Phoenix is delivering sustainable growth

"2022 has seen us execute against all of our strategic priorities as we delivered both organic and M&A growth, which demonstrates that Phoenix is truly a growing business."

Andy Briggs, Group Chief Executive Officer

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2022 has been a strong year of delivery for Phoenix Group, despite the challenging economic environment. As we have made significant progress against our strategic priorities during the year by continuing to embrace our purpose. This has supported us in delivering a strong set of financial results, in line with our financial framework of Cash, Resilience and Growth.

Delivering Cash, Resilience and Growth supports an increased dividend

During 2022, our in-force business delivered cash generation of £1.5 billion, exceeding our 2021 target range of £1.3-to-£1.4 billion. Our resilient Solvency II ('SII') capital position was maintained with a SII Surplus of £4.4 billion (2021: £5.3 billion) and an increased Shareholder Capital Coverage Ratio ('SCCR') of 189% (2021: 180%), which is currently above our target range of 140–180%, providing capacity for us to invest into growth.

I am delighted we have delivered a second consecutive year of organic growth with record incremental new business long-term cash generation of £1,233 million (2021: £1,184 million). This means that we have once again more than offset the run-off of our in-force business and firmly established Phoenix as a business that is growing and sustainable. We are now confident of growing our incremental new business long-term cash generation going forward and have set a target of c.£1.5 billion per annum by 2025, which is the first organic growth target we have ever set, which is a clear signal of our ambition.

We have also delivered M&A growth in 2022, with the announcement of our cash funded acquisition of Sun Life of Canada UK. This is expected to complete in April 2023, with the key regulatory approvals now received. The significant value that will be generated by this transaction has enabled the Board to recommend a 2.5% inorganic dividend increase this year, which demonstrates the significant value to shareholders of smaller, cash funded M&A.

As a result of our strong overall performance, I am pleased that the Board is recommending a dividend increase of 5%, in line with our dividend policy. This reflects the Board's determination to reward our shareholders when our business performs well.

The sustainability of this increased level of dividend is underpinned by the £0.3 billion increase in our Group in-force long-term free cash to £12.1 billion (2021: £11.8 billion). This is the cash that will emerge from our in-force business and will be available to our shareholders over time. It ensures our increased level of dividend remains just as sustainable over the very long term.

In terms of our IFRS reporting, we have reported an increased adjusted operating profit of £1,245m for the year (2021: £1,230m), but the impact of our hedging approach results in an IFRS loss after tax of £(1,762)m (2021: £(709)m). As a reminder, we hedge our Solvency balance sheet with the aim of delivering resilient cash generation over the long term, but this does create IFRS accounting volatility. This impact has been accentuated by the significant increase in yields last year, driving the large accounting loss, but this does not impact our cash generation or dividend capacity in any way.

Executing on our clear strategy

Phoenix's role in society is to help our customers journey to and through retirement by meeting their evolving needs.

Phoenix has a clear and differentiated strategy as outlined on pages 14–15, which is in support of our purpose of helping people secure a life of possibilities.

Our strategy is simple. We are the experts in optimising a scale in-force business for cash and resilience, and we grow this both organically and through M&A.

Our in-force business is the £259 billion of assets we look after for our c.12 million existing customers. It is highly cash generative, and provides surplus cash, that we can reinvest into growth.

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

In addition, we have attractive M&A growth opportunities, where we acquire new customers at scale and deliver better

Significant growth opportunities are available by meeting more of the evolving needs of our existing customers and acquiring new customers:

Supporting corporates to de-risk through BPAs

Corporates are de-risking their defined benefit pension scheme liabilities through Bulk Purchase Annuity ('BPA') transactions in order to focus on their core businesses. This is fuelling increased demand for BPAs.

c.£1.4 trillion stock

Phoenix response

We are now an established player in the BPA market reflecting the investment we have made to build a comprehensive market proposition. This is enabled by the strong asset management and other supporting capabilities we have built.

£30–60 billion

Market flows per annum

Enabling customers to save for retirement in Workplace schemes

The Workplace pension scheme market is growing rapidly, driven by auto-enrolment, an ageing population and the move from defined benefit pension schemes to defined contribution pension schemes.

c.£0.5 trillion stock

Phoenix response

We have re-established ourselves as a significant player in the Workplace market. We are investing in this business and will leverage the Standard Life brand and our improved capabilities to retain and grow our customer assets over time.

£40–50 billion

Market flows per annum

Enabling individuals to save for, transition to, and secure income, in retirement

People are seeking guidance on their journey to and through retirement, as responsibility for retirement planning has now shifted towards individuals.

c.£1.0 trillion stock

Phoenix response

By engaging our c.12 million customers to better understand their needs and delivering the solutions they require, we have the opportunity to encourage customers to save with us, consolidate their pensions with us, and to decumulate through retirement with us.

£80–100 billion

Market flows per annum

Supporting customers with legacy pensions and savings products

Pressure on insurance companies to focus their strategies, free-up capital trapped in Heritage books, and to deal with cost inefficient legacy products and platforms, makes further consolidation in the UK market likely.

c.£470 billion market

Phoenix response

As the market leader in Heritage M&A we have the capability and scale to integrate businesses onto our modern platform to deliver better outcomes for customers with legacy products. We also unlock significant cost and capital synergies to create shareholder value.

Further M&A

Market activity to continue over time

outcomes for customers with legacy products. In the process, we transform the acquired businesses, to deliver significant cost and capital synergies.

But what's particularly attractive about our business model, is that the whole really is more than the sum of the parts. With our organic and M&A growth generating more in-force business, that we then optimise.

We are confident of delivering our strategy because our scale in-force gives us three unique competitive advantages.

The first is capital efficiency, where we get greater diversification from the breadth of in-force products across our £259 billion of customer assets. We are also highly resilient, through our core capabilities in risk management and capital optimisation.

Secondly, with c.12 million customers we have an unrivalled level of customer access, with around 1-in-5 UK adults being a Phoenix Group customer. This provides us with deep customer insights and clear growth opportunities as we look to meet more of their evolving needs over time.

And thirdly, we have a significant cost efficiency advantage. This is enabled through our customer administration and IT partnership with Tata Consultancy Services ('TCS'), and our focus on delivering a simplified operating model.

Our in-force business therefore gives us real competitive advantages, that are very hard to replicate. Which means we are confident that we can, and will, win in our chosen markets.

All of which provides us with the opportunity to drive both organic and M&A growth through meeting our customers' needs, as outlined in the spotlight box to the left.

Delivering our strategic priorities

Our strategy is delivered on a day-to-day basis through our three strategic priorities, which cover the investments and the programmes of work, that will further enhance our competitive advantages, and enable us to help people secure a life of possibilities. Our progress this year against each of these priorities is outlined below.

Optimise our in-force business

Our first strategic priority is all about leveraging our scale in-force business to deliver capital efficiency and better returns on our capital, with a strong 2022 performance across our key areas of focus.

Delivering cost and capital synergies, which we refer to as 'management actions', remains a core capability of Phoenix. In 2022, we have once again delivered a significant level of management actions, with £739 million of actions achieved. This was primarily from business-as-usual management actions, which are not reliant on cost and capital synergies from M&A transactions, and are therefore sustainable over the long term. This included the ongoing delivery of a range of balance sheet efficiencies, which remains a differentiating capability for us, as well as further illiquid asset origination and optimisation of our liquid credit portfolio.

Our comprehensive risk management framework includes our hedging approach, which differentiates us from other insurance companies. We hedge the vast majority of the market risks we are exposed to including equities, interest rates, inflation and currency, to minimise volatility in our capital position during volatile economic periods. We also operate a conservative credit portfolio to manage our exposure to credit risk. This approach enabled us to limit our SII surplus economic variance to £(0.4) billion during a volatile economic environment.

We have also continued to enhance our asset management capabilities, to support our growth ambitions and efficiently oversee the management of our customer assets, and continued to expand our range of asset management partners to 21, as we seek to diversify our portfolio globally.

Investing in a sustainable future is the first key pillar of our sustainability strategy and we have continued our investment into sustainable assets with c.£1 billion invested to support affordable housing, access to healthcare, and projects with a positive environmental or social impact.

Last year we also started to integrate decarbonisation strategies into our listed equity portfolios and we are now in the process of designing decarbonising equity benchmarks for UK and US listed equity exposures. This will help manage our customers' exposure to climate risk and reduce the carbon intensity of our investment portfolio.

I am also delighted that the work Phoenix and our peers have done to influence the SII reform proposals means the insurance industry should be better placed to help accelerate the path to net zero by investing to develop a low carbon economy.

Grow organically and through M&A

Our second strategic priority is focused on meeting more of our existing customer needs and acquiring new customers, with a significant year of achievements in 2022.

Our Retirement Solutions business had another strong year. Our focus on improving our capital efficiency in the Bulk Purchase Annuity ('BPA') business enabled us to generate a broadly similar amount of incremental new business long-term cash generation with less capital invested. This in turn enabled us to deliver an improved mid-teens IRR. It was also great to see the success of our launch of the Standard Life Home Finance products and the ongoing development of our open market annuity product, supporting a launch in 2023.

I am also delighted that the significant progress we have made in developing our Workplace proposition and the investment we have made into the Standard Life brand is delivering improved performance. We achieved net flows of £2.4 billion, as we retained our existing schemes and saw new members join our existing schemes. This supported us in delivering a c.50% annual increase in new business long-term cash generation. We also won 76 new schemes across all parts of the market including small, medium and large schemes.

Elsewhere, our other fee-based businesses (Retail, Europe and SunLife) remained resilient during the year.

We are also growing through M&A, having announced our first ever cash-funded acquisition, of Sun Life of Canada UK for consideration of £248 million. This transaction, which is due to complete in April 2023, is expected to deliver c.£0.5 billion of incremental long-term cash generation. This transaction also benefits from a simplified operational integration programme, as the majority of their policy administration is already being outsourced to our strategic partner (TCS Diligenta).

Engaging people in better financial futures is the second key pillar of our sustainability strategy and we have continued to make great progress here. In 2022, we transitioned c.1.5 million customers and c.£15 billion of assets from our existing default funds to our flagship Sustainable Multi-Asset default fund, as we seek to support our customers in investing their pension assets sustainably.

We also continued to use our influence on behalf of our customers and colleagues. As the UK Government's Business Champion for Ageing Society, I am passionate about encouraging older workers to stay in work or come back to work. Good examples of Phoenix leading in this area were our high-profile initiative to make our job adverts age neutral and the Phoenix

Capital Markets Event: delivering sustainable organic growth

At the event, Phoenix announced its first ever organic growth target of c.£1.5 billion p.a. of incremental new business long-term cash generation by 2025, comprising c.£1.0 billion from Retirement Solutions and c.£0.5 billion from Pensions & Savings.

In Retirement Solutions, our strategy is to deliver a market-leading customer proposition and to optimise our capital to drive strong returns for our shareholders. We will remain disciplined in allocating c.£300 million p.a. of capital into BPA, which will support us in meeting the growing demand for BPAs from corporates.

In Pensions and Savings, our strategy is to deliver market-leading, comprehensive and convenient propositions across our Workplace and Retail businesses, which leverage the Standard Life brand. This will support us in delivering annual net fund flows of c.£5 billion in Workplace and c.£2 billion in Retail, by 2025.

Scan the code to watch the Capital Markets Event presentation replay →

Leveraging the Standard Life brand

A key part of our growth strategy is leveraging the power of the Standard Life brand that we acquired in 2021. We now utilise the brand across the majority of our growth businesses, including our Retirement Solutions, Pensions & Savings and European businesses.

The Standard Life brand has a deep history and heritage, and is well known and trusted by both advisers and customers. It has been a key factor in supporting our strong organic growth over the past few years and will support us in our future growth ambitions. We are committed to investing into the brand to support us in delivering on our future ambitions and growth targets.

Standard Life
Part of Phoenix Group

Insights 'The Great Retirement' report which identified some of the key factors driving rising levels of economic inactivity among the over 50s in the UK.

Enhance our operating model and culture

Our third strategic priority is focused on delivering leading cost efficiency and a modern organisation.

We continued to make great progress with our integration work, with the migration of c.400,000 Standard Life annuities to the TCS BaNCS platform and we transferred the custody and fund accounting services for £90 billion of assets to HSBC.

We have also recently announced the extension of our partnership with TCS, as we plan to move all c.3 million ReAssure policies from our Alpha platform to the TCS BaNCS platform by 2026. This will enable our customers to benefit from the clear digital focus, consistent customer journeys and proposition provided by the BaNCS platform. It is also fully aligned with our model of enhancing long-term cost efficiency, with a further c.£180 million of ReAssure net cost synergies expected.

As ever, we remain focused on attracting, developing and retaining the best talent to drive our business forward. With a range of initiatives in the year that has supported an increase in our colleague engagement eNPS score to +30 (2021: +23). It is also pleasing to see that we have balanced female representation on our Group Board and Executive Committee, in line with our diversity and inclusion goals.

Leading as a responsible business is the third key pillar of our sustainability strategy. Here we are committed to adopting the highest sustainability standards across our business and will lead by example for the stakeholders we engage with to drive real world change and deliver positive impact We are committed to being net zero in our own operations by 2025, which we remain on track to achieve, with an 80% reduction in emissions intensity across our own operations since 2019.

We are also leading the industry with our approach to our supply chain, where we have set our pathway to decarbonisation and launched stretching new ESG supply chain standards for our partners.

Outlook

Looking forward, it is clear that 2023 will present a challenging economic backdrop. However, our business model is designed to be resilient throughout the economic cycle. Our comprehensive hedging approach is designed to protect our Solvency capital position from the majority of the market risks we are exposed, while the key areas of structural market growth we are focused on remain attractive.

In particular, we expect to see a strong year of volumes in the BPA market during 2023, with the recent yields increase having improved the funding positions of many schemes, driving increased demand.

Workplace is also a very resilient business during an economic downturn, with pension contributions being deducted direct from salaries by employers, leading to stable flows through economic cycles.

Finally, there remains c.£470 billion of UK Heritage assets that we believe could come to market over time and we expect further opportunities for M&A consolidation due to the impact of cost inflation on backbook portfolios.

All of which means we expect to see continued organic and M&A growth, to support us in delivering Cash, Resilience and Growth, enabling us to pay a dividend that is sustainable and grows over time.

We are confident in our future growth as demonstrated by setting our first ever organic growth target of c.£1.5 billion of incremental new business long-term cash generation by 2025.

Thank you

The progress we have made this year is all down to our exceptional people and I would like to thank my colleagues throughout the Group for their continued contribution and dedication in 2022.

Andy Briggs

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Group Chief Executive Officer