Full year 2022 results presentation transcript

Speakers

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Rakesh Thakrar, Group Chief Financial Officer

2022 review

Andy Briggs, Group Chief Executive Officer

Good morning everybody, and welcome to Phoenix Group's 2022 Full Year Results Presentation. Thank you for coming, and welcome to those of you joining us on our live webinar.

Phoenix continues to deliver across all areas of our strategy, despite the challenging economic backdrop. We have, once again, delivered a strong set of financial results, underpinned by the clear progress we have made across our wider strategic priorities, and our key ESG themes.

We have continued to grow organically, across both our Retirement Solutions, and fee-based businesses. And we have also announced our first ever cash funded acquisition, of Sun Life of Canada UK.

All of which is enabling us to grow our dividend both organically and inorganically, with a 5% dividend increase recommended by the Board.

We therefore retain all of Phoenix's long-standing strengths. Delivering dependable cash, a resilient balance sheet, and executing M&A. But we have now added sustainable, organic growth to our business model too. Phoenix is now truly a growing, sustainable business.

Our strategic progress means that, as ever, we have delivered a strong financial performance across cash, resilience and growth.

Rakesh will cover this in more detail shortly, but in terms of the highlights. We have delivered just over £1.5 billion of cash generation during the year, outperforming our target range of £1.3 billion to £1.4 billion.

Our balance sheet remains as resilient as ever, with our Solvency II Surplus at £4.4 billion and a Shareholder Capital Coverage Ratio of 189%. This ratio is above our target range, providing significant capacity for us to invest into growth.

Finally, we have delivered record incremental new business long-term cash generation of over £1.2 billion, as we deliver on our organic growth strategy.

As well as growing organically, we are delighted to be growing through M&A as well, where we announced the £248 million cash funded acquisition of Sun Life of Canada UK. We look forward to welcoming their customers and colleagues to the Group, who bring around £10 billion of assets, and around half a million policies.

The transaction is expected to complete in April, with the regulatory approval having now been received. And the financial benefits of this acquisition are clear. We expect to generate £470 million of incremental long-term cash generation, and we are targeting £125 million of net synergies, which equates to 50% of the consideration paid.

This transaction is therefore proof of concept, that smaller, cash funded M&A can add significant shareholder value. And we expect further M&A opportunities, of all sizes, over time.

It is particularly pleasing that this strong performance has enabled the Board to recommend a 5% dividend increase for 2022. This comprises a 2.5% organic dividend increase that reflects our strategic progress and organic growth, and a 2.5% inorganic dividend increase reflecting the value from the Sun Life of Canada UK acquisition.

Importantly, our increased level of dividend remains every bit as sustainable over the very long term, because we have grown our Group in-force long-term free cash. Rakesh will cover this in more detail later.

So we are now building a track record of delivering growth, alongside our long track record of in-force management. Together, these mean that Phoenix is well positioned to continue paying a dividend that is sustainable and grows over time.

At the centre of everything we do at Phoenix, is our core social purpose. Helping people secure a life of possibilities. And our three strategic priorities deliver our purpose and strategy.

Optimising our in-force business is the bedrock of what we do. This is about leveraging our scale to enhance our competitive advantage of capital efficiency, and to deliver higher returns.

As I have just covered, we are also growing organically and through M&A. As we engage our existing customers to enable us to meet more of their evolving needs, and by acquiring new customers. Here we can leverage and enhance our competitive advantage of customer access, to all 12 million of them.

And underpinning both of these, we are enhancing our operating model and culture. This will maintain and enhance our competitive advantage of cost efficiency, by completing our planned migrations, and through driving simplification to a single best way of doing things. I will cover our progress against all three of these shortly.

But first, I want to explain how sustainability is deeply embedded throughout, as we focus on the key ESG themes where we can make the most difference to both the planet, and to people.

If we are really going to help people secure a life of possibilities, we need to play our part in tackling the climate crisis. This means managing the financial risks that climate change poses to our customers, as well as maximising the opportunities it creates.

We have set clear targets for our journey to net zero, across our investment portfolio, supply chain and operations. With an estimated 24 million tonnes of CO_2 emissions from our investment portfolio, we really can make a difference. And we have made clear progress during the year, with examples including the £15 billion of assets we transitioned to our Sustainable Multi-Asset default fund as we decarbonise our portfolios at scale, the development of our active stewardship engagement approach where we are engaging directly with 25 high-emitting companies that account for nearly a third of our total financed emissions, and with the £340 million of policyholder assets we are investing into an innovative climate solutions mandate.

I am also delighted with the progress we are making to decarbonise our supply chain and operations, with 82% of our key suppliers committed to science-based targets, or Race to Zero based targets. And we have achieved an 80% reduction in the emissions intensity of our own operations since 2019.

As the UK's largest long-term savings and retirement business, we have a critical role to play in tackling the growing pension savings gap. And we are focused on four key levers to help drive change.

The first is raising awareness of the issue. With our think tank, Phoenix Insights, publishing important research that has played a key role in the public debate this year.

Second is helping customers on their journey to and through retirement. Here we are uniquely placed to help millions of customers by developing innovative products and services that support their evolving needs.

Third is promoting the role of good work and skills, as people can only save if they are earning. And for this, they need to stay in good work for longer. We are therefore advocating strongly for change in working practices and lifelong learning. As an employer, Phoenix is committed to being an exemplar, age-friendly workplace.

Finally, we must advocate for and support societal change. With Phoenix Insights active across a range of issues during the year, such as the reform of the state pension and the debate on economic inactivity.

Delivering at scale on our key ESG themes is embedded into our strategic priorities, which you will see as I turn to our progress across each of these. Starting with optimising our in-force business.

I am pleased that we have delivered a further £700 million of management actions during the period. As we continue to deliver a range of balance sheet efficiencies, which remains a differentiating capability for us, and also delivered further ReAssure integration synergies.

Our comprehensive risk management approach means we remain as resilient as ever, with both our long-term cash and solvency surplus protected. And we are continuing to broaden our asset management capabilities, enabling higher returns, and investing in a sustainable future.

We are also growing organically, and through M&A. With the ongoing development of innovative products and services supporting the growth of our Retirement Solutions business. And our capital-light fee-based Workplace business continues to go from strength-to-strength, with £2.4 billion of net fund flows in 2022, an eleven fold increase year-on-year.

The Standard Life brand is firmly back in the market, and I am delighted that we are not only retaining our existing schemes but winning new schemes of all sizes.

We are also executing on M&A, with the Sun Life of Canada UK acquisition expected to complete in April, and the ongoing assessment of further M&A opportunities.

And finally, we are continuing to engage people in better financial futures. With examples including the launch of our financial inclusion strategy, and the introduction of Phoenix Insights Longer Lives Index.

Underpinning all of this is the work we are doing to enhance our operating model and culture. With further progress made on our Standard Life migration, and the recent announcement that we will transfer all 3 million ReAssure customers from the Alpha platform to TCS BaNCS, which will improve the customer experience and will deliver a further £180 million of net cost synergies.

Our work on talent and culture also continues at pace, and it is pleasing that we now have gender balance on both our Group Board and Executive Committee.

Finally, we continue to lead as a responsible business. With a comprehensive cost of living support package for our colleagues, and 42% of our colleagues actively engaged in supporting local communities.

So clear progress across all three of our strategic priorities. And with that, I will now hand you over to Rakesh, who will cover the financials in more detail.

2022 financial results

Rakesh Thakrar, Group Chief Financial Officer

Thank you, Andy, and good morning everybody.

While there is a lot to cover today, there are two key messages that I want you to take away from our results. The first is that our Group in-force long-term free cash is growing, with a £300 million year-on-year increase to £12.1 billion, which enables us to pay a dividend that is sustainable and grows over time.

The second is that, despite the unprecedented economic volatility last year, our capital position remains highly resilient, with our Shareholder Capital Coverage Ratio having increased to 189%, and which provides us with significant capacity to invest into growth.

So, turning to the financial results. As Andy said, Phoenix has delivered a strong financial performance in 2022. We delivered another year of resilient cash generation, maintained our strong solvency balance sheet, and delivered record incremental new business long-term cash generation. This has enabled the Board to recommend a 5% dividend increase for the year.

Our IFRS operating profit also remained strong at £1.2 billion. But we have reported an IFRS loss after tax and this has increased our Fitch leverage ratio to 30%. I will cover this in more detail later.

Starting with cash. We have delivered just over £1.5 billion of cash generation in 2022, which exceeded our target range of £1.3 billion to £1.4 billion for the year. This included around £600 million of management actions. And importantly, the free surplus in our life companies has remained strong at £2.3 billion.

Phoenix's business model is designed to deliver high levels of predictable cash generation, which enables us to set very clear targets. We are again setting a one-year target of £1.3 billion to £1.4 billion in 2023, from our current in-force business. And we are now including future new business in our three-year cash generation target, given our sustainable organic growth with an increased target of £4.1 billion.

And our confidence in the future organic growth, is clearly demonstrated by our first ever incremental new business long-term cash generation target of £1.5 billion per annum, by 2025.

I wanted to repeat this chart that I showed at the half year results, to reiterate how cash generative our business is relative to other companies in the FTSE 100 index. Cash is easily comparable across industries and so it is a good metric for investors. Over the next three years we expect to generate £3.1 billion of Free Cash Flow, which translates into an impressive three-year average Free Cash Flow yield of 16%, double the FTSE 100 average.

This slide sets out the expected sources and uses of cash generation over the next three years, assuming we refinance our debt on the call date or at maturity. This includes our planned integration costs and the cash funded acquisition of Sun Life of Canada UK, which we expect to complete in April. It shows that we expect to generate about £1.5 billion of surplus cash over that period. This is a significant amount of cash that is available to invest into our range of growth opportunities.

Group in-force long-term free cash is a measure of the cash that will be available to our shareholders over time, from the business we have on our books today. It is calculated net of the cash needed to service and redeem all outstanding debt, and after deducting committed integration costs.
Not only is this cash balance huge, at £12.1 billion, it is growing. And this means that we can sustainably fund our increased annual dividend cost over the very long term.

The key drivers of the £300 million growth in Group long-term free cash are shown on this slide. This demonstrates that our new business and Own Funds management actions, more than offset our annual uses of cash, which includes investment into growth. And a growing business supports our policy of paying a dividend that is sustainable and grows over time.

Turning now to resilience. Our Solvency II capital position remains strong, with a surplus of £4.4 billion, which, as ever, reflects the accrual of our recommended final dividend.

We have also seen an increase in our Shareholder Capital Coverage Ratio to 189%. This is currently above our target range of 140% to 180%, which means we have plenty of capacity to invest into both organic growth, and M&A.

Looking next at the moving parts in the year. We continue to generate high levels of surplus emerging from our in-force business and have reported another year of management actions over-delivery.

Our strong capital position enabled us to repay the £450 million Tier 3 bond that matured in July and invest nearly £300 million of capital into BPA.

Given the market volatility experienced last year, our economic variance was relatively small, at just £0.4 billion. And importantly, this was in line with our published sensitivities, which demonstrates that our hedging worked as we expected it to, despite the unprecedented economic turbulence.

As I have explained previously, our hedging approach does result in Own Funds volatility. This is a trade-off we accept, to deliver sustainable and resilient dividend over the very long term.

We manage £259 billion of assets on behalf of our customers and shareholders. Importantly we hedge our annual management charge fees, which means our revenue is broadly unaffected by the recent market movements and fall in asset values.

We maintain a prudent, diversified £31 billion shareholder credit portfolio, comprising both of liquid and illiquid credit, with a BBB exposure of just 19%. We also remain conservative in the sector positioning, with only 3% of our credit portfolio exposed to cyclical sectors, which have an average credit rating of A minus.

And we retain a small commercial real estate lending exposure, but have no equity investments, and therefore no exposure to the decline in these indices seen last year.

The ongoing development of our asset management function also enabled us to deliver another year of strong illiquid asset origination in competitive markets.

Turning now to management actions. Our ability to deliver value-accretive management actions is a key differentiator for Phoenix, and optimising our in-force business is one of our key strategic priorities.

We continue to demonstrate our capability here, with £739 million of management actions delivered in the year. The majority were from recurring business as usual actions, which are not reliant on integrations. This included a range of ongoing balance sheet efficiency actions that is a unique capability of Phoenix, as well as further illiquid asset origination and optimisation of our liquid credit portfolio.

We also delivered a further £169 million of M&A integration synergies from ReAssure.

We continue to simplify our business through our integrations. We have made good progress with the Standard Life migration to TCS BaNCS. And we also recently announced that we will be transferring all 3 million ReAssure customers from our in-house Alpha platform, to TCS BaNCS as well. This will improve the customer experience and enhance the long-term cost efficiency, with a further £180 million of net cost synergies now expected from the ReAssure acquisition.

Moving next to growth. I am delighted that we have delivered record incremental new business long-term cash generation of over £1.2 billion in 2022.

Retirement Solutions remains the largest contributor at £934 million, with another strong year. The contribution from our fee-based businesses increased 28% year-on-year to £299 million, primarily due to a strong performance in Workplace.

The investment we have made into our capabilities is now delivering sustainable organic growth, and we are confident of continuing this going forward.

Having firmly established ourselves as a key player in the BPA market in 2021, we have since been executing on our strategy to optimise our capital and deliver stronger returns.

I am therefore pleased that we have been able to maintain a stable level of new business long-term cash generation, with 20% less capital invested, which has supported us in driving an improved cash multiple of 3.4x, and a mid-teens IRR.

This equates to a capital strain of 5.8% on a post capital management policy basis, down from 6.5% last year, with a pre-CMP strain of 3.2% that positions us competitively in the market. Looking forward, we are quoting on a significant pipeline of opportunities.

We continue to target the deployment of around £300 million of capital per annum into BPA, and we will maintain our pricing discipline through prioritising value over volume.

I was particularly pleased to see the significant increase in the net fund flows in our Workplace business. We delivered a net inflow of £2.4 billion in the period, compared with a £0.2 billion last year, as we retained our existing schemes and benefitted from new joiners. Importantly, this improvement in net fund flows is also translating into increased long-term cash generation, with a 53% year-on-year increase to £212 million.

We also won 76 new schemes during the year, totalling £2 billion of assets that will transfer to us in the next 12 to 24 months.

The momentum in this business is clear, and I am confident that we will deliver strong growth in both net fund flows, and new business long-term cash generation, over the coming years.

Turning to our IFRS results. We delivered operating profit of over £1.2 billion in 2022, marginally up on the prior year.

Other non-operating items include our integration costs, further IFRS 17 implementation costs, and the planned investment into projects to support our organic growth strategy.

We experienced sizeable adverse investment variances under IFRS, due to the significant rise in yields. This is caused by the accounting volatility from our hedging approach of protecting the solvency balance sheet surplus, and also an accounting mismatch related to the buy-ins of our own Group pension schemes, which have driven a significant IFRS loss after tax. And this, in turn, increased our Fitch leverage ratio to 30%.

However, we remain within our target operating range, with our level of outstanding debt appropriate for our highly cash generative business.

Turning now to IFRS 17. As we have said many times before, IFRS is not our primary reporting framework. Instead, we run our business for solvency and cash, which is what delivers our sustainable dividend. Therefore, the IFRS 17 accounting change is not going to impact our business strategy, our financial framework KPIs. It does not change the underlying economics of our business. And it has no impact on our dividend paying capacity either.

We currently expect the move to IFRS 17 to have a broadly neutral impact on our shareholder equity as at 1st of January 2022. With an increase in equity due to the accelerated profits in our with-profits business, broadly offset by the deferral of annuity profits and the de-recognition of our acquired value in-force asset.

We also expect to establish a contractual service margin of at least £2 billion at transition, which primarily reflects our growing annuity business. We expect this to run off at 6% to 8% a year, but it will grow as we write new business.

Finally, we plan to report our 2023 half year results on 18th September, which will be our first formal reporting under the new standard.

So, to conclude, we have delivered strong financial results in 2022, across our financial framework of cash, resilience and growth.

Our Group in-force long-term free cash increased to £12.1 billion, which is proof that Phoenix is a growing, sustainable business and we have set clear targets for 2023 and beyond.

This will support us in delivering on our dividend policy, which is to pay a dividend that is sustainable and grows over time.

With that, I will now hand you back to Andy for the outlook.

Outlook

Andy Briggs, Group Chief Executive Officer

Thank you Rakesh. So Phoenix has a simple, clear, and differentiated strategy, which is focused on the UK long-term savings and retirement market.

Our in-force business is the £260 billion of assets that we look after for our 12 million existing customers. And it provides us with three unique competitive advantages.

The first is capital efficiency, where we get greater diversification from our breadth of in-force products.

Second, we have an unrivalled level of customer access. With around 1 in 5 UK adults being a Phoenix Group customer. This provides us with a clear, organic growth opportunity and that is embedded in our business.

And thirdly, we have a significant cost efficiency advantage. Enabled through our customer administration and IT partnership with TCS, and our focus on delivering a simplified operating model.

Our scale in-force business is also highly cash generative, and provides surplus cash, that we can reinvest into growth.
Organic growth comes primarily from meeting more of our existing customers' needs, as they save for, transition to, and secure an income in retirement. We will also acquire new customers, who we can then help through their lifecycles.

And we have attractive M&A growth opportunities too. Where we acquire customers at scale and deliver better outcomes for them. And in the process, we transform the acquired businesses to deliver significant cost and capital synergies.

So if delivering our purpose, is all about helping customers journey to and through retirement, then our starting point is customer needs. This chart illustrates a typical customer's lifecycle, showing the long-term savings and retirement products they are likely to need.

Our competitive advantage here is our existing customer base. With 1 in 5 adults who will journey through this lifecycle, already Phoenix Group customers. So there is a huge opportunity for us, to meet more of their evolving needs, as we build and enhance our capabilities. Particularly in retail savings, pension consolidation, and drawdown markets.

This slide demonstrates the sheer size of the growth opportunities that stem from those customer needs, across both the long-term savings, and retirement markets.

Looking at the savings side, defined contribution workplace pensions are the single largest, long-term savings product in the UK, with annual flows of around £40 billion to £50 billion. And with the UK having near full employment, and higher inflation driving higher salary increases, we would expect stronger Workplace contributions going forward.

There is also a huge Retail market, which spans individual savings, pension consolidation, and income drawdown, with a further £80 billion to £100 billion of annual flows.

We operate across most of these markets today, through our Standard Life branded Pensions and Savings business, with £82 billion of assets. And this is an area where we are building capabilities, to take an increased share of flows over time.

On the retirement side, we continue to see defined benefit pension scheme de-risking, through BPAs, as a sustainable growth opportunity over the medium term, with annual flows of £30 billion to £60 billion expected.

This is a market where growth is being accelerated, with higher interest rates improving the funding positions of many schemes, enabling them to consider a buy-in, or buy-out, earlier than expected. We have scale in this market too, again through our Standard Life brand, with £33 billion of assets.

These markets are structurally growing, and the opportunity for a scale player like us, is clear. We set out our strategies across all of these markets in detail, at our Capital Markets Event in December. And we are now focused on executing, to drive sustainable organic growth.

M&A, both large and small, also remains a core part of our growth strategy, with £470 billion of UK Heritage assets potentially available over time. I continue to have my regular cups of tea with my fellow insurance CEOs and the message from the majority of them remains very much one of, when, not if.

We stand ready to consider our next deal, enabled by the scalable TCS BaNCS platform, which can seamlessly manage multiple migrations concurrently.

Indeed, we believe that the drivers of backbook consolidation have been accelerated in the current economic environment. With the owners of these backbooks getting lower revenues, due to lower asset under management fees. And who are struggling with higher costs, due to the impact of inflation.

We will also consider small, bolt-on, capability-based M&A, if it has a strategic fit and where it can help accelerate our new business growth.

I am expecting 2023 to be another exciting year of progress for Phoenix, as we execute against our three strategic priorities.

We will optimise our in-force business, by continuing to deliver value-accretive management actions, by diversifying our asset portfolio. And by staying true to our risk management approach, that delivers our resilience.

We will also continue to grow organically, across our Retirement Solutions, and fee-based businesses. And inorganically, with the completion of the Sun Life of Canada UK acquisition, and through actively assessing further M&A opportunities.

All of which is underpinned by the work we do to enhance our operating model and culture. As we deliver our ongoing migrations, develop our internal talent pool, and execute on our regulatory change agenda, including IFRS 17, and Solvency II reform.

And sustainability is embedded throughout. With our strategic priorities informed by, and in support of, the key ESG themes, where we can make the most difference, to both the planet, and to people.

Here we will publish our Net Zero Transition Plan in May, which will set out the specific actions we will be taking across our investments, operations, and supply chain, to manage the risk of climate change to our customers and deliver on our net zero targets. While continuing to engage people in better financial futures, with a target of reaching 4 million people with an awareness campaign, on longer lives, and under saving for retirement.

And we will lead as a responsible business, with meaningful progress towards delivering our sustainability targets, including for DE&I.

In summary, Phoenix is a growing business. Our chosen markets are huge, and structurally growing.

We have three unique competitive advantages, of capital efficiency, customer access, and cost efficiency that come from our in-force business, and are hard to replicate, which means that we are confident that we can, and will, win in our chosen markets.

And this will support us in continuing to deliver on our financial framework of cash, resilience and growth. That means our dividend, which offers an attractive 8.5% yield today, can be sustainably funded with the resilient cash from our current, in-force business, over the very long term. And that it is now growing, both organically, and through M&A.

And with that, we will now move to questions. So, we are going to start with questions in the room. If you can raise your hand if you have a question, we will get you one of the roaming mics to you. If you can state your name and institution, maybe one of you will be brave and ask two or four questions rather than three, we'll see.

And then for anyone watching on the webinar, please use the, go on you go for it Rakesh, you use the Q&A facility and we'll come to your questions after we have answered the questions in the room.

So I will take a seat as well. I did promise everyone at the last Capital Markets Event that this was going to be the Rakesh show, so most are going that way yeah. Right, where are we, should we start at the front here Andy.

Q&A

Andrew Sinclair, Bank of America

Thanks. It's Andy Sinclair from Bank of America. I'll just stick with my usual three thank you. First, just on new business contribution to the medium-term cash target, firstly can you just confirm how much did new business include? And actually now that you are including that in your targets, what would it take to include it in your dividend policy – to include that new business over the next few years to give a progressive policy?

Secondly, IFRS, you said it didn't really affect your business planning, but it does affect your leverage calculation, your Fitch leverage ratio, it looks to me like your leverage ratio might actually look a bit better on an IFRS 17 basis, does that change how you think at all about debt issuance – or basically how does IFRS 17 change your thinking on debt?

And third was just on M&A. It feels to me like the last few years have maybe been a bit more tilted towards talking about small bolt-on M&A, it feels to me like it's maybe a bit more balanced, including kind of larger M&A in the discussion again. We haven't seen many smaller bolt-on acquisitions. You said "when" rather than "if", but what is it taking to bring some more of those to the table? Thanks.

Andy Briggs, Group Chief Executive Officer

Sure. So Rakesh, do you want to take the first two and I will take the third?

Rakesh Thakrar, Group Chief Financial Officer

Yes. So starting with the cash target. So you know we announced a three-year cash target of £4.1 billion, you know that's a huge amount of cash to deliver, last year our three-year rolling was £4 billion. And that as you know gives us a Free Cash Flow yield of 16%. We have included new business within that £4.1 billion. And that represents roughly about £0.2 billion, because the new business that write will be run off over the period and during that three-year period it will be roughly £0.2 billion. But as you know that certainly we do have a new business incremental long-term cash generation out there, by 2025 we expect to get £1.5 billion. So we are really confident on delivering that.

And in terms of the dividend, you know, we currently have a policy that is sustainable and grows over time, that is appropriate for Phoenix, you know certainly when the Board sit down, we will review that dividend every March to see how the company has performed in terms of its growth ambitions. But certainly where I sit here today, I am confident in the future on that.

Second, your IFRS question, so currently our Fitch leverage ratio is at 30%. What we have heard from Fitch, and this is yet to be – you know confirmed absolutely – but what we have is that certainly there will be no rating impact from the move to IFRS 17, because the change in accounting standard should have no impact on the underlying business. And they said they will include the CSM at least as a minimum into their calculation.

So when I actually play all that through it ends up being that - if you looked at the numbers that we have provided on IFRS 17 and take and re-perform the leverage calculation you'd probably end up at broadly the same, same amount on IFRS 17.

So certainly – ultimately IFRS 17 is not our primary reporting framework, our focus is on cash and resilience and therefore you know the amount of cash that we have, the fact that we grew the long-term free cash in-force to £12.1 billion, means that I am comfortable with the leverage that we have today. Andy.

Andy Briggs, Group Chief Executive Officer

Thanks Rakesh. So on M&A, you're absolutely right Andy, we are interested in smaller bolt-ons, or in larger M&A, but both would be core parts of the strategy. We are kind of ready and keen and enthusiastic to look at the next M&A opportunity, obviously focused also on getting Sun Life of Canada UK completed early next month.

And I think it probably is fair to say that when you've just done the Standard Life deal and the ReAssure deal there is a period where you probably want to break the back of getting those integrations done before you took something large on again. But we are pretty much through all the main – or most of the main effort of those big integrations. We have now got the ability with TCS BaNCS to run multiple migrations concurrently. So we are definitely sat here keen and enthusiastic.

And I mean just to give a little bit more colour on the drivers that I talked about in my presentation. So we definitely feel optimistic in terms of the outlook for M&A. And that is because, as I say when I go and have my cups of tea on a regular basis with the CEOs of the groups that own these backbooks, large or small, they always talk about liking the predictable steady cash flow - it gives them cash that they can invest into growth, but recognising being a closed book that runs down at you know typically 6% a year. And so ultimately, you've got to get 6% out of your cost base a year just to stand still, if you don't you'll be capitalising a higher level expense reserves and won't get the cash flow and dividend out of that business.

So there is sort of two challenges to that going on at the moment. One is it is harder to cut your costs by 6% a year with inflation at 10%, that becomes more challenging. And then secondly, as you know we hedge out the impact of markets on our assets under management and our assets under management fees, but if you don't do that and your assets under management have come down with these market conditions and the revenue side of that cash flow is going to be lower as well.

So we are optimistic and confident on the outlook, but there are a finite number of these books out there. So what we can't do is predict which deal might happen and when it might happen. But we are absolutely sat here, keen and enthusiastic and ready to go when opportunities come along.

Should we come along to Rhea here, I'm going to go across the front row and then we'll zigzag back.

Rhea Shah, Deutsche Bank

Thank you. Rhea Shah, Deutsche Bank – three questions from me. So how should we think about management actions going forwards? So within that £4.1 billion, what level of management actions are you building in for '24-'25 and then how should we think about that going forwards as well, after that?

And then the 5.8% new business strain, is that a level that you want to hold around, or better that number going forwards as well, or should we continue to build in around 6% instead?

And then thirdly the non-operating cash outflows that you had of £395 million, what was in that number? Was it mostly restructuring costs, or was there something else going on within that number?

Andy Briggs, Group Chief Executive Officer

Okay, we're hitting a balance here, it's two Rakesh and one Andy so far on both of these. So I'll take the second of those in terms of the BPA new business strain. So delighted with the work that we've been doing on that to kind of leverage our capital efficiency advantage that we have from our scale and breadth of in-force business. That's got the strain last year, post capital management policy, down from 6.5% to 5.8%.

Our target is to get down to 5%. And so I would – it can vary a bit from year to year, we were really pleased by getting a mid-teens return on capital on the BPA business last year, but over time we're looking to get that post capital management policy strain down to around 5% from the 5.8% currently.

And I think in particular given the scale of pipeline in the market, I mean we always focus here on value over volume, and we will be disciplined. But I think you know with more and more demand coming into the market and a finite number of direct writers I think generally for the market as a whole the outlook for margins should be fairly attractive. Rakesh, do you want to take the first and the third?

Rakesh Thakrar, Group Chief Financial Officer
Yeah, so starting with the management actions. So I think generally I would certainly in these targets here and as rule of thumb going forwards I would expect about 30% of our annual cash generation to be made up from management actions.

And if you actually look at our past, you know since we became listed and just added up all the management actions that we've delivered, you can just see that that's a substantial amount. We have an ongoing – you know the fact that we have delivered these on an ongoing basis. So going forwards, you know 30% seems an appropriate number to use.

And then on your third question about non-operating cash flow, you're absolutely right, it's a lot of project recharges, which includes the transformation, transition, integration that we're doing on moving the Standard Life policies to Diligenta. Also costs on IFRS 17 and investment into our growth strategy.

Andy Briggs, Group Chief Executive Officer
We'll go to Farooq.

Farooq Hanif, J.P. Morgan
Thanks very much. Probably three for Rakesh, but we'll see.

Andy Briggs, Group Chief Executive Officer
Suits me.

Farooq Hanif, J.P. Morgan
So the first one, just going to Rhea's question on the £4.1 billion and the management actions. Can you remind us of the really big blue-sky things that are not included generally in your management actions, but you have spoken about before as longer-term opportunities and what that could mean, qualitative, or quantitatively?

Secondly, you know looking at your cash position, obviously that has dropped because of the debt call, the £450 million, are you – going back to your question of leverage, now if you – are you happy that from that £1.5 billion that you are going to generate that – I mean do you feel that you need to reduce more debt and are you happy that you would have the cash to do that, given that your HoldCo position has dropped quite a lot?

And the last one was on – you mentioned capability-based M&A, actually it's probably more of an Andy question – could you talk us through what that means, and you know, presumably that doesn't mean capability in bulks?

Andy Briggs, Group Chief Executive Officer
Yes, so I'll deal with the last one and Rakesh will take the first two. So what we are focused on there is, are there areas where we could just accelerate our organic growth strategy through a capability-based M&A. We are clear we don't need to, all the things we want to

do in our organic strategy we could do ourselves. I think it's unlikely to be anything in the BPA space because I think we've got strong capability there, we're already a top 3 player in that market.

Also, just to be clear I think we are unlikely to be buying big troops of advisors, or we are unlikely to be paying out for a platform. It will be more whether there's you know – very small capability based that might enable us to get better CRM systems around our existing customers, or propositions to engage our 12 million customers that then helps us to get more of them engaged with us on that journey to and through retirement.

So it will be very modest capability based. We don't need to, but we are open minded to that if there are opportunities available that would accelerate and speed up the organic growth strategy.

Rakesh Thakrar, Group Chief Financial Officer
Let me take the first two. Let me start with management actions. And it is probably just worth putting it into context, you know the £739 million that we actually delivered this year. So £295 million of that was normal balance sheet – you know what Phoenix is well known for. And that will continue.

The fact that we are getting these businesses together, we put them on our platform. But as we then drive efficiencies, the single best way of doing things I can see that continuing going forward.

And then as you know, we are invested in building our asset management function, Mike Eakins is doing a fantastic job in delivering on that. So if you actually look at the other management actions that we've delivered it's on optimising our liquid credit portfolio. So not only – we know on the illiquid side, and we are all aware of the illiquid and the 70 basis points uplift that we get on that. And then we're trying to get a level you know at least 40% in terms of matching our backbook annuities. But if you then think about the potential on the corporate credit side and illiquid that is huge and that was £141 million this year.

So there is a lot there to go after, plus we'll get the ongoing – the future benefit in terms of the savings on the fact that we are moving the Alpha platform onto BaNCS, which will come as cash. You know the savings will come over time as well because we are taking the costs up front. So there is a number of areas there that we're still – you know lots to do.

On the second one about the debt. Now if you think about – you know we repaid £450 million this year, which is a significant amount. So the debt has dropped from £4.6 billion to about £4.1 billion. Our in-force long-term free cash has gone up from £11.8 billion to £12.1 billion. So you can just see the total cash in the business is going up, debt is going down. I am more than comfortable with that.

Clearly going forwards we will look at that. And as we are growing business, we'll still need to operate within that 25% to 30% Fitch leverage, which is the intention to do. And therefore that will mean refinancing some of that debt. That is true. But key is the amount of cash in the business, which is growing.

Farooq Hanif, J.P. Morgan
Thank you.

Andy Briggs, Group Chief Executive Officer
Abid?

Abid Hussain, Panmure Gordon
Hi, thanks – it's Abid Hussain from Panmure. Two questions for me if I can. So one on BPAs, I'm just wondering what's your appetite here for large or mega deals that potentially might come to market this year or next year?

And then the second question is on TCS. You have migrated the ReAssure policies, I'm just wondering is there another batch that you could potentially migrate to TCS, is there another meaningful batch that might come down the road to generate some more cost saves and cost efficiencies?

Andy Briggs, Group Chief Executive Officer
Okay, so I think they're both for me, actually. So, just on the BPA, so, kind of, Plan A for us is to invest around £300 million of capital into BPA business, which would, in a 5% strain, mean us writing about £6 billion. But we have developed the ability and did some quota share reinsurance last year, we've also established a reinsurance entity, Phoenix Re in Bermuda, which gives us some optionality around reinsurance and third-party capital. So, we would explore some of those areas.

The £300 million's not a hard and fast number. So, in 2021, we invested £360 million, the opportunities were there, it's very much driven by value not volume and the returns we can get on capital.

I loved the way you said you've migrated the Alpha policies, we've announced the plan to migrate them over the next three years. The hard work starts here.

So, sort of, think about, you know, I mean, three, kind of, groups of customers, not that dissimilar in size to each other – Phoenix Life, Standard Life, ReAssure, yeah. So, Phoenix Life, most is already on TCS BaNCS but there are a couple of areas we're still moving customers across, and that's in train. Standard Life, we've moved the first 400,000 across last year, which was fantastic, the first migration off that old Standard Life mainframe, so delighted to have done that successfully. The rest are to come over the next two or three years. And then we're starting the programme of work on the ReAssure side. So, in reality, that's all going to keep us pretty busy with TCS for a period of time.

The Sun Life of Canada UK deal, the half a million customers there, the vast majority of those are already on the TCS BaNCS platform, so that was, kind of, quite handy really. It makes that stage of it very straightforward for us.

Abid Hussain, Panmure Gordon
Super, thanks.

Andy Briggs, Group Chief Executive Officer
Thomas?

Thomas Bateman, Berenberg
Hi. Good morning. Thomas Bateman from Berenberg. Just one question for me, just on Workplace. £2 billion of net inflows, you talked about winning, I think, 70-odd new schemes – what does that number look like in terms of, kind of, a recurring amount? Should that be up? Is that a high number, the £2 billion, or should expect that to grow pretty strongly?

Andy Briggs, Group Chief Executive Officer
Okay, so the £2.4 billion net fund flows is, basically, made up of the kind of, in-force premiums that are ongoing, then the new business in the year offset by the outflows, yes, you've, kind of, got three components building that up. And last year, we both reduced the outflows, basically, because we've invested in the proposition, the proposition is much stronger, our existing clients want to stay, they don't want to go, and then we're winning lots of new clients in the market.

Last year, in terms of the new schemes we won last year with about £2 billion of assets, we expect that to fund over the next 12 to 24 months. So, hardly any of that's already in that £2 billion, and that £2.4 billion of net fund flows for last year, that's still to come.

I wouldn't want to put a specific number around that new scheme wins going forward. I mean, the guys had a particularly successful year last year, again, we'd be focused on value not volume, but we've set a target, by 2025, of getting the net fund flows up to £5 billion in Workplace – we're at £2.4 billion last year. And I'd say we sit here very confident that we will deliver on that target and hence that part of the business's contribution to the £1.5 billion new business long-term cash generation target for 2025.
So, the outlook on organic growth, really pleased with the progress last year and very optimistic of the outlook going forward.

Do you want to go back to, in fact, along to Ashik at the end and then we'll come to you, Gordon, yeah?

Ashik Musaddi, Morgan Stanley
Yeah, thank you, and good morning. Just a few questions I have. So, first of all, I mean, if I look at the £4.1 billion number, Rakesh, you mentioned 30% is management actions, so that's £1.2 billion, so it's kind of organic, you're saying it's £2.9 billion whereas your backbook is £800 million a year, so that's £2.4 billion, so that is the £500 million? I mean, organic growth over 3 or 4 years of £500 million is 25%, that's quite a lot, so it would be good to get some colour about this £500 million.

The second is, I mean, clearly, you showed a slide where you mentioned that the firepower of growth is about £1.45 billion, now I guess we need to strip off £900 million for annuities into that, so that leaves a Holding Company cash of about £0.5 billion at the end of 2025, which I would, kind of, assume that you would need to hold to make sure that the dividend is sustainable in the long run. So how do we think about M&A budget within that? I mean, would you say that, at least at the moment, there is not much of M&A budget left, or how do you think about that?

And, thirdly, can we just get some colour about the revenue margin for Workplace pensions and the Retail savings that you are winning these days, just revenue margin would be great? Thank you.

Andy Briggs, Group Chief Executive Officer
Okay, I think they're probably all for you, Rakesh. I can pick up revenue margin if you don't want to, it's up to you [laughter]. We don't quote revenue margins.

Rakesh Thakrar, Group Chief Financial Officer
All right, let me start with the £4.1 billion. So, yes, broadly, I said, you know, 30% is the rule of thumb on management actions and, if you do the maths, you know, £800 million organic. But what you would expect is, as you then continue to write some new business, that will add on to the £800 million. But broadly, yes, you know, there is a difference, and we expect that difference to either come from outperformance because, if you actually looked at what we've done previously, you know, we aim to outperform, you know, Andy sets me those stretching targets, so I aim for outperformance. But also, you know, we've got the £2.3 billion surplus sitting in the life companies that we will slowly start taking to HoldCo for us to use for various reasons of which delivering cash generation and M&A, for example, may be one. So, that, hopefully, gives you a better insight into that.

Second, on the firepower, I mean, you know, £1.5 billion is a lot of cash, you know, that will be the first thing, you know, can sit back, as a CFO, and say, you know, you've got £1.5 billion to spend on various growth opportunities. Admittedly, you know, we're saying we want to invest about £900 million over 3 years into BPA, but certainly, as we've always said, we will always allocate capital to which, you know, maximises the returns. So, that may mean we may decide to invest a little bit more or a little bit less on BPAs or M&As depending on the outcome.

And, again, similar to the point about outperformance as well, due to the extent, you know, we do outperform our targets, that will come and increase that number as well. And then, generally, in the context of M&A, you know, you've seen previously, you know, the fact that, in 2016 with the AXA deal, you know, we got cash out of that acquisition within six months, you know. So where you've got targets where you can see the synergy, you can see the repayment profile, I'm happy to lever up to more than 30% if I can see a clear plan to get back down.

You know, taking ReAssure as another example, you know, we knew, when we acquired that business, was, you know, cash generative, you know, we pretty much got all the consideration out as cash. So, again, you know, you could structure a deal such that you lever up in the short term and come back down. I'm happy to do that as long as there's a plan to get back to that 25% to 30%.

And finally, on the revenue margin, we don't quote that. Clearly, the fact that we're doing really well, and the team, Colin and the team are doing a fantastic job on the Workplace and Retail side, and you heard the guidance that we've put out there for 2025, I'm really pleased on what they're doing and long may it continue.

Andy Briggs, Group Chief Executive Officer
Gordon?

Gordon Aitken, RBC Capital Markets
Yeah. Thanks very much. Gordon Aitken from RBC. Three questions, please. First, on the budget on Wednesday, a bit of talk in the press at the weekend about annual allowance and lifetime allowance being pushed up. What impact would that have on your business?

Second question on synergies. The Sun Life of Canada synergies you said were 50% of the consideration. That's a significant proportion. Just maybe provide a wee bit more detail here. How does that relate to the average in terms of the deals you've done in the past, and where do you get the biggest gain here? And maybe you could just talk about with-profit, non-profit and annuities?

And then the final question is on your in-force long-term free cash of £12.1 billion, just how different is that number to embedded value?

Andy Briggs, Group Chief Executive Officer
Okay. I'll let Rakesh take the third of those and I'll take the first two. So, on the budget and the annual allowance, so what's going on here is that we think there's reasonable evidence that when people in some professions, say, doctors, for example, get to their annual allowance, they then think – okay, I can't pay into my pension any more, I may as well retire.

And what I'm keen, actually more with my other job, my Government Older Workers Business Champion job on, and it's a key part of what we want to do here at Phoenix, we want to create an environment where those that choose to can work for longer. And rather than automatically think – I've hit the lifetime allowance, I should retire – we would like people to stop and think – well, you know, I don't have to. Actually, do I want to carry on working? Do I want to have more income in retirement? Do I enjoy what I do? Should I work more flexibly? – So, that's more the angle on it.

I mean, if we ended up seeing the lifetime allowance increase, it would have a positive impact on our business, but we are a pretty broad church of customers, so not that many of our customers are up at the lifetime allowance limit, we've, kind of, got, you know, more mass affluent rather than particularly just high-net-worth customers.

On the SLOC synergies, so the 50% is not untypical. So, if you take the Standard Life deal, we paid £2.9 billion to buy that, and we've delivered £1.6 billion of synergies. If you take the ReAssure deal, we paid £3.2 billion to buy it and the current synergy target is around £1.3 billion, I think, isn't it, £1.3 billion, yeah, and the earlier deals were, you know, 50%-ish, so that's not unusual.

The gains basically come from a combination of cost efficiencies as we move things to one single best way of doing things, and then capital efficiencies as we apply our capability in managing the balance sheet to drive out the capital synergies as we bring things onto our internal model as we consolidate the legal entities through a Part VII transfer and, you know, a range of other actions of that nature.

And, ultimately, it's what's, you know, particularly unique about Phoenix, is this ability and discipline to migrate to a single best way of doing things, which means we are more capital efficient and we are more cost efficient than others, and that is hugely beneficial in terms of synergies on M&A.

But it also means that, you know, Andy, Tom and Colin and the guys basically get the benefits of that cost and capital efficiency as they go out trying to drive organic growth, which is why our margins are strong there and we're delivering strong new business long-term cash generation. So, it benefits all aspects of the business. Do you want to pick up the third one?

Rakesh Thakrar, Group Chief Financial Officer
Yeah, the third one, your question was the difference between the long-term free cash, in-force long-term free cash, and embedded value. There are probably a number of areas where they're different, but I'll just highlight the few big ones.

So, first of all, it's undiscounted, you know, so that's a big difference. Second, you know, we take a reasonable look at, you know, where the cash will emerge from, and we do believe, you know, as I've said previously, that, you know, something like Own Funds it's probably more prudent. So, for example, the undiscounted cash flow, the long-term free cash, will include the release of the fundamental spread in the numbers, as well as, you know, the risk margin over time net of TMTP. It also will include real world returns allowing for our hedging that we do as well. So, just to give you what is more of a realistic number, that's undiscounted.

Andy Briggs, Group Chief Executive Officer
Nasib?

Nasib Ahmed, UBS
Thanks. Nasib Ahmed from UBS. So, the first question on the £2.3 billion of free surplus in the LifeCos – how much of that is liquid, if you can give us a percentage or a number, as at full year '22 or as of now?

And then the second question on ratings, so, would you consider getting a second rating, and what are the costs and benefits of doing that? I could think of one benefit, you could raise debt at a lower coupon for M&A.

And then, thirdly, on the TCS contract, is that inflation protected? I know it's evergreen, but what inflation clauses do you have in that? Thanks.

Andy Briggs, Group Chief Executive Officer
Okay. I'll take the third of those and Rakesh take the first two, yeah?

Rakesh Thakrar, Group Chief Financial Officer
Yeah. Just on the first one, I didn't quite get all the question, so the free surplus in LifeCos was £2.3 billion -

Nasib Ahmed, UBS
How much of that is liquid versus future profits as of full year '22?

Rakesh Thakrar, Group Chief Financial Officer
Liquid versus future profits?

Nasib Ahmed, UBS
Yeah.

Rakesh Thakrar, Group Chief Financial Officer

Yeah, so, this number is essentially the amount of cash on top of its capital management policy, so what is in each of the entities that we have, regulated entities that we have within the Group, the amount of surplus above its capital management policy, so it's surplus that is essentially available, yeah.

Nasib Ahmed, UBS

So, with cash you mean hard cash?

Rakesh Thakrar, Group Chief Financial Officer

Yeah.

Andy Briggs, Group Chief Executive Officer

Sorry, I think that the £2.3 billion excess above capital management policy, some of it will be cash, some of it will be future VIF, yeah. We don't disclose the distinction between the two, but, you know, you probably couldn't take all £2.3 billion out tomorrow because some of it's cash but some is VIF, yeah?

Rakesh Thakrar, Group Chief Financial Officer

Yeah, so, I mean, this is a normal balance sheet, you know, it's excess over SCR plus the CMP, that's the surplus number, and it'll be made up of a range of different assets.

Andy Briggs, Group Chief Executive Officer

But the key point is that the £1.45 billion we've just been talking about is HoldCo cash, and, you know, we've got £2.3 billion in the LifeCos beyond that, you know, which obviously gives us some additional flexibility, yeah.

Rakesh Thakrar, Group Chief Financial Officer

Yeah, and the second question then on the ratings, so, we've looked at this a number of times, and we continue to look at it on an ongoing basis. You know, certainly, the debt that we've raised previously and then what we expect to raise going forward, you know, having just the one rating from Fitch hasn't hindered us at all. So, you know, as it stands currently we're comfortable with one, but we'll keep an ongoing review on the ratings.

Andy Briggs, Group Chief Executive Officer

And then in terms of the TCS contract, so, we, kind of, don't give out the details of this because it's really good, evergreen contract that we can take other business onto. It does contain a significant element of inflation protection for us, so it's attractive to us from an inflation perspective, but any residual inflation risk we then hedge anyway, yeah, so we're kind of protected against inflation with that hedging anyway. Andrew?

Andrew Baker, Citi

Hi. Thank you. Andrew Baker, Citi. Three from me as well, please. First, are there any comments that you could make on the intent of your strategic shareholders, specifically abrdn but then also MS&AD, if there's anything to note there?

Secondly, are there any fee differences between the Sustainable Multi-Asset default fund and what the default fund was previously?

And then, finally, I think it was this time last year you made the comment that you were more likely than not to do a deal in 2022. Are you able to say anything on your likelihood in 2023? [laughter] Thank you.

Andy Briggs, Group Chief Executive Officer

I'm surprised you succeeded in getting me to make that comment a year ago actually. I don't recall saying it. I mean, on the final one, I would say, you know, we are optimistic about the outlook for the reasons that I've said in terms of the drivers, but there are a finite number of these books that make up this £470 billion of closed booked assets for the UK, so I can't sit here and predict which deals and what timing. You know, over time, we are confident there will be deals and we're confident that we can drive significant value from doing those deals.

On the first question, so MS&AD have a conscious strategy of diversifying their earnings from Japanese GI business by taking stakes in overseas insurers. That's a conscious strategy they've had for a long period of time. They originally took the stake in ReAssure, alongside Swiss Re when the majority was owned by Swiss Re, and, effectively, transferred that stake across into Phoenix Group. And they look at the dividend yield they're getting compared to alternatives in Japan and they love it, basically, yeah, so I think they're happy long-term holders.

In terms of abrdn, I mean, the position here is that this is very much a decision for them. They ended up with a stake as a result of the consideration for buying the Standard Life Life & Pensions business and, you know, you're as au fait with the media commentary around this as I am. What I would say is, you know, we have a strong strategic relationship with abrdn that we expect will continue into the long term.

They have a strategic relationship agreement as a result of having the 10% stake, and it basically gives them a seat on the Board and it gives them, effectively, preferential access to new business assets going forward. If they didn't have that 10% stake, they wouldn't have the seat on the Board, they wouldn't have that preferential access, but they still would remain a core strategic asset management partner, and, effectively, where they're the best at something, they would still get the business, but where someone else is the best at something, then we'd be using someone else. At the moment, it works more in practice that, if they're good at something, they get it, but we're free to use others where they're not good at something, and that benchmark would basically change as a result of that.

And then I've got Colin in my eye line to correct me if I get this wrong, but I believe, as we move from the previous default fund to the Sustainable Multi-Asset fund, not only has it got the beneficial tilting from a sustainability perspective, but I think it is a slightly lower price for customers, and we obviously pass that price entirely onto our customers. Yeah, Colin's nodding at me so that's good. I wouldn't want to mislead.

Right, we'll keep coming along to Alan and then Dom and then go to you, Andrew, yeah?

Alan Devlin, Goldman Sachs

Cool thanks, Alan Devlin from Goldman Sachs. I think both of these are for Rakesh. First of all, just on the hedging, can you remind us what your hedging policy is, do you hedge SCR, Own Funds, surplus, cash? And when you started hedging a number of years ago - your capital position was much weaker, now your, you know, record capital levels, you know, do you change your hedging? Do you think you'd change your hedging strategy at some point because I'm guessing you do have to give away some economics, these hedges aren't free?

And then, secondly on the Solvency II reform, can you remind us, you know, what you think the benefit will be to Phoenix's balance sheet if the rules go through as they are, and, again, will they change any of your policies in, you know, retaining more longevity risk or with a lower risk margin or will they change anything? Thanks.

Rakesh Thakrar, Group Chief Financial Officer

Shall I take both?

Andy Briggs, Group Chief Executive Officer
Go for it.

Rakesh Thakrar, Group Chief Financial Officer
All right. So, starting with the hedging. So, just as a reminder, we hedge out all out all the unrewarded risk that we see on the balance sheet. That includes equities, interest rates, currency, inflation.

And then, certainly, you know, in terms of what we hedge, you know, I think when you look at currency and equities, you're effectively hedging the economics of it, so that's an economic hedge that we do. But in terms of interest rates and inflation, but more probably interest rates, we actually hedge to protect our surplus position. That's surplus over SCR and somewhere between SCR and CMP, depending on the balance sheet.

Now, we continue to review our hedging, but where I am today, it's still right to, you know, hedge those unrewarded risks. You just see how volatile the market is, you know, what it has been in 2022 and, again, you know, just seeing what's happening this morning, it's just volatile out there. And certainly, I think, for Phoenix's balance sheet, to have that resilient cash generation today and reduce the volatility on that long-term free cash in the future, is absolutely right, from my perspective, to hedge interest rates today. So, that'll be the first question.

And the second question on Solvency II reform, so, clearly, the reforms are looking at a number of areas, one is the risk margin, one is, effectively, the amount of fundamental spread that you need to hold, and then third is the eligibility of it.

So, generally, I would say, you know, in terms of overall balance sheet in capital benefit, it's not going to be anything like you've heard previous because most of it gets offset by TMTP in terms of the reduction in the risk margin, and I don't believe a 65-60 to 65% reduction in the risk margin is big enough to change our view on longevity risk of whether to hold any of that.

What it does do in terms of the MA ability is the fact that we now have a wider, potentially subject to how the rules land, have a wider portfolio of assets to invest in, including sustainable assets, which could help us, Phoenix, in delivering its ambitions for net zero and also get a higher proportion of our assets being sustainable and getting our increase to illiquid assets, as I spoke about earlier. But certainly, from a capital benefit, not seeing anything, and not going to change our view on longevity either.

Alan Devlin, Goldman Sachs
Does the reduction of the TMTP, does that help your forward cash generation because you no longer have to amortise as much of that going forward, or is that not material?

Rakesh Thakrar, Group Chief Financial Officer
No, so what will happen is, if it does happen, so, on day one, you'll get a reduction, the risk margin, but you also get a reduction in the TMTP. So, as we then write new business, that will be beneficial, but in terms of the fee-based business, the risk margin's not that big, and for the BPA, it's primarily the longevity risk, but, as I said, the longevity risk is not big enough to change our view on it.

Andy Briggs, Group Chief Executive Officer
Dom?

Dominic O'Mahony, Exane BNP Paribas
Dom O'Mahony, BNP Paribas Exane. Just two, if that's all right. One is just picking up on the regulatory change topic. The regulators made some comments which suggest they're looking at the use of offshore reinsurance in the annuity market. I wonder if you could

give us some sense of how important a change there might be for yourselves, whether, for instance, you think the market will be able to absorb a need to bring longevity risk onshore or, indeed, to stop using quota share for annuities, or use less quota share?

The second question is about coming back to leverage. One thing I've always struggled a bit with is trying to understand whether your plans envisage systematic debt reduction over time, or whether, actually, the growth means that the business can, sort of, maintain its debt position. And I think the question comes down to whether, on an organic basic, you folks expect leverage to reduce or not. Can you just give us some insight into whether, on an organic basis, you think that the development of the IFRS balance sheet, I guess under IFRS 17, means that actually leverage goes up or down over time? I hope that makes sense. Thank you.

Andy Briggs, Group Chief Executive Officer
So, I'll take the first and Rakesh will take the second. So, in terms of the first, the sense I get from interactions with the regulator is, I mean, ultimately, if we originate business, or any insurer originates business and then reinsures it to someone else, ultimately, you're still on the hook, you know, if there's a problem with that reinsurance. So, I think their focus is just making sure that there's the right strength and capability oversighting that reinsurance capability that's sat behind because, ultimately, you're still the primary writer, you haven't sold the business, you're just reinsuring it.

I mean, my own view on this is that reinsurance has a really constructive role to play in insurance because it leads to the spreading of risks and the diversification of risks around different participants within the market, and that's got to be a good thing in the pooling of risks in the world of insurance.

And so, you know, we would envisage reinsurance remaining a core part of the market, but, you know, it's entirely appropriate that the regulator wants to have confidence over the strength of oversight you've got and the strength of the reinsurance counterparties that you're dealing with. Do you want to pick up the leverage point, Rakesh?

Rakesh Thakrar, Group Chief Financial Officer
Yeah, sure. So, I mean, starting back, you know, I think about this in terms of the capital framework, you know, of capital, liquidity and leverage, you know, so you look at those three things in the round, and that's how I think about it, and our aim is to operate within the 25% to 30% of the Fitch leverage ratio. So, trying to look at all three things and operate within that is, ultimately, the answer, here.

So, just let me give you a few scenarios. So, if we weren't growing at all, you would see the absolute debt levels coming down because we would just be reducing over time. If we were growing, you know, you could see that absolute levels could be going up. But I'd try to operate within the range rather than, you know, be at the top of the range, which doesn't concern me because the overall free cash is growing, but I'd like to be operating at the, you know, middle of that range. But I'd be looking at what the capital position is and what the liquidity position is before looking at everything in the round. But generally, that would be the direction.

Andy Briggs, Group Chief Executive Officer
Andrew, I'm really conscious Andrew you tend to sit towards the back, and I tend to start at the front, so you always come late in the day. I promise next time I'm going to start towards the back and get you early on, yeah?

Andrew Crean, Autonomous
Don't worry. It matters not. Three questions, if I can. Firstly, the £4.1 billion of cash remittances which you're forecasting over the next 3 years – could you tell me how much of those are really just the juggling of cash between Life Company and HoldCo as opposed to be, sort of, underlying cash generation?

Second question, you've talked a lot about the £1.5 billion, it's Slide 19, the £1.5 billion available cash remittances, but what you don't put in there is what Rhea was talking about, there's been £395 million of what used to be called non-recurring negatives, now it's called non-operating. Over the last 6 years, that's averaged minus £200 million, why are you confident that there's not going to be further negative non-operating which will reduce the £1.5 billion?

And then the third question is you talk a lot about £12.1 billion of cash in the future and £1.2 billion of cash generated on new business last year, these are undiscounted figures and you're comparing them to the present value of the dividend. Is it not a better look to actually use discounted figures, particularly with the rise in interest rates? And if that's so, could you give us the discounted figure for £12.1 billion and £1.2 billion?

Andy Briggs, Group Chief Executive Officer
I think they're all for you, Rakesh. [laughter]

Rakesh Thakrar, Group Chief Financial Officer
So, let me start with the first one, so the £4.1 billion. So, the question was is this just a toggle between LifeCo and Group? I mean, the way we think about it, Andrew, is, you know, we do have underlying surplus that's generated. You can see that in the free surplus walk, as well as the overall Group walk.

So, what would happen is, you know, all other things being equal, if there was no cash coming out of LifeCo, and this is just giving you the example, is that we will be generating organic surplus from that. So, that £2.3 billion for would be going up for 3 years of organic surplus, plus any management actions that we do as well. And then we'll look to, you know, distribute that to the HoldCo, you know, as £4.1 billion. So, it is what we're generating underlying, which is being pushed up to Group, but, admittedly, some of it is utilising the free surplus that we have currently.

So, we do generate £800 million, and I've said, you know, management actions of 30% a year should be what you're assuming, so that is in excess of, you know, £1.1 billion, £1.2 billion in total. So, that just gives you a sense that is mostly underlying, but there is a small release that happened, that will happen over time.

Second is about the £1.5 billion, the non-operating. So, as you've seen, to derive that £1.5 billion, we've actually allowed for £0.4 billion of committed integration costs in that number. So, if you looked at that walk –

Andrew Crean, Autonomous
But it doesn't include the long track of non-operating losses.

Rakesh Thakrar, Group Chief Financial Officer
No, agreed, but it's got there what we expect. Now, clearly, as we do, you know, look forward and, certainly, you know, there will be projects that we want to invest in such as, you know, which potentially, could improve our performance in new business that we may not get this year but in the future. So, you know, projects to, you know, support our growth business, you know, potentially, would help us in the future and increase that £12.1 billion, you know, certainly.

So, there are areas where we'd look to invest that would help in organic growth, also areas that we'd look to invest that would help in inorganic growth as well, you know, looking at opportunities in Andy's cups of teas, etc., can help with that as well, but, you know, we have had £200 millions in the past.

Some of that's also collateral movements on the hedging that we do, within the Group, so, it's not all expenditure, we hedge the Group debt so to ensure that our cash remains robust, we know exactly what we're paying out. So, some of that also is in relation to Group collateral as well.

So, you know, I get the point, but the fact is, you know, there will be costs that come up through that, you know, will improve the business going forward, and a lot of the committed integration costs are in that number already.

And then the third one about the discounting, yeah, it's absolutely right, you know, the £12.1 billion and the £1.2 billion is an undiscounted number, but we know the dividend is also, you know, is, we've got enough cash today to pay the dividend in our in-force business. So as we write new business, any growth in that dividend is covered by, you know, the future cash that will emerge from the business that we're writing. So, that does match.

But we are looking at whether, you know, our KPIs in our framework whether it may be appropriate to show a different metric, but we will reflect on that.

Andrew Crean, Autonomous
Do you have the numbers now?

Rakesh Thakrar, Group Chief Financial Officer
No, I don't have the numbers now.

Andy Briggs, Group Chief Executive Officer
Larissa?

Larissa van Deventer, Barclays
Thank you. Larissa van Deventer from Barclays. Three. The first one, on IRFS 17, you comment on the neutral impact you expect on the balance sheet, but can you give us some insight to the earnings impact, please?

The second, the second and the third kind of go together, - admirable position to be in to have too much cash, but is there a point where you would consider, at what point would you consider returning that cash if an appropriate M&A or bulk annuity opportunity does not present itself?

And then related to that, how flexible is the £300 million that you've allocated to bulks? Thank you.

Andy Briggs, Group Chief Executive Officer
Do you want to take the first and I'll take two and three?

Rakesh Thakrar, Group Chief Financial Officer
Yeah. So, starting with the IFRS 17, so we saw broadly neutral impact on equity as at the transition date and establishment of £2 billion CSM. You know, going forward, if you think about the drivers of that, you know, one of the areas, as I said, is it was well-known, it's the annuity profits are deferred. So, certainly, you would expect that any annuity profits that we write will be deferred over that period, and that's consistent with what you've heard.

The second element is the fact that, within our total P&L, you know, we amortise our insurance element of the AVIF over time and given that we're writing that off on day one as well, so that will be a positive to the overall earnings result.

So, in summary, it's difficult to say because you have ups and downs. Operating profit, I'd probably expect to be down because you're not capturing new business profits. Overall, P&L, I think it's just wait to be seen how those elements offset. The with-profits bit is probably not that big in the context of everything.

Andy Briggs, Group Chief Executive Officer

And then second and third questions, so, in terms of considering returning cash – so we have a rigorous capital allocation framework, we treat every pound of capital very carefully. I mean, to Andrew's question, anything we're doing, we are looking at discounted cash flows, so we know the numbers and, as Rakesh said, over time, we consider what we disclose but we, kind of, keep it simple to date with the framework we've published externally.

So, we're looking at the return on capital of every pound of capital really rigorously. And, ultimately, you know, the position at the moment is we think the opportunities for both organic growth and inorganic growth at attractive returns on capital are more attractive than the alternative of returning that capital. We've still got lots of good ideas that will create more value for shareholders.

So, while that's the case, that's what we'll do, if that wasn't the case, then, you know, we wouldn't rule out a return of capital, but, you know, because, it would only be because we didn't have higher earning opportunities for that capital.

On the how flexible is the BPA amount of capital, so, as I say, Plan A for us is around the £300 million a year, and the reason is, as we talked about the strategy, we want our organic growth to be balanced between the BPA business and the fee-based capital light business. We want a balance of those. We want to maintain a very resilient balance sheet and a diversified balance sheet, not be any particularly too exposed for any one risk so that we're super resilient. And, of course, we also want to balance our growth with inorganic growth as well, which comes with, you know, different profiles and diversifies us further still.

So that's kind of Plan A, but, ultimately, going back to what I said on the capital allocation framework, if we were in a position as we were in 2021 where there were opportunities to deploy more than £300 million of capital at attractive returns, then we chose to take that opportunity at that point in time.

So, it certainly isn't hard and fast, but, you know, in the context of the overall strategy, the plan would be around the £300 million a year, I wouldn't rule out doing more than that in particular circumstances at a point in time. Steven?

Steven Haywood, HSBC

Thank you. Steven Haywood from HSBC. Two questions. You've got half a billion at the HoldCo company, can you give us an idea or indication of what your buffer capital level is you want to have at the HoldCo? I assume, for me, personally, I assume it's 1x the dividend cover.

And then, secondly, have you seen any concerns or changes in lapses recently? Obviously, with the cost of living, sort of, crisis happening, has there been any sort of real change to lapses on any portfolio of policies? Thank you.

Andy Briggs, Group Chief Executive Officer

Sure. So, I'll take the second and Rakesh take the first. So, in terms of the second, it's something we're looking at really closely because, obviously, the cost of living crisis is, kind of, real and present for people in the UK and is quite a concern. Actually, so far, we have seen no material changes in consumer behaviour at all across our book.

And I think probably one of the key reasons for that is that Workplace pensions are deducted from gross pay before you get to net pay, and I think most consumers tend to look at their net pay and then look at the direct debits and whatever else, Netflix and Sky and everything else, as to decide what to do. And, in many ways, that's probably not a bad thing because, you know, ultimately, it is important people keep saving for their later life, yeah.

So, to date, we haven't seen any material shifts in consumer behaviour. It's actually been more of a focus from our colleagues. So, we did offer all our colleagues other than our 100 most senior managers, £1,000 net payment in August last year. Over the winter period, we were offering free meals in our major sites together with support with travel, and that's been, you know, really helpful. I mean, our colleague engagement score, as you saw in the slides, the net promoter score's up at +30 from +23 a year ago. So, having the best talent, highly motivated about what they're doing is the fundamental thing behind the results that we're presenting today, so that's very important to us. Do you want to take the first question, Rakesh?

Rakesh Thakrar, Group Chief Financial Officer
Yeah. So, this was on the cash, and, you know, I'll probably just tell you about our liquidity policy, so part of the capital framework of capital, liquidity and leverage. You know, in terms of liquidity, we have a framework that tries to operate a 1-in-200 scenario here, so we look at cash that may be available, that's needed overnight or in a 2-week period or, potentially, in a 12-month period, you know. And then, by looking at that, taking into account the inflows, you know, because we get cash from our underlying companies twice a year, we pay dividend twice a year, and then there's also ins and outs. By looking at all that, together with the fact that we do have access to the £1.25 billion RCF as well, so when we're looking at all that in the round, we then set our liquidity policy to make sure we're maintaining that at all times.

Andy Briggs, Group Chief Executive Officer
Are there any final questions in the room here? I see no hands. Andrew, any questions on the webinar?

Andrew Downey, Investor Relations Director
Nothing on the webinar, so I think we're good to close up if there's nothing else in the room.

Andy Briggs, Group Chief Executive Officer
Okay, well, look, that's very much indeed for coming. Great to see so many of you in person. Still a treat after the COVID time when we were all doing it by video, and I'm also conscious, for all of you, as you know, those who are our brokers to companies, you, kind of, wall-cross, normally the night before, and if the results are on a Monday you tend to wall-cross on a Friday evening. And when we spoke to Andy and Steven on Friday evening, they both looked shattered after a week of results, and so hopefully you had a good weekend. But nonetheless, we'll let you get on and do what you have to do. I know it's a very busy time of year for you all, but we'll be around for another 10, 15 minutes probably here if there's any final questions anyone wants to pick up, otherwise, thank you very much indeed, and catch up soon. Thank you.

Rakesh Thakrar, Group Chief Financial Officer
Thank you.

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