Phoenix Group plc – Q1 Interim Management Statement

Friday 3 May 2013

Clive Bannister: Chief Executive

Good morning everybody, thank you for attending today's call. I'm Clive Bannister, Chief Executive of the Phoenix Group, and I welcome you to our First Quarter Interim Management Statement call. I'm joined here today by Jim McConville, our Group Finance Director, and Katherine Jones, Head of Investor Relations.

I'm pleased to report the Group has generated a total of £410 million of cash from the operating companies in the first quarter and that we remain on track to meet all of the financial targets we set for 2013 and beyond. We will be very happy to answer your questions in a few minutes, but first I would like to take you through the highlights of our first quarter announcement which we released this morning.

First let me deal with cash generation. Cash generated by the operating companies continues to be the key metric which we think is the most useful in helping investors understand the long term value and predictability of our business. In the first three months to 31 March we distributed £410 million of cash from the operating businesses to the holding companies, the vast majority of the distributions were from the life companies, made possible by the strong Phoenix Life free surplus, which benefited from management actions during 2012. And after our normal cash outflows the capital raising and the £450 million debt repayment we had £1.2 billion of cash at the holding companies as of 31 March.

The cash generation of £410 million is in the context of our target for the full year of £650 million to £750 million, which we are well on track to meet. And I would also like to take this opportunity to reconfirm our longer term cash generation target of £3.5 billion between 2011 and 2016.

Now, turning to capital. We report our Group solvency position on two bases, IGD and our PLHL ICA. Our IGD surplus and our IGD headroom which is the excess over the IGD Capital Policy have both reduced by £200 million since the year end to £1.2 billion and £400 million respectively as of 31 March. The decrease was primarily due to the debt repayment which was partly funded from our own internal resources. Our PLHL ICA surplus and headroom also reduced by £200 million to £800 million as of 31 March as a result of the debt repayment. As we aim to maintain a capital policy of £150 million, the PLHL ICA headroom over this policy also reduced by £200 million to £700 million.

And from an individual life company perspective we report the Phoenix Life free surplus. Following the distribution of cash to the holding companies the free surplus was £138 million as of 31 March, which represents the excess capital over and above the life company's own strong capital policies.

And finally, Ignis. Ignis generated net new business from third parties of £200 million in the three months to 31 March, excluding liquidity funds and the Guardian assets. Due to the cyclical nature of liquidity fund flows, net liquidity outflows in the first quarter totaled £700 million, however, these redemptions reversed during April this year. As of year end £1.6 billion of assets were transferred to Guardian under the annuity transfer, which was still subject to the transitional investment management arrangements. During the first quarter £300 million of these assets transferred back to Ignis, with the remainder expected to transfer back during the course of 2013.

Overall Group assets under management were £69.3 billion as of 31 March versus £68.6 billion as of year end. So, to conclude, I am delighted by the progress we have made since year end and I remain confident of our ability to meet all of our financial targets in 2013 and beyond. At this point, just before I finish I'd like to remind everybody that we have an investor day on 16 May, that's being held at the London Museum, and its focus will be on cash, management actions and the way in which we operate our Group and life companies.

So, if I may, Andy, can I hand it over to you again and can we answer any questions that may be on the line. Thank you very much.

Question and Answer session

Question 1

Kevin Ryan - Investec

Thank you, morning. I just have one question, and that is whether you could talk a little bit about the build-up of free surplus and the cash emerging. We had a very good year end, can you give us a little clue as to whether your target for the full year is conservative and how conservative that estimate is please?

Answer: Clive Bannister

Kevin, thank you for asking the first question, it was in two parts; I'm going to let Jim deal with the first part. With regards to are we being conservative, we restate the target for this year at £650 million to £750 million and in setting the broader context for £3.5 billion which we generate, or have predicted to generate, between 2011 and 2016. So that is where we are that is where we stay. We remain a company that takes its targets very seriously.

Jim, do you want to talk about the build up of free surplus and its lumpiness on occasion?

Answer: Jim McConville, Finance Director

Yes, I mean I think, Kevin, we've never given targets for the free surplus number within the life companies, and as we've said on a number of occasions we've always taken a sensible and prudent approach to the release of cash from the life companies. So the life company board in exercising their due diligence over their distributions are very mindful that they will only release what is prudently sensible.

We did signal in the course of the year end discussions that the annuity transfer, part seven transfer, which will take place in the third quarter of this year would boost the surplus by £200 million plus. On the IGD.

Question 2

Ashik Musaddi - JP Morgan

Yes hi, thanks a lot for this and good morning everyone. A couple of questions, can you give us some colour on where the cash release came from? Is it from Phoenix Life Ltd or is it from Pearl or a combination of that?

And secondly, can you give us some colour on how Ignis is doing in terms of net inflows, because I can see that the cash flow from Ignis is a bit lower than last year, but the AuM is a bit higher, so how should we think about the cash flow from Ignis going forward? Thanks.

Clive Bannister

Jim, do you want to take this?

Answer: Jim McConville

The cash distribution came out from both life companies, Ashik, so that answers your first question. Secondly, in thinking of Ignis cash flows, well clearly in the scheme of the cash generation, the amount that comes up from Ignis is much smaller, so their profit stream on pre tax profits tends to be a much smaller number, so in percentage terms it's a small proportion of the cash generation. In the first quarter no sums came up from Ignis and we'll take a view on distributions from Ignis as we go forward in the course of the year.

Further question

Thanks. Just a follow up, can you give us a cash release number from Phoenix Life Ltd and Pearl, or is it something it's too early to disclose?

Katherine Jones

We tend not to split the cash distributions, Ashik, and we haven't really done in the past, I think as Jim said it's come from both, a combination of Phoenix Life and from Phoenix Life Assurance Ltd.

Concluding Comments: Clive Bannister

Andy, thank you very much indeed. Thank you to all the people who attended this call, we appreciate your support. Thank you very much indeed.