Transcript: Phoenix Group Half Year 2020 Results Presentation

Thursday 6 August 2020

Claire Hawkins

Good afternoon and welcome to the Phoenix Group 2020 Interim Results presentation.

My name is Claire Hawkins and I'm the Corporate Affairs & Investor Relations Director here at Phoenix.

We're all adapting to new ways of working in a COVID-19 world and we thank you for joining our virtual presentation. My colleagues and I are joined today by our sell side coverings analysts, within the Zoom environment, to better simulate a live Q&A session.

Analysts - we'll be asking you to raise your hands to ask questions later.

For those of you joining us on the webcast you will also be able to raise questions in the normal way. But before we get to Q&A, let me hand over to Andy Briggs, our Group CEO and Rakesh Thakrar our Group CFO who will take you through our interim results presentation.

Andy Briggs

Good afternoon everyone and welcome to the Phoenix Group half year results. It's been a busy and successful half year for Phoenix as we completed the ReAssure deal and became the UK's largest long-term savings and retirement business.

Our strategy remains clear, simple and unchanged - we do 3 things which in turn drive delivery of "the wedge". First Heritage where we're the market leader in providing a safe home for customers in product lines which are no longer actively marketed. It delivers a steady flow of cash for shareholders, the bedrock of the wedge.

It is also the major driver of one of our key growth areas within the wedge - management actions. Second, we're the market leader in M&A and successfully integrating those businesses. And third, we're building a thriving and growing Open business, through our capital light Workplace and Retail pensions businesses and through BPA.

Together these are the key drivers of growth within the wedge.

Our financial framework is also clear, simple and unchanged. We run a broad range of savings and retirement businesses, all to deliver cash, resilience and growth.

2020 has been dominated by COVID-19. It is a horrific virus that has severely impacted many families and many businesses. These difficult times have demonstrated the resilience of the Phoenix business model. Financially we're very resilient - we paid our dividend as planned and reconfirmed our cash generation target. More from Rakesh on this later.

Alongside this, we championed ordinary savers and pensioners, many of whom are our customers by making the case strongly why dividends should be paid when they can be afforded.

And we took no form of government support and furloughed no staff.

What I'm most proud of, is how our colleagues have pulled together to deliver for our customers. We got 99% of our people working from home, within 10 days of lockdown. Impressive, but what's even more impressive is that throughout that period we kept our phone lines open, our call answer rates were over 93% which is close to pre-COVID levels and we maintained customer satisfaction above 90%.

Our people were determined to be there when our customers needed them most.

We implemented a range of other customer initiatives including waiving the moratorium on COVID related claims in our SunLife business. Helping customers who originally took cheques to get BACS payments, and provided a dedicated contact line for front line care workers.

Alongside this, we have a strong focus on the health and wellbeing of our colleagues, and our contribution to our broader communities. As a result, both colleague pride and advocacy in Phoenix grew by 20 percentage points to 73%.

So, in a volatile COVID environment, how did we do in the first half against our financial framework of cash, resilience and growth? Cash generation is up 51% to £433 million, we remain as resilient as ever with a £4.0 billion Solvency II surplus and a coverage ratio of 169%.

And, in particular, all the economic volatility of the first half only had a £0.2 billion impact on this £4.0 billion surplus.

In terms of growth, as ever, our focus is value not volume and is all about cash, so the long-term cash we expect from new business. This was up 41% to £358 million. A strong set of first half results.

As well as new business, M&A is another key growth driver for us, as we completed on the ReAssure transaction 2 weeks ago. With ReAssure, we are now the UK's largest long-term savings and retirement business. ReAssure adds £76 billion to our assets under administration, taking the total to £324 billion and it adds 3.9 million policies taking our total to circa 14 million.

ReAssure also adds £7 billion to our total long-term cash generation including £800 million of cost and capital synergies.

On a pro-forma basis, the first half cash generation is £1.1 billion, Solvency II surplus is £4.4 billion and the Shareholder Capital Coverage Ratio at 150%. And all of this enables us to increase our cash generation target for this year to £1.5-£1.6 billion, demonstrating what a highly cash generative business the enlarged Phoenix Group is.

Our focus on cash, resilience and growth turns into dividends for you, our shareholders. With a £4.0 billion capital surplus on top of the £5.8 billion of capital requirements that we maintain above our best estimate liabilities, we are well capitalised.

And with our resilience and liquidity, we will be paying our interim dividend of £234 million.

With Phoenix you get real visibility of cash generation with the gross cash coverage of the dividend this year expected to be 3.2-3.4x.

Now the strength of our cash, resilience and growth is all down to the strength of our underlying businesses and successful execution and delivery in those businesses. And it's this I'm most pleased with in the first half of this year.

Heritage is the engine of our £1.1 billion cash generation and is also key to resilience, where some excellent work was done around hedging and active credit management. We've also done a first-class job for our customers here.

In terms of M&A and integration again a busy first half, and I'm delighted to be able to confirm we've already banked £227 million of our £800 million synergy target from the ReAssure deal.

What I'm even more pleased about is how well Day 1 went and how great it is to have our new colleagues from ReAssure as a part of the Phoenix family.

Alongside this, we're on track with the Standard Life transition programme.

And then, in the Open business, long-term new business cash is up 41% at £358 million in spite of the challenging markets. Key to this has been our investment in our proposition in both Open business and in BPA alongside strong asset origination. Finally, we made good progress building our people capability. Matt Cuhls and Mike Eakins have joined the Exco from ReAssure, Mike in the exciting new role of Group CIO. Following Susan's retirement plans, Andy Curran joins us to run the Open business and we're appointing some of our excellent internal talent to run the key Business Units in our Open Business, supplemented by hiring Tom Grounds externally to run Annuities and Equity Release.

And then Sara Thompson has joined as Group HR Director and Claire Hawkins was promoted to the Exco adding Corporate Affairs and Brand to our Investor Relations remit as we increase our external presence.

I'll be back shortly to talk about the outlook but first I'll hand over to Rakesh to talk through the numbers in more detail. Rakesh.

Rakesh Thakrar

Thank you Andy and good afternoon everyone. As Andy said we have had a strong first half of the year despite the financial volatility driven by the pandemic. These financial highlights demonstrate that we continue to manage our in-force business to ensure resilience which leads to predictable cash generation, and we're also focused on growth through new business.

Turning first to cash. In the first 6 months of 2020 Phoenix's insurance entities remitted £433 million to Group. This is after the provision of £50 million of capital injected into our Irish domiciled subsidiary to strengthen its capital position following the falling yields.

Alongside that the newly acquired ReAssure business also delivered strong cash generation, remitting a further £690 million.

As a reminder, our acquisition of ReAssure was made as if the transaction happened on 30th September 2019. And as such, the £690 million reflects cash generation since then, including £290 million from the Old Mutual Wealth Businesses acquired from Quilter.

Together therefore the combined group delivered £1.1 billion of pro-forma cash generation in the period. Today, we have announced an update to our 2020 cash generation guidance increasing the Phoenix only target of £800-£900 million to reflect the £690 million of cash generation delivered by ReAssure.

Historically ReAssure businesses remitted cash only once a year at the start of each year, so we aren't reflecting any further ReAssure cash flows in 2020 target at this stage.

Our new target range is therefore £1.5-£1.6 billion and we are firmly on track to meet this.

As a reminder, we expect the combined group to deliver £19 billion of cash generation over the long term, with £5.9 billion of this emerging over the next 4 years.

These cash generation targets reflect the business that is already in course.

They therefore exclude any new business written up from 31st December 2019, whether this new business arises through BPA or through the Standard Life brand in the Open Business.

They also exclude any future M&A and exclude management actions after 2023.

To demonstrate the resilience of our 4 year cash generation target, we have set up the sensitivity of this target to various stress events.

These sensitivities are presented for the combined group and therefore include the ReAssure business. As you will be aware, Phoenix has a low appetite to market risks and uses hedges to mitigate the majority of its exposure to equity and interest rates.

We also have a lower exposure to credit risk than our peers due to the relative size of our shareholder business, and maintain a high-quality credit portfolio which we actively manage. This translates into the low sensitivities to market risk we present today and demonstrates that we would be able to continue to pay our dividend under all these scenarios.

Before we move on to talk about resilience, I will walk you through our IFRS results.

We delivered operating profit of £361 million in the first half of 2020, 11% higher than the prior year. This increase is driven by strong performance in our Heritage and UK open business segments which have seen higher new business profits for BPA and SunLife respectively. The impact of demographic

assumption changes and experience variances has been small, but positive longevity experience variances on our annuity business having been offset by negative mortality variances on our protection business.

The net positive investment return variances and economic assumption changes primarily arise as a result of gains on the equity hedges, held by the life funds following equity market losses during the first half of the year, together with the impacts from falling fixed interest yields.

These positive impacts have been partly offset by widening credit spreads.

Finally, our non-operating items include £48 million of costs incurred on the SLAL transition program.

Maintaining Phoenix's capital resilience has been my key priority during this period of economic turbulence. Our primary focus continues to be the overall quantum of surplus. This is because cash generation is made from surplus capital rather than surplus ratios.

Therefore, whilst we have a target range for our Shareholder Capital Coverage Ratio, all of our hedging actions are taken to protect the overall quantum of surplus.

As of 30th June 2020, a standalone Phoenix Group had an estimated Solvency II surplus of £4.0 billion and a Shareholder Capital Coverage Ratio of 169%. This position is stated after recognition of the 2020 interim dividend of £234 million and excludes £2.0 billion of unrecognised surplus in the unsupported with-profit funds and staff pension schemes.

Shareholder own funds continues to be a good starting point for determining shareholder value but does not include a number of areas where value exists. These include contract boundaries, where the value of in-force on unit-linked business is restricted under Solvency II and the shareholder share of our with-profits estate.

Adjusting for these items provides a proxy for shareholder value at 30th June 2020 of £6.1 billion which equates to £8.45 per ordinary share. This value proxy is effectively ex-dividend. It places no value on future new business from vesting annuities, BPA and open channels or management actions. It excludes ReAssure.

During the year, we saw the PGH Group surplus increase from £3.1 billion to £4.0 billion. The main driver of this increase was the raising of £1.4 billion of hybrid capital net of costs. This was largely undertaken to fund the acquisition of ReAssure, but we also took the opportunity to access the debt capital markets in May when they were particularly strong with the proceeds providing additional flexibility for the refinancing of existing Phoenix borrowings.

As I mentioned, my priority in the period has been to preserve the resilience of the Group's capital position. Whilst we are not immune to the economic volatility, our approach to risk management has provided significant protection to our financial strength, as equities and rates fell and credit spread widened.

The £0.2 billion solvency strain resulting from economics reflects the impact of this volatility, post hedging, together with falls in property pricing and the impact of downgrades experienced year to date.

This movement is broadly in line with our published sensitivities.

The pandemic has also resulted in us making some changes to our underlying assumptions. Particularly on the property assumptions that underpin our £3.1 billion equity release mortgage portfolio, where we have strengthened our assumptions on future inflation, repayments and dilapidations.

We have also strengthened our persistency assumptions of products with valuable guarantees in relation to late retirement. However we have made no change to our longevity assumptions in the period and will complete our annual review of this assumption across the combined Group in the second half of the year.

On 22nd July we completed the acquisition of ReAssure. As Andy outlined in his introduction, this is a deal that reinforces our key attributes of cash, resilience and growth. On a combined Group basis, the pro-forma Solvency II surplus was £4.4 billion at 30th June 2020, with a Shareholder Capital Coverage Ratio of 150%.

This ratio is well within our target range of 140% -180%. The pro-forma includes an estimated Solvency II surplus of £1.7 billion for the ReAssure business on a standard formula basis and reflects £120 million of capital synergies from equity hedging actions completed by Day 1.

Moving forwards, delivery of management actions and integration synergies will further strengthen this solvency position.

Here we present the sensitivities of the combined Group. The sensitivities reflect the equity and interest rate hedging and longevity reinsurance currently in place within the ReAssure business and illustrate that our large group Remains resilient to risk events.

We have modelled the impact of our usual range of scenarios on both our Solvency II surplus and ratio and added a separate credit downgrade sensitivity in response to investor feedback. I must stress that these scenarios are being applied to a capital position which already reflects the economic environment as at 30th June 2020 which saw 15 year swap rates sitting at 44 basis points, 5-10 year swap margins at around 130 basis points and the FTSE 100 at circa 6,200.

The fact that the combined Group remains within our target Shareholder Capital Coverage Ratio range of 140-180% under all scenarios applied to this already strained solvency position is evidence of our ongoing resilience.

Phoenix has a diversified high credit quality shareholder asset portfolio. 98% of our £21.6 billion shareholder debt portfolio is investment grade, with only 16% held in BBBs. We also have a low exposure to those sectors more at risk from the pandemic, with only 1.6% exposure to the oil and gas sector and 2.2% exposure to airlines, hotel, leisure and traditional retail.

As at 30th June, our portfolio of illiquid shareholder assets was £6.1 billion. The credit quality of this illiquid asset portfolio mirrors that of our debt portfolio, with 98% investment grade.

Our illiquid asset portfolio continues to be well-diversified across 5 main asset categories. For this portfolio, we are particularly focused on whether schedule cashflows are met as this is a key indicator of the resilience of the underlying investment.

As at 30th June, 100% of scheduled cashflows had been paid. The largest category is equity release mortgages where we have an average loan to value of 34% and an average age of 77 years. In our 30th June 2020 valuation of this asset class, we have applied a one off 2.2% reduction to the quarterly house price index to reflect the lower volume of property transactions in May and June.

Our £1.9 billion portfolio of private placement loans has an average credit rating of A- and is diversified across 41 exposures with over 64% of the portfolio secured on a variety of assets. And over 85% of our commercial real estate portfolio has a loan to value lower than 50%. We continue to manage this portfolio very closely and our focus on maintaining a high credit quality is reflected in the experience during the first half of the year.

We have worked extremely closely with Aberdeen Standard Investments during the period to actively manage the credit quality of our debt portfolio and rotate out of assets at risk of downgrading where possible.

Integral to this active management was a block trade which replaced £0.5 billion of sterling corporate credit by market value on the ASI "hit list" with US dollar denominated corporate credit.

75% of this credit related to moving BBB sterling credit to single A US dollar credit. This trade avoided a £60 million solvency strain which would have crystalized had the bonds downgraded and generated £30 million solvency benefit recognised within management actions.

It also increased diversity by individual issuer, sector allocation and geographic region.

Despite this active management, we have still experienced some downgrades during the period, with £860 million or 6.5% of bonds in the Matching Adjustment portfolio being subject to a letter downgrade.

However, only £16 million or 0.1% of the bonds have downgraded to sub investment grade and there have been no defaults.

The maintenance of the credit quality of our debt portfolio is evidenced by the lack of average rating migration that we've experienced over the first 6 months of 2020, with only the industrial and utilities sectors seeing a decrease in average rating over the period.

ReAssure also has a well-diversified credit portfolio and made significant progress during 2019 to improve the quality of this portfolio, trading out of UK BBB bonds and into US dollar single A credit. It is pleasing to see this credit quality maintained year to date, reflecting the active approach to credit

management taken by the ReAssure team despite the downgrades experienced in these volatile markets.

The downgrade experience across the ReAssure portfolio is similar to our own with £575 million or 5.5% of bonds in the Matching Adjustment portfolio subject to a letter rating downgrade and £22 million or 0.2% of bonds downgraded to sub investment grade.

There have also been no defaults.

Turning now to growth. Phoenix has 3 key growth options: M&A, BPA and Open Business. First let me deal with M&A and integration.

With a combined synergy target of £2 billion across standard life and ReAssure, our market leading integration activities continue to be a real driver of shareholder value. As you are aware, the nature of the ReAssure business being acquired has enabled us to deliver significant synergies on Day 1.

From a cost perspective, £11 million per annum of cost synergies come from removing duplication from Head Office functions, most notably the cost associated with running ReAssure Group plc.

And from a capital perspective, the implementation of hedging which protects 85% of the shareholders exposure equity risk has delivered capital synergies of £120 million. Alongside this we are on track to deliver our synergy targets for the Standard Life transition program.

Our focus during the pandemic has been to prioritise the protection of our customers, colleagues and the communities in which we operate.

It is therefore not surprising that we have seen some strain on our transition activity, however we were able to limit this strain to a 3-4 week delay in plans and remain on track to deliver our synergy targets on time.

We have talked before of the complexity associated with bringing together the Standard Life and Phoenix internal models. Submission of our pre-application in June was a significant milestone in this program and we're on track to make our final application by the end of the year.

Any capital benefits that emerge from this harmonisation will therefore emerge in our half year 2021 results although we have not anticipated any such benefits in our capital synergy targets.

Integration of the ReAssure business will follow Standard Life transition activity as we continue to promote enterprise stability. No decision has been taken on the end state Customer and IT operating model of the ReAssure business and we have therefore made no estimate of potential savings in our cost synergy target.

Phoenix does not include new business in its long-term cash generation guidance. New business, whether through BPA or through the sale of Open products, is therefore incremental to cash generation and brings further sustainability to our dividend.

In the first half of 2020 Phoenix saw gross inflows of new business across its three business segments of £4.2 billion. We estimate that this new business will generate £358 million of incremental long-term cash generation, circa 1.5 times the 2020 interim dividend.

Phoenix's Open business is capital-light and growing despite the challenges of COVID-19.

In the first half of 2020 our Open business in the UK and in Europe delivered gross inflows of £3.1 billion from new business and £122 million of incremental long-term cash generation. Workplace continues to be our engine for growth and gross inflows in line with first half 2019, demonstrate the resilience of this business.

Our Open business has also benefited from reduced outflows compared to last year as both employers and customers delay making financial decisions.

Overall, it was a tale of two quarters, with strong performance across all product lines in Q1 falling back during Q2 as people began to deal with the uncertainties resulting from the pandemic.

Looking forward it is clear that the second half of 2020 will continue to be challenging. As you heard from Andy we have made significant progress in our Workplace proposition and will continue to do so as we look forward to the launch of our ESG passive default fund later this year. We continue to promote the use of digital, building on the significant progress made in this space so far this year, and will continue to build out our retirement service, seeking to generate flows into our retail product lines.

Our BPA business had a very successful start to the year, putting £90 million of surplus capital to work across 3 deals, which will generate incremental long-term cash generation of £236 million.

The largest of these deals was an £800 million buy-in with Liverpool Victoria Pension Scheme.

This was a complex transaction that included the conversion of an existing longevity swap, and illustrates our ability to undertake increasingly complex opportunities in the future.

Our deal economics are also continuing to improve, with our capital strain reduced from 9% in 2019 to 8% in 2020 and thereby reducing the average payback from 6-7 years in 2019 to 5 years in 2020.

We have previously guided allocating circa £100 million of surplus capital per annum to BPA. The success of the team in the first half of the year means that we have the opportunity to do more, especially as the pipeline of opportunities continues to be strong, however we will only allocate additional capital if deals present attractive economics.

We will therefore continue to participate on a selective and proportionate basis in this market place, seeking to deliver value and not volume.

Management actions also deliver growth. Our success in the BPA market is underpinned by strong illiquid asset origination. During the first 6 months of 2020 we originated £789 million of illiquid assets across a range of asset classes. A 47% increase on the same period in 2019.

We continue to prioritise credit quality in our portfolio and first half 2020 origination had an average credit rating of A+. Just under half of this origination was into ESG investments, including social housing, renewable energy and sustainable development.

With illiquid assets now comprising 27% of assets backing annuity liabilities, we continue to make good progress towards our target allocation of 40%. Illiquid asset origination continues to be one of our key management actions and together with the benefits arising from active management of our credit portfolio, increased our Solvency II surplus by £0.1 billion during the period.

This increase comprises a £0.2 billion increase in own funds, which is a direct increase in shareholder value.

Whilst our first half management actions have been focused on asset origination, we are on track to deliver a broad range of management actions in the second half of the year.

These include the Part VII transfer of the L&G Mature Savings business to ReAssure scheduled to complete during Q3, the transfer of circa 1.2 million legacy Phoenix policies to Diligenta, and the securitisation of a further circa £600 million of our ERM portfolio.

Together these management actions will increase the Group's Solvency II surplus and improve the Shareholder Capital Coverage Ratio.

I will now hand you back over to Andy.

Andy Briggs

Thank you Rakesh, I will now focus on outlook before we move to Q&A. We've already talked about resilience and it's more of the same going forward so I'll cover the outlook for cash and growth.

Starting with cash. As Rakesh said, we expect our in-force business to deliver £5.9 billion of cash generation between now and the end of 2023. If we take off operating costs, interest and dividends the excess is £2.6 billion. So, if we use £0.8 billion of that to reduce debt where there are maturities and call dates, that leaves a further £1.8 billion as surplus available for growth, which we will use for the highest value option at the time.

This clearly shows that Phoenix is a highly cash generative business. This means that the dividend is very safe with a gross coverage ratio of 3.1x and that we can fund a range of growth options we now have.

If we then look longer term, we get the balance of our £19 billion of cash generation from existing business, so after the £5.9 billion to 2023, a further £13.1 billion from 2024 onwards.

After debt and interest, that leaves and £8.0 billion excess, enough to cover the dividend for a further 16 years out to 2040.

But we expect to do much better than this. We will add to our cash generation through new Open business, further BPA, additional M&A and management actions which can be funded through the £1.8 billion of surplus cash generation emerging over the next 4 years.

This will enable us to enhance the sustainability of the dividend and will over time allow us to grow the dividend.

So, let's move on to look at the outlook for growth. Aligning this to the wedge.

As the UK's largest long-term savings and retirement business, we need to understand the major drivers of change in UK savings and retirement - and we see 3 of them as shown on the slide.

First, insurers are consolidating to release trapped capital and to deal with cost inefficiencies due to legacy systems and regulatory change. And I would argue that in a post COVID-19 world where some companies are struggling with their balance sheets, their valuations and struggling to pay dividends, the pace of consolidation will increase.

The combined Phoenix and ReAssure Group is clearly the unrivalled market leader in both running Heritage businesses and in delivering M&A and integration and it remains an important part of our strategy going forward.

The second driver is strong defined contribution pensions growth, there are 2 key elements to this. The first is auto enrolment, coupled with a shift from defined benefit to defined contributions. This has tripled contributions since 2012. At Phoenix we're a top 3 player in Workplace pensions through our Standard Life branded business.

This is a market where scale and cost efficiency are critical and this is a good example of where the whole across the group is more than the sum of the parts.

We have a market leading partnership TCS, built originally around the Heritage business and as a result of our scale we are able to secure an excellent digital customer experience and also a market leading cost efficiency as we migrate from a Standard Life mainframe platform to the TCS Bancs platform.

The other driver of strong DC pensions growth is the ageing population and pensions freedoms. As the UK's largest long-term savings and retirement business with over £300 billion of assets and 14 million customers, we have more of these 50+ year old customers than anyone else and they need help and support to think about consolidating and journeying to and through retirement. This is a further benefit of having both Heritage and Open businesses together.

And in terms of the impact of COVID-19 here, through previous recessions we've tended to see the savings rate increase and people have a greater focus on their finances.

The third key driver of change is that corporates are de-risking. I've often said that I'm yet to meet the Finance Director of a manufacturing business who is pleased to have a large pension scheme attached. So imagine if you were the Finance Director of that manufacturing business during COVID-

19 and you're worried about socially distanced manufacturing and how you retail in the very different world of COVID-19, and imagine that you would then get the email from your pension scheme actuary saying you need to worry about credit risk within your pension fund, you're going to want more than ever to de-risk and offload that pension scheme and focus on your manufacturing.

So, again, I see COVID-19 accelerating this driver of change.

At Phoenix we will continue to take a selective and proportionate approach to BPA. One of our key advantages here is that shareholder credit and annuities only make up about 10% of our UK balance sheet compared to a much higher proportion of most of our competitors.

We can therefore afford to grow our Annuity Business in a selective and proportionate way and benefit from better diversification from doing so, while keeping this to a similar low proportion of our total balance sheet.

In summary, I believe Phoenix is very well placed to benefit from the strategic drives of change in UK Savings and Retirement while maintaining the financial discipline that has served Phoenix so well in the past.

So, what are our priorities for the second half of this year, to turn those strategic opportunities into reality?

For Heritage, the priority is delivering the cash and the management actions which are weighted to the second half of this year, with continued strong focus on our customers.

For M&A and integration the agenda is clear. On Open business, the BPA focus is asset origination and further improving the capital efficiency where we've made some progress but there's much more to be done. And then, for our 14 million customers, expanding our digital retirement service is another priority.

In Workplace it's the launch of our ESG Passive Default Fund. I also want to emphasise the importance of Sustainability. With our scale now, we are much more than just the financial engineering consolidator. We have a much broader core social purpose. And I see sustainability at the centre of that.

Championing sustainability in the way we run our business as we invest a third of a trillion pounds on behalf of our 14 million customers.

And finally, our future calendar. The only point I'll draw out here is that we're planning a Capital Markets Day on the 3rd December. This will be very much as we usually do, a working session where we will deep dive into each business area and give you more colour on our plans.

So, this isn't some big strategic review, it continues very much as evolution not revolution.

And with that, we will move to questions.

Q&A

Claire Hawkins

Welcome back. Today's Q&A panel will be hosted by Andy and he will be joined by Rakesh, Andy Moss who is the CEO of our Heritage Business, Susan McInnes who is the CEO of our Open Business.

First, we will take questions from our sell side analysts.

So, analysts please use the Raise Your Hand function within Zoom and the operator will bring you into our presentation and enable you to ask questions directly to the presenters.

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

Andy, over to you.

Andy Briggs

Thanks very much Claire and operator can we get our first question please?

Operator

Thank you Andy, our first question is from Louise Miles, Louise can you please unmute your device and go ahead and ask your question.

Louise Miles – Morgan Stanley

Hi, good afternoon everyone, hopefully you can hear me. So, we noticed in the appendices at the back, that the half year 20 pro-forma Fitch ratio is 29% and obviously this included the positive investment return variance that we saw at the half year and that feeds into shareholders equity and we would expect that to unwind as we see markets improve. So, how can you help us to gain comfort that the Fitch ratio isn't going to go above 30% which is a requirement to maintain that A rating from Fitch, that's my first question.

My second question is, you give some commentary in the release that you have some favourable longevity experience but that was then offset by negative mortality and this is based around COVID, be great if you can quantify this on either side and also, should we be expecting any longevity releases in the second half of 2020? And then, my final question is regarding the phasing of cash generation from both the ReAssure Phoenix and the SLA entities, so throughout the year, how should we think about the phasing from those 3 entities in the first and the second half, thank you.

Andy Briggs

Ok thanks very much Louise, I'll take the third of those and then I'll get Rakesh to answer the first and second. So, in terms of the phasing, we haven't tended to have a particular policy around phasing between first and second half for the Phoenix or the SLAL legal entities but obviously we have guided

and increased our target for cash generation to £1.5-£1.6 billion cash generation, we've had a pro-forma of £1.1 billion in the first half so that gives you a sense of what we expect in the second half.

As far as the ReAssure legal entity's concerned, historically ReAssure has always done their cash generation in the first half of the year, just once a year in the first half and hence that's why with the £690 million of cash generation there, we've added the £700 million additional cash generation to the target for the year as a whole.

Rakesh do you want to pick up the first and second questions please?

Rakesh Thakrar

Yeah thank you Andy and hopefully you can hear me and Louise just to your first question about the Fitch leverage calculations, so, you're absolutely right on slide 37 you can see the half year 20 pro-forma of the Fitch calculation and it's at 29%, now this is the pro-forma clearly as at 30th June and I see a number of areas where this will reduce over time, so first would be just normal operating profits as they emerge over time, second is that the L&G Part VII which is due in September will help across a number of our metrics and one of them will also help is on the Fitch calculation for the ratios, so I would expect that to reduce.

Third is just the ongoing delivery of our synergies, our cost synergies which will improve both profits within the Life companies and the Group and therefore allow us to reduce that leverage and as you would have seen in one of Andy's slides where we are expecting, all other things being equal, the repayment of debt maturities, on their core dates, subject to maintaining balance sheet resilience of £0.8 billion, altogether that will reduce the leverage ratio.

Now out of that £0.8 billion broadly half of that, just under half of that is actually due early next year.

In relation to your second question about the favourable longevity mortality experience, so within our IFRS results we have seen positive longevity being partially offset by mortality experience, and these numbers are quite small, about 20 million in longevity favourable variance offset by about 10 million on the mortality experience. Now looking forward, clearly it's too early to tell. CMI19 table is out and currently as you will be aware, Phoenix is on the CMI18 table and ReAssure are on the CMI17 table, so we need to look ahead, see what the experience is telling us and then make a view at the appropriate time which will be the second half of this year. Back to you Andy.

Andy Briggs

Thanks Rakesh, Operator next question please.

Operator

Thank you our next question is from Ming Zhu, Ming can you please unmute your device and ask your question?

Ming Zhu – Panmure Gordon

Hi, good afternoon everyone, just 3 questions please. My first question is could you please provide some colour on your interest rate hedging and how does that work if we enter a net interest rate environment?

Second question, is on the wedge diagram, it says you've completed the ReAssure deal which your cash generation tends to be, that's quite a lot towards the early years, could you just please provide some colour in terms of your new business plan and the timeline when you will actually start to move into the shape of the wedge, so going upwards over cash generation.

And my third question is could you talk about in terms of, you know we're still having quite a lot of uncertainties from COVID-19, when you commit to the dividend payment and the increase going forward, 3%, how confident are you in terms of, have you looked at scenarios where you assumed further lockdown, or L shaped recession? Thank you.

Andy Briggs

Thanks very much Ming, so let me take the second and third of those and I'll ask Rakesh to cover the first. So, in terms of COVID and dividend and so on and so forth, that's exactly what we do, we run a broad range of scenarios, including some very severe scenarios, and then as a Board satisfy ourselves that the dividend is affordable across those different scenarios. The critical thing with Phoenix is that we hedge out most of the equity risk, and most of the interest rate risk and then in terms of the shareholder credit, we keep shareholder credit annuities to circa 10% of the balance sheet, and therefore it's a much lower proportion than others.

And hence what you saw in the dislocation in the first half of this year, the total economic variance from the strain of the first half of the year was only £0.2 billion in the context of a £4.0 billion surplus, so, obviously we're very, very resilient indeed as a balance sheet, given the way we run the business.

In terms of the wedge. The point I would make is that we need to split the cash generation which we do at year end. We need to split the cash generation between the organic underlying and then the management actions, and the management actions is the higher bit of the wedge and what we're focused on, is what's going on in terms of run-off of the organic cash generation and how is the new business replacing that.

But probably one of the best ways to think about this is that, our total outgoings each year, ordinary outgoings if you take the cost of dividend, the cost of debt interest and the group costs, so what the cash generation needs to meet, the group costs, ordinary ongoing group costs is circa £750 million a year roughly, so, if you think that the long term new business cash in the first half of £358 million, obviously if we can keep it going at that rate, we're not far off the £750 million already and then we also have the opportunity to outperform what we had assumed in terms of management actions which last year was about a further £0.2 billion of additional cash generation beyond that which we had assumed.

So, we have that available to us as well, and therefore we remain as confident as ever, that even including ReAssure, we can do more than enough with our Open business to offset the run off of the Heritage business.

Rakesh, do you want to pick up the interest rate/hedging question from Ming?

Rakesh Thakrar

Thank you Andy, so, just to that first question on interest rates hedging. So, currently our hedging strategy is to hedge pretty much the surplus position so we look to focus and protect the surplus of our capital position rather than hedging the ratio itself.

Clearly, interest rates are currently low and as you probably remember, we discussed partly this at the Capital Markets Day where we actually changed our interest rate hedging strategy, so we did move from having swaps when interest rates were falling during the latter part of 2019 and we switched that to using swaptions and the benefit that gives is that if those swaptions are in the money, clearly if interest rates continue to fall and reduce, we're effectively offsetting our economic cost and getting all that upside, all that benefit from interest rates falling, so that's what we'd look to do and that's what we are doing especially in this low environment, a lot of our swaptions are in the money now protecting our Solvency II balance sheet. Over to you Andy.

Andy Briggs

Thanks Rakesh, operator next question please?

Operator

Thank you Andy, our next call is from Andrew Sinclair, Andrew can you please unmute your device and ask your question?

Andrew Sinclair – Bank of America

Hi, afternoon everyone, 3 from me as usual if that's ok. Andy I just wonder if you could firstly talk a little bit about Tom Groundss recruitment from Aviva and what that signals for the Bulk Annuities outlook, could we see that £100 million per annum starting to increase as long as the economics remain attractive? And just sticking on the annuities, just wondered if you could comment on what it would take for that capital strain which has reduced to 8% to go more towards the sort of 4% we've seen elsewhere.

Secondly it was just on the L&G transaction, just really wondered if you could give us an update on guidance for what you're expecting from that transaction in terms of cash and solvency, and thirdly was just they've been some headlines in the industry press about some disagreements between yourselves and SLA about some of the agreements in place between the two firms, just wondered if you could give us any colour on that, thanks?

Sure, ok so let me start off on the last one of those, I'll get Rakesh to talk about the L&G expectations, I'll talk about BPA, but I'll also get Susan McInnes to give a bit more colour, more broadly on SLA in a moment as well.

So, the position there is nothing to worry about Andy, so, we have a transitional services agreement in place as you do in all of these types of transactions, quite a complex involved transitional services agreement, and there are some areas, which is very common in this type of situation, where we're not quite fully aligned yet around the costs and the services within that transitional services agreement and - very common, both parties working collaboratively to work it through, but obviously having issued a prospectus we have to cover every single possible eventuality in putting a prospectus together as we did earlier this year and hence it was included in there…

But it is very much the short-term transitional services agreement, it doesn't impact on the investment management side, the client service proposition agreement where we work together, or their shareholder in group but I'll get Susan to comment in a moment just on the broader relationship strategically with SLA.

In terms of the annuity side, so, we will continue to take a selective and proportionate approach to BPA but what you saw in the first half is how capital strain got down to 8%, so we spent about £90 million of capital writing £1.1 billion and you would have seen in L&G's results yesterday for example that they quoted a new business strain of 4% on their annuity business, so what we're keen to do is, to improve our capital efficiency, we've got quite a lot further to go, we've made some good progress already, but a lot further to go, so that the capital we're using goes further for us, and then we would consider allocating a bit more than the £100 million a year, not massively more but we would consider allocating a bit more.

But very much taking a selective and proportionate approach and I mean specifically in terms of hiring Tom, we've got some fantastic people throughout the Phoenix Group, I'm really impressed with the talent and the capability of people but I'm also very ambitious about where we can go as a group going forward, so we've got strong capability in BPA already through Justin Grainger and the team, and we're adding to that with Tom. Tom ran the annuity and equity release business for me at Aviva and I think when he joined Aviva was doing about £600 million a year, last year I think it was more like £4 billion, but that was probably on even lower than a 4% strain in doing so…

But the key point to make is that we'll keep selective and proportionate on BPA business and we don't want total shareholder credit and annuities to be materially more than circa 10% of the balance sheet so we keep a strong focus on cash generation and resilience alongside the growth.

Rakesh, do you want to comment on the L&G transaction and then pass to Susan to comment more broadly on the SLA relationship?

Rakesh Thakrar

Thank you Andy, so on the L&G transaction itself, so just generally on the process, so it's all progressing and the court dates are set for later this month and subject to getting all the approvals we

expect, the effective date will be early September. Now, in terms of financials, I'll start with solvency first and I'll move on to cash.

So, first on solvency, we are expecting that this will deliver a reduction in our SCR of about £0.1 billion which broadly equates to about 2% on our shareholder ratio. So, in terms of cash, clearly we've increased our guidance from the £690 million that ReAssure remitted to their Group company during the course of this first half and as a consequence they only remit their cash once a year and that's been their usual process going forwards.

Now, we've increased our cash generation guidance for this year as a consequence of what's been already paid up. We will look later this year if anything is possible, we know we're not ruling it out but certainly if it's not going to be this year, it will be next year in terms of the cash generation. So, now over the Susan.

Susan McInnes

Thanks Rakesh, so, hi Andrew, let me just pick up the point about the relationship on the ground. So, Andy mentioned the Client Services and Proposition Agreement which is the agreement that governs the relationship between ourselves at Phoenix and SLA, and it manages the services that flow between the two organisations and that is working very strongly on the ground. The purpose of that relationship is in part to see how we maximise our offering for our customer base and we're really pleased to say that we've had some good successes between us this year, we have managed to expand the Open products, Rakesh mentioned the active money personal pension or AMPP product which has now been expanded to our Heritage base.

And that allows those customers to benefit from drawdown retirement within the Phoenix family and secondly, we're working with SLA on how we weave the SLA advice proposition into our overall retirement proposition to make sure that all of our customers can benefit from information, guidance and advice at the point of retirement. So, the relationship is working very well on the ground and we're seeing opportunities to collaborate, which is strong. I hope that answers your question Andrew.

Andrew Sinclair

Very helpful, thank you all and love the stag, Andy.

Andy Briggs

That's my Scottish wife you see. So, yes. Sorry Andrew, I realise I didn't answer part of your question so, just adding to what Susan said there, our Open business net fund flows were up 50% in the first half, so £1.2 billion against £0.8 billion in the prior year, which again is further evidence of how that's working well.

In terms of how we get the capital strain lower, basically two key drivers of that, the first is the work we're already doing on this harmonised internal model, so basically, historically Phoenix haven't been a particular player or focused on annuities and therefore the annuity related elements of our internal

model, some of the risk diversification and credit elements of the model, weren't particularly the latest versions of those.

And as we work through this harmonised internal model, we will be upgrading and moving to much more modern ways of modelling and handling those aspects and that will be a key driver of improving the capital efficiency of the annuity business and then the other driver is the work we're doing around the liquid assets and that's a key reason why, as we combine with ReAssure, we've appointed Mike Eakins into the combined Group CIO role across the group as a whole, really to increase our focus on the quality and scale of our illiquid asset origination, again we've been making great progress in doing that, it's an area we want to do more in, so those would be the two key drivers.

Operator, next question please.

Operator

Thank you Andy, there are no raised hands currently so can I just remind our audience, if they'd like to ask a question to please use the Raise Hand function in Zoom and would you like to hand back to Claire for typed questions in the meantime?

Claire Hawkins

Thank you very much. So, I actually have a question which has come to me from Gordon Aitken at RBC. Gordon asks: you're now the clear leader in the back book consolidation. You were the number 1 and ReAssure the number 2. Where does your competition come from now, is it an existing insurer or is it from left field? And a linked question, and if there is an insurer at the moment who rights bulks, what are the barriers to entry to stop them from taking on with-profits and unit linked business as well? Andy to you.

Andy Briggs

Thanks Claire, so, let me just talk slightly more broadly on M&A first and then specifically about the competition. So, our game plan here is to integrate the head offices of Phoenix and ReAssure by the end of this year and therefore although we're obviously not about to announce a deal any day soon, but we are in a position now that if we were to announce a deal, it wouldn't complete until into next year and because we would have integrated the ReAssure and Phoenix head offices together by the end of this year, we're basically in a position where we'd be able to do so, if a deal was sufficiently attractive. We'd need to leave it sat on the side in what I call the parking lot, 'cause we've already got a full agenda of activity on the SLAL transition and the ReAssure integration and within ReAssure the L&G and the Old Mutual Wealth integration activity to go on as well…

So, we'd have to leave it in the parking lot before we could bring it into the conveyor belt of what we do around integrations and transitions but we'd have the capacity to do that as we would have combined the Group head office. So, the answer is, we are in a position where we could do M&A, having said that, we're not spending morning, noon and night pounding the streets looking for the next M&A deal, we've got a lot on the go already, we're in a very fortunate position, we've got so many

highly value creating initiatives that are in our hands already that we can drive forward with, without relying on any external parties and I think that's a good position to be in.

But we could consider M&A and would do so, if it was a particularly attractive deal, it remains a core central part of our strategy going forward. In terms of where the competition is coming from, it's probably not particularly helpful if I spend a lot of time speculating around that, but there is increased private equity interest in this space. What I'd say there is that, I think, for smaller sized deals I think there's credible competition in that space, but I think, if you look at our last two deals have been circa £3 billion pounds each, it's harder to see private equity doing that sort of size and scale of deal and also you need to be mindful, if you look at the Pru-Rothesay say Part VII judgement, I think the strength and credibility of the counter party is clearly very important as a FTSE 60 organisation, I think as Phoenix we're clearly a very strong counterparty to anyone that's looking to do anything.

I think in terms of BPA players potentially moving into the space. Not impossible, but the whole exercise we go through when we do a big integration and I'll maybe get Andy Moss to just comment a bit more on what we typically do as we do a big integration but the harmonising internal models, the migration on new IT platforms and everything through the operating model, there's a lot there, Andy maybe give a bit of colour of what's involved in successfully integrating business?

Andy Moss

Thanks Andy, very happy to do that. Yeah I mean I think we've talked before at the market that we tend to look at integrations probably in 3 phases, and they have increased in complexity as we go through those phases. So first of all phase 1 where we really are looking at the Group functions, looking to take out duplication of acquired companies where we've taken on companies and certainly that's the case in terms of our Day 1 deliveries and some of the ReAssure synergies where we've been able to make Day 1 savings from integration of the Boards and integrations of our ExCo.

And then we move onto functions like legal and an internal audit which is largely a people driven integration, albeit obviously rolling out the risk management framework is always going to be very key part of that.

So, that's sort of phase 1. Phase 2 gets increasingly complex because then we're really looking at our finance, risk and investment systems so really there is an awful lot of heavy lifting to be done, to move to one standard set of systems, to look at bringing us onto a common internal model, and obviously with SLAL that's been incredibly complex given we're bring in two big internal models together so, there's an awful lot of heavy lifting as part of that work but that tends to obviously achieve a good amount of synergies in terms of bringing those functions together.

And then phase 3, which is what we've been doing with SLAL and moved onto with the announcement of our extended partnership with TCS is really thinking about the whole customer service operation and all of our IT Systems around the support for that, so again, that gets in terms of increasing complexity in the time that it takes to do that, where we're acquiring those sorts of operations, there's an awful lot of complexity and an awful lot of heavy lifting to be done around that,

so we tend to think of it in those 3 phases and as I say, each one gets an increase in complexity. Back to you Andy, hopefully that helped.

Andy Briggs

Thanks Andy and probably the one additional point Gordon that I probably should have made is that when you look at an M&A opportunity in the UK, because of the scale of our existing business, we are far better placed to be able to drive higher levels of cost and capital synergies than a new entrant into the space where they wouldn't have the existing business against which to get those cost and capital synergies, so we ought to be able to generate more value and that is the key focus for us. We have 3 key criteria in M&A, it needs to be value accretive, it needs to support our cash generation and our dividend sustainability into the longer term and it needs to maintain our investment grade credit rating.

Claire, other questions from the web?

Operator

Andy, sorry to cut in, we have 3 more raised hands for you, so can I start with the first one, Oliver Steel for you, Oliver can you please unmute and go ahead and ask your question.

Oliver Steel – Deutsche Bank

Yes hi, Andy and Rakesh. 3 questions, first is, the sensitivity to downgrades is quite high, credit downgrades is quite high, and I don't really understand why it is quite so high because you've only got, whatever it is 16% of your portfolio in BBB, and as I say, your sensitivity appears higher than other companies which have greater exposure.

The second question is on the solvency ratio, it's a 150% proforma solvency ratio, and as the first question I pointed out, you've got relatively high Fitch leverage debt within that. Are you happy at 150%, I mean your target range is 140%-180%, and if you do want to get back up towards say the middle of that target range, what's the glide path to getting there?

And then the third question is, really just technical understanding issue, which is, you've got £1.8 billion of central cash at the moment, come the year end, are we adding on the whole of the first half ReAssure contribution to that, or what happens to that, I mean affectively by the year end are we taking £1.8 billion plus the £1.5 billion gross cash generation less central costs and less dividend?

Andy Briggs

Ok, let me, I'll do the maths of the third one and then I'll make a brief comment on the first two but hand to Rakesh to those Oliver, and good to catch up with you again.

So, the £1.8 billion includes the £433 million cash generation we had in the first half. But we then paid out £1.2 billion to Swiss Re just after the 30th June as part of the acquisition of ReAssure but then, obviously since then we've had the £700 million of cash, so start £1.8 billion, take off £1.2 billion, add back the £690 million of ReAssure, and then any further cash generation in the second half of the year so that the balance up from the £1.1 billion pro-forma in the first half, up to the £1.5-

£1.6 billion target will add on in the second half of the year, obviously with any outgoings, debt interest, the interim dividend, Group costs coming off in the second half of the year.

I mean, just on the, your first question, I'll get Rakesh to comment in more detail in a second, but what you're seeing with our sensitivity is that, that's the impact of the downgrade. What I understand, I'm not particularly close to it, what I understand others do, is their sensitivity will then assume that they sell that BB bond for example and buy a BBB with the proceeds and hence there's a management action that recovers back a lot of it, now clearly in practise we could do that, our sensitivity doesn't allow for that, it just tells you what would happen if we got that downgrade without any management action to recover it, and obviously it doesn't allow anything for us, but what we have been systematically doing in the first half of this year, is to sell out of BBB and move into for example US single A. But Rakesh, do you want to give a bit more colour around that and around the Solvency II ratio glide path?

Rakesh Thakrar

Yeah thank you Andy, so let me start with the credit downgrade and as Andy said, one of the key points here is that we've allowed no management action in our credit downgrade sensitivity to recover that position so it doesn't allow any - as Andy pointed out - any re-trading of any sub investment grade debt coming back to investment grade or anything like that.

Let me just briefly mention this is a combined sensitivity so includes our enlarged group, so it's in Phoenix and ReAssure and overall it's got a total BBB average of around 21/22% across the total. Now, what this sensitivity is trying to show is a combination of a full letter downgrade across 20% of our portfolio, so taking a slice of our portfolio, across 20% of it, across all ratings and then having a full letter downgrade, so clearly there is effectively a cliff edge of those which are currently BBB and at the same time, it's moving the credit spread to the next letter, so if there is a downgrade that goes from A to BBB, then you also get the credit spread movement happening as well.

So, it's a combination of those two, plus the fact that we've got no management actions which is why you're seeing the sensitivity of £0.5 billion, now in the context of £4.4 billion surplus, this is a reduction of £0.5 billion, so, given our size and the fact that we're actively managing that credit portfolio, I think we're pretty comfortable with that.

On the second point, Oliver I think your question was around our solvency ratio and then our Fitch leverage, now, I mentioned earlier about the actions that we currently have underway and this is how I see the glide path happening.

So, clearly the L&G Part VII is on train and that will improve both the surplus and the ratio. We've just started on our journey on the capital synergies within ReAssure and clearly our target, we're only £120 million out of that £400 odd million. We're also looking to as you would have heard from my presentation, in terms of the internal model harmonisation, we've assumed no benefit of this but clearly put simplistically what we currently have is a Standard Life internal model and a Phoenix

internal model and we've effectively added the two together and taken no diversification between them. So, we've got no credit for it currently in terms of our targets but there is potential there.

There's also future Part VII's and then there's a list of management actions which I also mentioned earlier which would improve that position, so we've got the ERM securitisation that is £600 million of it, which is currently sitting outside of the M&A fund which will help improve our position. And there's a number of other actions, including additional credit trade where we look to move again from the BBB portfolios that we currently have and look for US dollar single A credit, so, there are a number of actions that we've already got planned and that are underway to improve that position. So, back to you Andy.

Andy Briggs

Thanks Rakesh and I'll probably just quickly add another quick two points, first of all because we have such resilient cash generation and we have the hedging on the balance sheet, I think we take a lot of comfort from the reliability of that cash generation in terms of thinking about the leverage ratio. Secondly, what I'd say Oliver is that we're different to most other organisations when you do these comparators in that we have an active program of M&A as a core part of our strategy and typically as we do deals we would tend to move towards the higher end of our leverage ratio and move potentially lower down the solvency II capital ratio range, because these deals are so highly cash generative, so quickly, therefore it makes sense to push towards the ends of those ranges, do all the actions that generate lots and lots of cash and improve capital efficiency and so on and so forth, hence that enables you to de-level on the one hand and increase the solvency ratio on the other hand.

And because of the resilience and the liability of the cash generation as you can see today up 51% and increasing our target for the year as a whole, that's what gives us the confidence to operate in that way.

Operator, next question please?

Thank you Andy, our next caller is Ben Cohen, Ben can you please unmute go ahead and ask your question.

Ben Cohen – Investec

Hi there, thanks very much for taking my questions, if you can hear me. The first thing I wanted to ask was, you had to put some capital into the Irish business and I just wonder the degree to which macro weakness and low interest rates might be changing your views as to your long-term intentions towards the Irish and German businesses.

Second question, was, what do you see in terms of a downside scenario or Open book flows, if the economy weakens materially from here, how much do you see that business being impacted, thank you.

Andy Briggs

Ok, so I'll kick off with the strategic view on the Irish business and ask Rakesh to comment on the capital side, but first I'll deal with the downside scenario in terms of the Open business, so, much as I said earlier what we've tended to see in past recessions in terms of the DC pension side and consumer behaviour is the savings rate goes up and people engage more with their finances, and so I think we would expect to see and we already have seen relatively minor in the scheme of things, but we have seen some of the regular monthly flows into our Workplace pensions book, they have come off a little bit where staff have been furloughed and their contributions go down to the minimum level and we would probably expect to see some more of that, if there is a spike in unemployment as the year progresses.

But in the scheme of the numbers its relatively small in terms of the moving parts and as people start to engage more with their finances the opportunity to get people to consolidate more assets together and start thinking about their journey to and through retirement, I think represents a big opportunity and obviously we have more of those customers and more of those assets at the moment than anyone else and therefore ought to be best placed to be the first place that customers turn to.

I think if I look at it from the perspective of the BPA business, I would be optimistic in terms of the outlook for BPA. Most commentators are talking about the market being £20-25 billion this year which we would, that would be consistent with our view, our perspective, but much as I said earlier in my prepared words, I think if you're a Finance Director of a manufacturing business, you're desire to offload this is greater than ever, it spreads wider, it becomes a bit more affordable, generally, for the company to offload the pension fund and lots and lots of pension funds have been on a journey of de-risking over time, and therefore are far closer to the point at which they can afford to do a buy-out so we would be optimistic about the outlook of the market there.

In terms of the European businesses, and I'll get Rakesh to comment specifically on the capital side, but from a strategic perspective, Europe is a very small part of our total Group, I think it is interesting strategic optionality, to think about potentially one day taking the core capability for M&A integration that we have in the UK and taking it into other markets, but having said that, I'd say COVID will accelerate consolidation in the UK market and so most of our focus at this stage would be on M&A in a UK context. Rakesh do you just want to comment on the capital position in terms of the European businesses?

Rakesh Thakrar

Yeah thank you Andy, and Ben it's a good question. So on our Irish business, as you are aware, we did the Part VII early last year in preparation for Brexit, a lot of the overseas business is sitting in that company but a significant proportion of it is then reinsured back into the UK to SLAL.

And this company, the Irish domiciled company SLIntL is on a standard formula basis and as a result, given it's on a standard formula basis and the rest of the group is on an internal model, the company does need to hold, effectively counter party risk and with interest rates falling, that exposure, albeit it's internal, is meaning that this has to hold additional SCR and therefore risk margin on this business. And this is under consequence of that interest rates continue to fall. Now, we are working as part of

our second phase of our internal model harmonisation plan is to then bring the Irish company onto standard formula - if not all of at least certain risks into our internal model, which will then allow us to better reflect the risks of that company and reduce that SCR requirement. Back to you Andy.

Andy Briggs

Thanks Rakesh, operator I think we had another hand raised yeah?

Operator

Thank you, yes we have one more raised hand, it's Andrew Baker, Andrew can you please unmute your device and go ahead and ask your question?

Andrew Baker – Citi

Hi, thanks for taking my question, so just one from me. It's on the ReAssure integration targets. So I don't believe these include any phase 3 benefits from bringing together the Customer and IT propositions. I think the original plan was to adjust these beginning 2022. But do you think you'll be in a position to communicate the size of these potential synergies prior to that date?

Andy Briggs

Ok, thanks Andrew for the question, so I'll take that. So, basically there are substantial benefits on the Standard Life transition in moving from the old Standard Life legacy mainframe platform across to the TCS Bancs platform, so there's substantial benefits from doing that, not only relating to the Heritage business within the Standard Life Assurance book but also as I touched on earlier, as we move our Workplace pensions business across onto that TCS Bancs platform, we'll have a market leading cost efficiency and a really strong digital customer interaction and that's critical to winning in that Workplace business, so you've got a real synergistic benefit of the strength of our Heritage business and relationships across into the Open business and the Workplace business.

So, that's our priority and that program has got about another couple of years to run, it's a big program of work that we're doing there, progressing well but big program of work nonetheless.

So, the earliest that we could get to thinking about 'is there merit in combining together the ReAssure Alpha platform and the TCS Bancs platform' would only be as we got into 2022 as you just mentioned but I have to say, from my perspective, the longest lead time in M&A, much as Andy Moss said a moment ago, the toughest part of M&A is the Customer Operations and IT side.

And in Alpha we've got a very good strong platform so from my perspective, plan A is that we can increase the pace that we can do M&A by having two good platforms, Alpha and TCS Bancs and that for me would be plan A. If plan A doesn't come to pass, there aren't the right, we'll be disciplined on M&A as the core part of the strategy but we will be disciplined if the right opportunities don't come along at the right price, then there would be significant additional synergies available to us by combining them, one way or another in terms of Alpha and the TCS Bancs platform. They'll be significant synergies there.

Equally, we tend to focus here at Phoenix on under promise and over deliver, and therefore there's the potential that we could deliver more than the £40 million per annum cost synergies and the £400 million synergies even without the Customer Operations and IT.

And the first time we would consider updating on that would be with our March results in March 2021. Does that answer your question Andrew?

Andrew Baker

Great, thank you Andy.

Andy Briggs

Thank you, operator any more hands raised before I go back to Claire?

Operator

There's currently no more raised hands for you Andy.

Andy Briggs

Ok, Claire, any other questions on the web?

Claire Hawkins

Thank you Andy, yes we do, I'm going to ask you the final 3 questions from the website now.

So, the first is - are you presently looking at purchasing any other Life and Pensions consolidators? The second is - what is your take on super funds? And the third question is about the dividend, so you mentioned the possibility of increasing the dividend in time, when do you expect that might happen? Those are the final questions from the webcast over to you Andy, thank you.

Andy Briggs

Thanks Claire, sorry you asked your questions much more quickly than the analysts, so I think I've written then down but tell me if I haven't.

So, are we looking at buying any other Life and Pensions consolidators? I mean, I wouldn't comment on any specific deals anyway, but what I said a moment ago, is that we could do M&A now, it's a core part of our strategy, it remains a core part of our strategy but we're not pounding the streets desperately looking for the next deal because we've got a lot on the go already.

View on pensions super funds, so, if I'm honest I'm probably quite concerned about this, and the reason I'm concerned is that, at the moment, the customer, who's a person we need to worry about and focus on most in all aspects of our businesses in my view. The customer either has a covenant from an employer or they get a one in 200 year capital regime of an insurance company if a Bulk Purchase Annuity is done. So, to have something in the middle that doesn't have either of those, I think is really quite worrying from a customer perspective and I know Andrew Bailey and others have given their similar comments to that effect…

Having said that, from the perspective of Phoenix and our participation in the BPA market, the way that the rules are being proposed or talked about around super funds, any company that was anywhere near being able to do a bulk buy-out, wouldn't be able to go into a super fund, it would only really be targeted at those schemes that were much less well funded. So I don't see it as a competitive threat to what we're doing in the BPA space at all, it doesn't change my view of the outlook of Bulk Purchase Annuity market but I am slightly concerned about it from a consumer perspective.

And then the final question in terms of the dividend, I mean our dividend policy is unchanged and remains that we have a stable and sustainable dividend. Our first focus with the dividend is the cash generation over the longer term that gives us confidence that we continue paying the dividend, what we covered earlier today, was that if you just look at the cash generation from our existing business, there's enough there to cover the dividend for 20 years to 2040 and that's before you make any allowance for things like the £358 million of long term new business cash that we generated in the first half of this year or any management actions above the level we've assumed up to 2023, there's no management actions from 2024 onwards in that analysis, no allowance for future M&A either, and hence we're very confident around our dividend position.

The way we will think about this in due course, is just think about it in terms of a wedge. There's a level of organic underlying capital generation from the in-force business, it goes down a bit each year, we've historically said 5-7%, so what we need to do is get to a place where our new business is doing more than enough to offset that 5-7% run-off of the in-force business and last year overall we pretty much did it, this year we've got the ReAssure business added on but where new business is growing, that will be the trigger point at which we would be able to consider. It will be my aspiration in time to be able to think about increasing the dividend without M&A and obviously M&A remains an important part of the strategy but that would be my aspiration in due course.

But again, just to reiterate as we do all of that, as we write our new business, as we look at our business. Cash, resilience, growth remains the financial framework so as we write new Workplace schemes, we put the hedging in place to keep that resilience and that overall financial framework remains solid and secure through all of that.

So, any final questions either operator, hands raised or Claire on the web?

Operator

Sorry Andy there are no raised hands at the moment.

Claire Hawkins

And no further questions on the webcast.

Andy Briggs

Ok well look, thanks very much everyone for joining us, I'm particularly conscious that it's a very busy day and a busy week for you all, so I appreciate you taking the time to join us today and needless to

say, if you have any follow-up questions at all, don't hesitate to contact, via Claire, into myself or Rakesh - we're more than happy to pick up any more questions that you have. Thanks very much indeed, thank you.