset capabilities in the US to support expansion of our distribution strategy and also support LGRs expansion in the US market. So, to sum up, it's been more the same from LGIM as we continue to broaden our UK footprint and successfully expand internationally with a focused strategy that leverages all our core strengths. Now I'll hand it back over to Nigel.

Nigel Wilson: Thank you, Mark. LGC continues to grow assets and profits, creating new asset classes and attracting core investors to grow their business. Operating profit for the half-year is £142 million, that's up 5%, and PBT is £194 million, with strong performances from both direct investment and from traded portfolios. In total, we have £2.9 billion of shareholder cash and today after the LGAS dividend was paid we now have £3.3 billion, of which two billion is held at group.

LGC's business model is performing well across all asset classes. Over £200 million has been invested this year, including a new £39 million investment into later living, as well as scheduled following on investments in projects such as the successful Build-To-Rent fund and our Energy business. The operating businesses are developing strongly with Pemberton and NTR expanding rapidly and CALA delivering revenue of over £700 million. That is three times the £241 million it was when we acquired it in 2013.

Developments such as Cardiff and Bracknell are exciting and profitable. Importantly, profits are being delivered from asset sales from LGC to long-term investors, creating real cash flow for Legal & General shareholders and a flow of capital investment to the wider UK economy, investing in real assets, creating real growth and real jobs. As this example shows, LGC invested £38 million into the early stages of a £400 million Cardiff regeneration project in 2015.

The LGIM real assets team has delivered attractive matching adjustment assets for LGR and also for LGIMs clients. This investment model is typical of LGCs approach which has successfully driven investment into much needed, inclusive regeneration schemes right across the UK. LGC is also broadening the opportunities for future growth at Legal & General. By applying their skills and creating successful investment partnerships and capital management, LGC are establishing new, attractive asset classes and there are many more in the pipeline.

All three sectors of housing, infrastructure and SME finance suffer from underinvestment in the UK. Finding long-term investment opportunities to bridge these gaps is essential to align long-term savers with socially and economically useful investments. By investing early, LGC has created huge opportunities for LGR and LGIM clients to deliver long-term investment opportunities for the group.

The environment in which we compete is seeing rapid change in technology and digital customer engagement. We are making great progress as we continue to invest in technology to ensure our business remains simple, efficient and convenient for customers. We've reduced processing time using robotics and in doing so provide our customers with an excellent service, as can be seen through outstanding net promoter scores of 70% or more.

Our investment in platforms has resulted in significant increased usage by customers, institutional clients, consultants and administrators. We've seen an 80% increase in customer visits to L&G.com so far this year and our digital institutional client portal has been used by over 2,500 clients. We're using a combination of technology and data to innovate and drive our business forward. Jeff mentioned earlier our SmartQuote launched in GI, SelfieQuote in the US using predictive analytics and automation, and we have pilots underway using artificial intelligence, chat bots, virtual reality and many more.

Our cloud first strategy is firmly embedded and our usage of the cloud has already become business as usual, as indeed has robotics. We're excited by some of the opportunities possible through the use of Blockchain and we're exploring its potential in a number of areas across the business.

We have clear goals for the future: achieve global leadership in pension de-risking, help people achieve financial security, continuing building our world-class international asset management business, become the UK leader in direct investments, become the market leader in the provision of digital insurance and retail investments, with the ultimate aim to be recognised as a leader in financial solutions with a globally trusted brand. I would now like to open up to questions, so thank you.

Gordon Aitken: Thanks. Gordon Aitken from RBC. Tthree questions on longevity. Firstly, you can talk a bit about… I mean, CMIs 2017 will be published in March next year. CMI 16 underestimated the number of deaths in 16 by 4%. I mean, does your statement about potential future releases reflect the expectation that CMI 17 when it is published will reduce life expectancy again on top of the reductions we've already seen in CMI 16 and CMI 15?

Can you just talk a bit also, the second question, about the wider implications of this, of the increase in deaths for the acceleration of DB schemes looking to de-risk, and also maybe other insurance companies who have back books looking to offload them?

And the final question on strain; strong demand for bulks and you've highlighted that, plus you have annuity back books looking for homes so lots and lots of demand, but doesn't look like there's an awful lot of supply in the sector. What happens to strain from here?

Nigel Wilson: Kerrigan, will you take the first two and, Jeff, do you want to talk about the back book acquisitions?

Kerrigan Procter: Certainly. Well, just on the CMI models, as you know, as many people know, we're on the CMI 2014 model at the moment for the 2016 results and it's the CMI 2015 model we'll be exploring really in the second half of this year. And just to give you a bit of colour on that and maybe linked to some of your other points, the things that we'll be looking at in some detail are the differences in the slowdown of longevity improvement for different socioeconomic groups by age group and by gender.

Broadly, the slowdown is more marked for the lower socioeconomic groups. It's more marked for older age groups and it's more marked for females rather than males. So that's the picture that we're really investigating and you can see those themes applied to our back book. We really need to analyse that in no great amount of detail and get comfortable with the appropriateness of the CMI 2015 model and see how things progress from there on.

I mean, just to elaborate those points a little about where does it go in the longer term, clearly there are some themes that are coming together here, there's the… in a lot of our long-term themes, there's ageing populations meets welfare reform, if you like, the age of austerity meets the ageing demographic. The rate of increase of over 80s is not matched by the rate of increase of financial resources there, so you can see that continuing.

The other element is really the cause of death argument which says that people die of something, so as we've seen the improvement in circulatory disease treatment for cancers, then you've seen the rise in prevalence of dementia. Then you put all those things together and you can see a potential for a medium-term to long-term trend developing and that's really what we're thinking about, and I think some of that is underlying that CMI 2016, CMI 2017 figures that are starting to come out, so that's how we think about the overall picture.

And certainly that's a positive situation also for Defined Benefit pension plans, so that £2 trillion worth of liabilities clearly impacted by that longevity improvement and that rate of transfer to the insurance is clearly impacted by the funded status of all those pension plans.

Nigel Wilson: So net-net it's great news on one side and there's a lot more business out there that's coming our way and you're probably going to get a bigger share of it.

Kerrigan Procter: I think that's a good summary.

Nigel Wilson: Okay. Kerrigan is another one of our people who have PhDs who certainly give a complete answer. Jeff, do you want to talk about…?

Jeff Davies: Yes, I mean, just in terms of strain and what's out there, obviously, especially if you believe the press, there's potentially large back books. We're obviously very pleased with the less than 4% strain that we talked about. That combined with our increasing solvency ratio, anything that increases that in the future from longevity releases, the improved cash position, all gives us optionality around that so we're very comfortable that we can quote on those large transactions as they come along. And, as you say, if supply demand exceed each other and pricing improves, the strain only goes down so we'd be very happy with that. So, yes, I mean, whether they are ten billion numbers or any other number, we're very happy to be in the market for those and have lots of optionality around it.

Nigel Wilson: Andy.

Andy Sinclair: Thanks. It's Andy Sinclair from BaA Merrill Lynch. Three questions as well, not on longevity. Firstly on LGIMs flows, strong again, you mentioned strong consistent growth. I don't really feel this business ever really gets a growth multiple though. Would you consider some sort of long-term flows target to try and re-affirm that?

Secondly, sticking with with LGIM, expense growth is maybe a little bit higher than I anticipated, growing at pretty much the same pace as revenues. Were there any one-offs here driving expenses higher, are you looking at going forward there?

And thirdly, just following on from Gordon's question, Jeff, I saw you commented on the media call this morning saying you could easily fund a ten billion annuity transaction today. Could you give us an idea of where you would see capacity constraints and is it constraints on capital, or is it asset sourcing? Just a bit of colour there, thanks.

Mark Zinkula: Okay, yes, certainly. I think the first time I've had two out of three for LGIM so thank you very much for that.

Mark Zinkula: The flows have been I think consistently around mid-single digit percentage of opening AUM for a while. Obviously the flows will be lumpy. We've talked about this several times in the past, especially with the UK DB book because we have a lot of large institutional clients, a lot of large mandates and so there will be some volatility in the flows there, but as time is going on, as you know we've been at pains to point out, the growth in our DC business, our retail business in all regions is just consistent growth where we're starting from a very low or non-existent base historically.

So over time we do expect those net flows to be, you know, clearly positive virtually, you know, quarter after quarter for a while here. There'll be quarters when they're not, but I think we can still maintain, you know, above industry net flows for a sustainable period of time for sure. So if the industry is at around, say, 1% or 1.5% since the crisis and we are mid-single digits, I'd like to believe we'll be able to continue that kind of trajectory.

In regards to expenses, yes, we are investing in the business and we'll continue to invest in the business. We're exceptionally well-placed right now. It's an industry going through consolidation. We are in a great spot to continue to consolidate our win in this consolidation phase and so we'll continue to invest predominantly in expanding distribution to support this, you know, manufacturing machine that we have, as well as a lot of it's in technology in a variety of different kinds of initiatives, so I do expect that we'll continue to invest in the business going forward.

Nigel Wilson: I think the, there were a couple of comments that Mark made in the presentation that people might not have picked up. When we transferred the savings business, retail business into Mark's division we were number 13 in net flows. We were number one in the last quarter and Solomon and the team have just done an amazing job there. And in the DC space we've also become the number one player as well which is a great achievement by Mark and his team. Jeff?

Jeff Davies: Yes, just on the ten billion back book, I'm not sure that's quite what I said but it's sort of true. Yes, so we are very open to business and we've done the work around a ten billion book and what that would look like and we talked about the strain figure, the less than 4%. You know, our back book clearly comes with some transitional which helps, but that is offset by the amount of direct investments that you can source at a point in time.

But we've done that and with, as I said before, with the higher solvency ratio and some of the tailwinds behind the management actions we can take, we feel very well-placed to be able to write that sort of size deal and actually not impact our underlying flow business and then warehouse that and decide our options for financing and source direct investments over a period of years, which would then start to pick up again in solvency and in the earnings over time.

So we're very comfortable with that, don't see it as a constraint. There is clearly a timing issue with the amount of direct investments we can source and that's where Paul, Mark and Kerrigan combined work together to produce those for us.

Nigel Wilson: Great. Greg, then John.

Greig Paterson: Yes, all right, three questions. One is, I wonder if you can give us your thoughts on what actions you could take to address your negative outlook on the rate, on S&Ps rating. That longevity swap that you did, I was wondering if you could just tell us how much in terms of Sterling million, that's the sale that you did added to the distribution from operations metric. And the third question is you mentioned that your triple-X reserves are going to be reinsured in the second half; those are, I assume, going to continue to be reinsured with the with profit fund and I was just pondering that fund has had burn through, in other words has got a negative surplus, I wonder how much capacity you have…

Jeff Davies: Yes, sure. I mean, be a little bit careful but on S&P stuff, to be honest it's a bit of more of the same. So there was an element of change in the way they looked at the capital, but if you looked at what they said, they're very comfortable with our strong market position, the profitability of our business and the outlook for it. So this is actually the first step in what we're going to do and I'll be on the phone to them today or tomorrow to say we told you so, and so it's retaining more capital, building our strong position, continue with the earnings as we are, and obviously working with them to make sure they fully understand some of the capital loadings that they're adding but, you know, we're confident around that for, in terms of the S&P capital rating.

Yes, and the triple x, I mean, this is something we did last year, that strain figure was in there but it was smaller because the growth wasn't so big. It isn't reinsured into the LGAS entity at the moment. We will look to optimise that structure and we'll discuss some of the PRA, the best way to optimise it. We always have the fall backs of what we've done in previous years, but it's just the same as we've always done, is we reinsure it, we work on it during the year to get the optimal structure. That will flow through in reducing that strain, but we just have to show it at the half-year.

Kerrigan Procter: Just on the longevity swap, it was, actually it was an interesting deal. It was a new and innovative type of structure in the market where we don't keep any of the counterparty risk. It came in from one UK pension plan, we reinsured it and the counterparty risk is taken by the scheme or the reinsurer, which we think was a great innovation for the market. Because it was just one client I don't feel comfortable releasing the competitive information around the release from operations on that particular deal. It was… we took very little risk because we reinsured all the longevity risk and the counterparty risk.

Greig Paterson: Was it material?Nigel Wilson: Not particularly.

Legal & General Interim Results August 2017

Wednesday, 09 August 2017

Jon Hocking: Okay, morning. Jon Hocking from Morgan Stanley. I've got three questions, please. Firstly on the Solvency II ratio, it's crept up quite quickly since the sort of 150 or so that you reported sort of out of the box on Solvency II and I guess at this sort of run rate you're going to be sort of pushing north of 200 in the fairly near future. Can you just comment a little bit about how you think the capital policy will emerge, because I guess the counterargument to that is actually the annuity concentrations increase, so how should we think about what's the sort of hygiene level for that solvency ratio going forward, is the first question.

Secondly, could you give a little bit of colour about what happened with the matching adjustment optimisation in the first half and what we should expect in the second half? And then finally, individual annuities; some of your competitors have talked about DB transfers picking up and actually some of it overspilling into individual annuities. I wondered whether you could talk about how durable that individual annuity performance might be. Thank you.

Jeff Davies: Yes, sure. I mean, obviously we're not setting a limit. It's, as you see, it's continuing to increase and certainly we think that's the trajectory it's on and some of those are the management actions that Kerrigan will talk about, as well as the surplus generation. But, as we said earlier on calls, etc, you know, we have an ROE north of 20% and we see growth opportunities across the whole business. So whilst we have that, we believe our cash position, our strong solvency position gives us that optionality, allows us to invest in bolt-on acquisitions, invest in more LGR business, grow lifetime mortgages, etc. So, you know, while there's plenty to invest in, we'll continue to monitor it and look at that and decide at a point in time if we feel it's excessive. But at ROEs north of 20% we're going to keep going.

Kerrigan Procter: Yes, just a little bit on the matching adjustment optimisation. As you know, most of our liabilities are matching adjustment eligible and we did a lot with matching adjustment eligibility of assets and efficiency through various structures into lifetime mortgage structuring. So we issued a new tranche of lifetime mortgage loans in the first half and we tightened up on some of the structuring around our US Dollar assets so made a little bit more efficient, so lots of incremental small things, nothing major there.

We've got most of our matching adjustment liabilities are eligible but there's a few more there that with the restructure of the insurance contracts underlying that we could improve the efficiency there, so it's an ongoing at the edges improvement on both sides really on that matching adjustment optimisation.

Individual annuities, so, yes, there certainly have been flows from DB schemes with deferred members looking to switch to DC so that's been noticeable. I mean, in the context of the £2 trillion worth of liabilities it's small and I think actually beneficial because members get something that they'd like, which is a DC pension with a significant cash amount, and the pension plans head towards the more affordable pension funding ratio so hence more likely to buy everything.

So we think it's all part of the management and de-risking of this huge $2 trillion industry. So a notable feature for for a small number of schemes we see that probably continuing and we see that overall trend in terms of the unwind of DB as positive for us.

Alan Devlin: Thanks. Alan Devlin from Barclays. Three questions. First of all, how do you… when you look at the sourcing of direct investments for new business, a ten billion deal does use a lot of direct investments versus, you know, increasing your direct investments in the back books and the economics of the two.

Secondly, in general insurance your going premiums in what was a soft market with elevated claims inflation, you know, what gives you the confidence that actually it is profitable growth you're driving there? And then just finally at the start, Nigel, you said that your ambitions were ahead of consensus and you were getting increasingly ambitious; what did you mean by increasingly ambitious? Thanks.

Nigel Wilson: I think Jeff's getting increasingly ambitious as well, you know, which is great to see. On the direct investments I'll do a little bit and, you know, certainly what I'm seeing in wandering around the country is a lot of politicians at a city level and business people at a city level realising that there's some negative headwinds from Brexit and therefore their electorate voted for Brexit; what are they doing to resolve that?

And, you know, Jeff, Paul, Laura have all been on various visits to towns and the reception that we get when we go there is just amazing and there's a huge pipeline. You know, we've got 20, 30, 40, 50 years of underinvestment in all of these areas and we're getting more competent at creating matching adjustment assets. And, you know, Cardiff itself is a ten-phase phase one project, but actually the team are already working on phase two for some of these cities and towns.

We're very excited that people like Andy Street have become mayor in Birmingham which is… which we've made some progress in, but nowhere near the progress that we've made in Manchester or Leeds, but we're doing a lot, but there's a lot more we can do and the trade-off between what we put in the front book and what are we doing for the back book is always an interesting discussion at our Group committees.

Kerrigan Procter: Yes, just a bit more on that, as you know from previous capital market days we're obsessed with cash flow matching, which is I like to have a bit more assets coming in than pension payments going out every single month and so when we're thinking about new business we'll look at what assets we've got available, lifetime mortgage maybe at the long end some inflation linked student accommodation let's say in the middle, and some short-dated real estate lending possibly at the end with traded credit.

You look very closely at that and if there's a front book deal and you're talking to consultants and clients about bringing those things together, then that can be a great place to put assets that meet the client's needs and really fit with our book. To the extent that that doesn't really fit for new business but fits within our back book, then that's where we'll head that towards the back book, so cash flow matching is all the angle that we come at, really.

Nigel Wilson: Yes, I think the other two things, GI I think is, you know, we didn't win any external business for nine years actually and then the new team have just done an amazing job and have won five out of six bids that we've made and we're very convinced they're all profitable, good bids. None of them are huge accounts but they're all very, very good accounts and we've got a number of other things that either we've actually won and not announced, or we think we have a high probability of winning.

In terms of our ambition, I think that reflects the capability of our organisation. Elaine is with us today. Elaine is stepping down as group HR director, did an amazing job in working with myself, the chairman and others in bringing great people into our organisation, but also developing some of the, you know, the has-beens and never-beens in our organisation and making them incredibly capable.

On things like, you know, the pipeline for the bulk business, I think Chris De Marco and Prettyare both here and if you want to talk about what's actually going on at a micro level, please feel free to ask them questions afterwards.

But the… you know, Jeff gave an answer to the ten billion one. The answer last year was we'd probably need partners to do it and that's one of the reasons we did three billion rather than the nine billion on the Aegon deal. Our capital position strengthened, our capabilities strengthened, our confidence in doing the deals, having done two successful deals, has strengthened and our ability to source direct investments has certainly improved.

But you heard Mark talk about LGIM's ambition and we went on a trip together both in the Middle East and Far East and the reception we get there is absolutely truly outstanding. And America, you know, partially because Mark is American has been incredibly welcoming to us as a firm, and the success rate we're having on bids is huge. So I would actually encourage Mark to add more people to his organisation because actually the rate of success that we're having across our businesses is truly amazing at the moment. We've just got to keep it up at that high level. Andy is going to cheer us up now.

Andy Sinclair: If you want me to I can. Shall I start with the really cheery thing? So the first question is on obviously the profit warning from Carillon earlier in the year, and they highlighted a few projects which are going a bit difficult for them. One of them was the Royal Liverpool Hospital, where you're one of the big funders with £150 million debt. How do you view that and what does that mean for that debt on your balance sheet? Have you written it down in the half year results? And the second question is on the longevity basis change. So as I understand it you're using like a five year average for mortality on the base tables, with some different weights now to the weights you were using before. So what would be quite helpful to know would be what number does this come out with relative to your experience last year? And also how much of the 126 would you have earned anyway, and in the back earnings? So should we strip some of that off over time? Thanks.

Nigel Wilson: Some of your more optimistic questions there, Andy. Obviously contractors face difficulties from time to time in the industry and we take that as normal. We've done a pretty comprehensive review of the Carillon position across all of our projects. They're not huge contractors to us overall and we don't think we have any material exposure to them on any of our projects.

Kerrigan Procter: Yes. Just a few of the details on that. You're right, it's a five year smoothing effect really on the base mortality, so the probabilities we apply to people dying today rather than the mortality improvement. So, yes, we changed some of that smoothing, smoothed it more in effect. Released £126 million of prudence on those probabilities. And that kind of compares to I think last year just in terms of actual deaths. We had about £40 million worth of positive experience through there, so it's to kind of put that £126 in the context with that 40 million you'd have seen through just actual deaths happening relative to experience.

Andy Sinclair: Okay, thanks.

David Bracewell Hi, it's David Bracewell here, Redburn. Two questions. I think the first one's a follow up on an answer before, and it's just on the kind of allocation of direct investment to the back book and the front book. And the reason I ask is just how much allocating of the lifetime mortgages to the front book are you currently doing? And the reason I ask is just to see if you can improve that 4% new business strain any further or if you're kind of maxing out the allocation of your lifetime mortgages to the front book business there. And the second question again is on longevity. For the future expectations I think, and correct me if I'm wrong there, but I think you use a two percentage point per annum improvement rate to your base tables. And you did mention that you might be looking at the assumption you're making to future improvements to longevity at the year end. I just wonder if you could give me any sensitivities to potential change to that? Thanks.

Kerrigan Procter: I'll talk about the allocation of Lifetime Mortgages. So broadly, and some of it gets into quite sensitive commercial conversations, so there will be a limit to the amount I'll talk about. But it really comes back to the ALM points and making sure that we can match cash flows. So lifetime mortgages, they're typically kind of 17 years duration for the new book, so you need long dated flows to match them. So typically you might look at… Maximum we think we could put at 25%. Maybe a third of new business could be allocated to lifetime mortgages. So that's… You know, broadly that cash flow matching consideration is what we think a lot about when looking at deals. That's not hard and fast. It depends on precisely the deal, but just to give you a feel for what we think about there, on the lifetime mortgage flows.

Kerrigan Procter: Do you want to talk about longevity? …

Jeff Davies: Yes. It's difficult to put a quantum on it, and obviously we show sensitivities. There's deficiencies, and as everyone knows they're an indication but not necessarily the change of tables. There are a number of you in this room that have done some pretty good work on what a shift to different tables… CMI15, CMI16 means, and what some of those quantums are, but equally you come out with quite a range. But it's fair to say if we move that the whole way that there's a good quantum there, but we're going to be prudent, we're going to look at it, we're going to follow the process that Kerrigan talked about. But we obviously don't have a number today otherwise we'd be on the front foot with the numbers. So we have to do that work.

Nigel Wilson: That's a very good answer for our auditors you see, that one That wasn't the answer I gave in the rehearsal, but that's why Jeff's given the answer. Andrew?

Andrew Crean: It's Andrew Crean here from Autonomous. Could I ask three questions? First one is, could you give us a sense of what the yield enhancement was on the back book, driving the profit on that relative to the size of the book? Secondly, you said I think that there was £2 billion of cash at centre. What is the amount of cash at centre which you would normally like? So how much is excess cash? And then you were talking about bolt on deals, and you mentioned you could do deals like the Aegon deal you did, but you also then said you could repeat the Lucida deal. There aren't that many BPA writers left in the game. You're not really looking to take some of those out, are you?

Nigel Wilson: I think the last one's the easiest one. In fact I'll answer that one, Kerrigan, then you can answer the tougher ones. There's lots of books. I mean, there's £140 billion of back books and it's surprising how many people have written bits and pieces of business over the years, and so we have a long list of contacts. It isn't just The Pru and Standard Life. So we will see more smaller, a billion type deals, happening and hopefully even one in the second half of this year. I think on the cash, in big picture terms at least a billion of that is surplus to anything that we would require from a liquidity point of view across the group.

Kerrigan Procter: I'll just try to answer some of the questions on the yield enhancement. So we picked the lifetime mortgages. Obviously a very long dated, illiquid asset and so you're looking for a reasonable illiquidity premium there. The sort of market is looking at 120 basis points over a AA after taking out no negative equity risk premiums, so broadly that kind of level. For other asset classes, down at private credit, some of the private placements, you'd be looking at a lower yield pick up. Below half that probably.

Nigel Wilson: I think the question in a sense is that we've got a lot of assets which are not optimising the back book. The gilts, over time we need a fewer gilts and we would look to…if you look at the enhancement we can still do on the back book. And actually the separation of the business into the two parts is making us look more seriously at the optimisation of both the retail side and the institutional side. It turns out to be better for producing future surplus generation than we thought when we originally set it up. And as Paul's team, Mark's team and Kerrigan's team work closely together on the DI origination, the further opportunities to optimise the back book are much bigger than we'd actually thought and the pipeline that we have of deals coming into both the back book and the front book from direct investments is much harder. There's a lot more creativity going in. Again, we hired some great people in both markets. All three teams have hired really good people who are working very collaboratively together to do this. So there's a fairly substantial upside in that as we go forward. Oliver?

Oliver Steel: Yes, Oliver Steel, Deutsche Bank. So three questions. One, just slightly technical. The new business surplus on protection seems to have dropped versus last year, yet I think business has increased. So I'm just wondering what's going on there? Secondly, you talk about the escape of water losses, and I know it's an industry problem. Equally as you say you've signed quite a lot of new deals, you've now got this new policy which asks only five questions. Does one of them include how many bathrooms do you have and things like that? So I'm just wondering here about how can you test the quality of new business you're taking on in that area? And obviously that has implications for the quality of new business you're taking on elsewhere if there's an issue here.

Thirdly, the management actions in Solvency, so half a billion in total. I know £100 million of that was the longevity issue. Roughly £100 million was the Netherlands sale. But £300 million from what you said, sort of tinkering around the edges, seems to be quite a big figure and I seem to remember in the past there was a sort of comment that maximum. That you could expect £400 million of additional solvency from management actions. But it feels as if it's a bigger issue and I'm just wondering how much of that is actually just sort of business as normal which you can continue to sort of creep that solvency ratio upwards through management actions.

Nigel Wilson: Okay. Kerrigan, obviously you'll take the third one. The delta's only four million, but I'll ask Bernie to comment more generally about the retail protection business and how it's doing and then Cheryl if you want to talk about the GI and the escape of water.

Kerrigan Procter: Yes, thanks Oliver. Yes, four million. I mean, the new business surplus is a function of the underlying profitability of the business. It's still highly profitable business. We've got a really strong business model there which is working really well. Mix of business actually has quite a place. If you write a slightly different mix of business the average margin drops and new business surplus drops, and it is a competitive market out there. We're not the only ones to find the market attractive. We're competing well but there are other competitors out there. So it is going to fluctuate over time. But there's still opportunities in that market, particularly in our banks and building societies distribution opportunities there as well, and we continue to digitise the business, engage with customers, so we're hopeful to continue seeing growth in top line and bottom line in that business.

Cheryl Agius: Just on the escape of water. So in the first quarter of this year we saw an increase in severity on some of our claims. Our frequency was as we expected, so we've taken a clearer view of this and management actions to both increase rates, change some underwriting practices and some claims control. We've not seen this repeated in the second quarter, and we believe with these actions we won't see this into the second half of the year. With our SmartQuote, we've partnered with Landmark which has got access to all the surveying data in the market. So on each individual's properties we've got over 400 data points. So we're very comfortable we've got real time access to data and pricing for each of those individual risks.

Nigel Wilson: Yes, there are some very innovative ideas coming on. At some point we should give a longer debate, discussion, on all the technological improvements we've made across the businesses, because they're beginning to make a material impact on both customer acceptance of us and our net promoter scores for some parts of the business have actually gone through the roof and have been really amazing. Kerrigan?

Kerrigan Procter: Yes, probably just try and give you a little bit more colour on some of the matching adjustment Solvency II management actions. We've got probably about a couple of billion of liabilities. A couple of billion Pounds worth of liabilities that are very close to matching adjustment compliant but not quite, and in this business it's all or nothing, so we're working on whether we could restructure the contracts there slightly or just argue that they could be matching adjustment compliant. So that's kind of that two billion room there possibly that we need to work on. Then similarly on the asset side, we're exploring new asset classes and new potential with LGIM real assets of course, LGC and as each of those new asset classes come in we try to get an efficient structure to make that match adjustment compliant soproperties in construction periods,those sorts of things where we can really explore and see if we can get efficiency. So it's coming down towards business as usual. Clearly as you implement there's plenty of things to do and it's a sort of diminishing return, but still plenty of business as usual, moving to business as usual things we can do to continue to improve that position I think.

Nigel Wilson: Last question?

Marcus Barnard: Yes, Marcus Barnard from Numis. One question in sort of two parts for Kerrigan. Firstly on bulk annuity pricing, are you seeing any pressure from ABCs or trustees to reflect the worsening mortality in your pricing and maybe capture some of the projected worsening going forward or the loss of improvement? So that first question is there an effect on pricing? And secondly, are you seeing any… Do you feel there's any delays? You know, you've seen bond yields rise a little bit. You've seen equity markets rise, perhaps with this uncertainty over longevity, are people delaying the decision on doing a bulk annuity? Or should we expect a strong Q3, Q4 as usual?

Kerrigan Procter: On the pricing side, I think certainly as you've seen we now reinsure most of that longevity anyway. We talk about 80% to 90% certainly over the past two years on bulk. So I think a lot of that pricing improvement has probably factored in to different parts of the reinsurance industry. It won't be all reinsurers who've adopted, but because we have the panel of 14 people or so that we go to then we can tease out we think the appropriate prices from those longevity reinsurers. So I think it has been somewhat reflected in the price. Everyone's quite cautious about what it means and I think therefore clients are seeing some of that benefit coming through. I think. I believe.

In terms of delays, on the yields point, we've talked a lot about the flow in LDI business, people derisking and removing the real yield risk, the interest rate and inflation risk, and that continues at pace. I think there's 17 billion or so in H1 just in LDI within LGIM. So that signifies that people are significantly moving down that route, and I don't think that's a constraint. I think it really comes back to the first point: Are people delaying because of the longevity risk? I think they're thinking about it, but when you explore the reinsurance industry and see the prices that people are getting, I think that's in a favourable place and I believe that we'll continue to see some of the seasonality in bulk annuities that we've seen over the past several years and are looking for a strong Q3, Q4.

Nigel Wilson: Okay. Thank you everyone for your interest. I'd just like to thank all of my colleagues for an absolutely terrific first half. As you heard from Mark Zinkula, there's tremendous structural growth in LGC. Kerrigan's got many, many opportunities in both the retail side and in the institutional side. Paul's got his fingers in many more pies in the UK at the moment. He's not eating them, by the way, he's just got his fingers in them. Bernie's hyper excited about all the innovation that we're making in the insurance space. Cheryl's absolutely assured us all that actually the second half we're not going to see a repeat of the first half in GI, and Bernie's finally promised that he will turn round Group Protection, brackets could be in 2018 rather than in the second half of 2017, but the numbers in the second half of 2017 should be demonstrably better than the first half. So thank you all for your interest and your support. Look forward to seeing you all at the year end results. Thank you.