2012 Q1 Interim Management Statement - Analyst Call

Wednesday 25th April 2012

Jackie Hunt, Chief Financial Officer

Good morning everyone and thank you for joining us to discuss our Q1 Interim Management Statement. I'm joined today by Paul Matthews, Chief Executive of our UK business.

I'll briefly take you through the highlights of today's announcement and after that we'll be happy to take your questions.

Standard Life has delivered a resilient performance in this first quarter. Inflows in to our long-term savings businesses and a strong performance from Standard Life Investments have helped to increase both Group assets under administration and Standard Life Investments third party assets to record levels.

Although market levels have improved this year, economic uncertainty has had an impact on consumer confidence. This is reflected in new business volumes, which were reduced against a very strong quarter last year. Against this uncertain backdrop our performance during the quarter has been good.

As our industry prepares for significant regulatory changes, we are continuing to build on our leading positions in each of our markets to take advantage of the opportunities that lie ahead. In the first quarter we announced our new auto enrolment solution and have built on the success of MyFolio funds in the retail space by launching a version to meet the demands of the corporate market. Standard Life Investments further extended its wholesale distribution in the US and Europe during the quarter, through significant new distribution agreements.

As a result, we remain confident that we are well positioned to deliver continued strong growth in assets. We expect this, together with our continued focus on efficiency, to continue to drive an ongoing improvement in financial performance.

So, turning to assets, flows and sales:

We have grown assets under administration to a record level during the quarter driven by positive net flows and market movements. Group assets under administration at the end of March reached almost £207 billion, long term savings net flows were £1.1 billion, while new business sales were £5 billion. Standard Life Investments had a good start to the year too, with third party net inflows of £1.1bn.

In the UK, our business continues to benefit from its strength in distribution, excellence of its retail and corporate platforms as well as expertise in tax wrappers and provision of investment solutions. Our UK fee business assets grew 4 per cent during the quarter and we saw fee business inflows of £0.5 billion, which although lower than the strong start to the prior year, were improved against the last quarter of 2011.

Our retail business continues to grow, with good momentum maintained on our platforms. Collectively our platforms now account for more than 200,000 customers, and total assets of £12.6

billion have increased by 25 per cent. SIPP customer numbers increased 24 percent year on year and total SIPP assets increased to over £17 billion. Strong demand for our higher margin investment solutions has helped to drive Standard Life Wealth and MyFolio assets up by 26% to £2.4bn in the first three months of the year. Standard Life Wealth continues to build a strong presence in the IFA market with a 64% increase in net flows into its higher margin propositions. Retention in our older style business has been encouraging and we've seen a growing proportion of customers choosing to annuitise with Standard Life.

Net inflows in our UK corporate business were £0.4 billion and we now have over 1.16 million members in our schemes. We won 43 new schemes in the quarter, including our first major Master Trust scheme. We are very pleased with this performance, which demonstrates the strength of our corporate business at a time where employers are delaying decision-making ahead of the phased introduction of auto enrolment later this year. The introduction of auto-enrolment is leading many corporates to review their overall pension provision giving rise to higher levels of enquiries, especially from corporates in our target market, which we expect to drive further growth in our business towards the end of the year.

Standard Life Investments has delivered another good performance, with third party assets reaching a record level of £76.1 billion. Despite weak flows in the industry generally, Standard Life Investments attracted positive net inflows of £1.1 billion. Investor demand for fixed income and Global Absolute Returns Strategies, or GARS, in the UK and overseas, has been key to this performance.

In Canada, we've grown assets in our fee business, driven by positive net inflows and market movements and the average revenue yield on fee business has been maintained at 117 bps.

Our international businesses have continued to grow assets and attract positive net flows against our strong performance in the first quarter of last year, despite the economic uncertainty. Our joint venture businesses in China and India have continued to perform well, with Heng An Standard Life achieving its highest quarterly net flows and HDFC Life maintaining its second place in the private sector overall.

Finally, before we take questions, a quick word on the outlook.

In the UK, we are entering a period of significant change and potential for growth of our business. The Retail Distribution Review combined with forthcoming pensions reform provides us with the opportunity to drive further asset growth and increased flows in both our retail and corporate businesses over the medium to long term.

The prospects for Standard Life Investments remain strong and the business is well positioned across a diversified range of asset classes.

In Canada, we are well positioned in the marketplace and expect to gain from the ongoing shift from defined benefit to defined contribution pension provision. Our international business will continue to benefit from the strength of our offshore bond proposition and ongoing progress in our Chinese and Indian joint ventures.

We continue to see significant opportunities in all of our chosen markets and are confident that the investment we are making will lead to continued strong growth in assets. We expect this, together with further improvements in efficiency, to continue to drive an ongoing improvement in financial performance.

Before I hand back to the operator for Paul and I to take your questions, I'll just add that we also have the facility to take questions that are submitted via the webcast today. We can either pick up on the call or respond directly to you afterwards. Now, back to you operator.

Question and Answer session

Question 1

Andy Hughes – Exane BNP Paribas

A couple of questions if I could do. The first one is on the new strategy in the UK, the offer that you've emailed to IFAs saying that if you have a SIPP or drawdown policy for two years, you will offer a competitive annuity rate. I was just wondering, could you talk a little bit about what the idea of this is, and is it going to drive a lot of increase in annuity revenue over the course of the next couple of years on the back of that particular initiative?

The second point was on Canada. Could you talk a little bit more about the flows in Canada in Q1, which I guess on the fee side were a little bit weak? And I think you said it's due to lumpiness of the segregated fund business. Can you talk a bit about that and whether that's coming back in Q2?

And I guess the third question is on capital. Obviously you mentioned in the note that you're well positioned for Solvency II; I'm just wondering whether you have any more thoughts about the capital level of the Group and when you'd be prepared to look at that again.

Thank you.

Answer: Jackie Hunt, Chief Financial Officer

Morning Andy. I'm going to pass over to Paul for the first question and then I'll pick up the Canadian and the capital questions after that.

Answer: Paul Matthews, UK Chief Executive Officer

Morning Andy. The annuity business in general I think is worth just commenting on to start with. We've been working for the last 12 months on an engagement programme with our customers, particularly those customers that are coming up to retirement. So we've seen a good level of customers more engaged with us than they've ever been in the past; so when they come to the retirement stage they're having more conversations with us. That's the first point.

The second point is we've been looking for some time now at what do we do about growing stronger engagement with customers at the higher level of the marketplace. So our typical annuity has come in at sort of like £16,000; a lot of our SIPP customers have substantially higher amounts of business. And we want to try and reward loyalty to build a strong relationship up with those customers, particularly for many of those customers who will go in to drawdown for many years to come. And so we've been piloting a scheme where we're offering a higher annuity for those customers who have been with us for more than two years, where we think we're probably going to have a relationship with them for longer to come. They're not going to go straight into an annuity; they're probably going to go into some annuity and some drawdown. So we're trying that out at the moment to see how that goes.

Answer: Jackie Hunt

Thanks Paul. If we talk then about the Canadian position on the fee-based assets, I think it's worth saying that we have had a lower quarter, obviously, over the first quarter than in previous periods.

In terms of outlook the business directionally is moving in the right way I think. We've got a new CEO in situ. He comes from a fee business sort of background and is clearly very focused on looking particularly at the fee elements of that business. And we do see, as I mentioned in some of the earlier remarks, good prospects around that particular part of our Canadian operation.

The outlook as we look forward on Canada is that we're seeing a stronger pipeline of business. Some of the earlier actions that we've taken around the Canadian operations we think are starting to bear fruit. But we do expect this is going to be a longer term burn. So I'm hopeful of better flows in the following quarters, but it is against that sort of backdrop.

In terms of capital you're absolutely right, we are well-positioned for Solvency II, both in absolute terms – we start on the current regulatory regime with significant surplus, 3.1bn is the IGD surplus as of today. Our business model is very Solvency II friendly, if I can put it that way: we do write largely capital-lite products in much of the Group's operations. And so in terms of outlook and certainly in terms of QIS5, as it was rolled out at the time, the indications under Solvency II looked positive.

There has been some progress I think made on the matching premium debate as a result of some of the European discussions I think it was about two or three weeks ago now. But we're very conscious that there are a number of technical issues that remain to be resolved; those are around contract boundaries, they're around some of the 'own funds' type discussions, and clearly also around equivalence. So there is significant uncertainty still around where the final regulations will land.

Question 2

Greig Paterson – KBW

Good morning everyone. Just to pursue this annuity story you're seeing as such a significant part of your business; the actions that you've taken to boost the annuity sales in the first quarter I was wondering if you could just talk about what the corresponding impact on product line margins would be as you move into the open market option.

In terms of the pilot scheme that you're rolling out in the second quarter I wonder if you can give us an idea of what percentage of your maturities, in terms of value, are the sort of higher sums assured or premium business, so that we can get an idea of how important that is.

Also I notice from the press articles that were discussing your pilot scheme that they seem to imply that it's a function of the change in the drawdown rules that are putting pressure on your net client cashflows as people who traditionally take drawdowns don't take them. So I was wondering if you could give us an idea of the sort of negative effects we've seen from the drawdown rules and how it will affect net cashflows going forward.

Answer: Paul Matthews

The first point, Greig, is – for the first quarter there is no impact on margin at all. So the first quarter is literally our existing annuities rolling over with a far greater engagement programme so we've not changed our rate philosophy at all in Q1. So you could expect whatever figures we would normally throw on annuities to be the same in Q1.

Further Question

Is that relative to the fourth quarter last year and third quarter where you'd been more aggressive anyway? Or is that relative to the previous year?

Answer: Paul Matthews

The philosophy of Q1 has been no different to the whole of last year. If you look at last year you could probably parallel that.

The second point is the pilot is just starting. So, we think actually on total amounts of SIPP business rolling over is around 2%; so it's quite a small margin of customers. So predominantly the majority of our customers that roll over with us are long-established personal pension Section 226 customers. So the amount of SIPP customers going into annuities is quite small at the moment. But again this is a pilot for us and we'll definitely have better figures by the end of the three months.

And the issue regarding new drawdown rules; we will have a new drawdown, a full flexibility contract in Q4. So for some customers they do want to be in a position where they can take more flexible amounts of money, if they want to take all of it they can take all of it, as long as they can secure the £20,000 annuity. So, again, we're communicating that we'll have the flexibility by Q4. It's still too early to say how many customers will take that option.

Further Question

Sorry, are you saying you are seeing a negative impact in the changes of the drawdown rules?

Answer: Paul Matthews

We're seeing a small amount of customers who will want to have full flexibility and are looking at where they can get that. We will have that in Q4. But we're talking really tiny figures here, Grieg, this is the odd individual.

<u>Question 3</u>

Andrew Crean – Autonomous Research

The question I wanted to ask was about your fee margins, because I think in two areas the fee margins have come down quite materially. So I think in the first quarter of 2011 the fee margin in the UK was 77 basis points and you're now quoting 72; and in international it's come down from 212 to 179. So the question that lies behind that is in pounds million terms was there any progress in fee revenues first quarter 2012 on first quarter 2011?

And secondly, were there any issues around the spread risk business in terms of expanding margins to offset that?

Answer: Jackie Hunt

Morning Andrew, I'll take both of those. In terms of the first question around the fee margins, you do allude to the sort of UK move on the face of it 77 down to 72. I think when we talked at the year-end Prelims we flagged that it was around 73 as at the end of the year. This number is very much driven by the mix of business. And what we're seeing is that the product level, if you look at old-style retail products versus new style and overall across corporate pensions, the pricing is actually very much in line with our plans. And in fact when we did the Analyst and Investor event Day in September focusing on the UK, if you looked at the granularity of the data we gave about the sorts of margins we're making on each of those elements of business in the first half we disclosed it, you know I said in March, six weeks ago, that the level of profitability if anything had increased actually over the second half of the year. And I think the fee business we were talking at that stage about, you know, it had swung from a £13m loss a year ago to about breakeven at the time of the Analyst and Investor Day based on the half year numbers, and we indicated that there were profits in the second half of last year. So despite on the face of it this kind of reduction in the fee revenue margins, the simple reality is that it's not about pricing reduction, it's not about headwinds in that sort of way, it's actually much more about the fact that we are increasingly growing the pace at which our fee-based business is growing and by that nature it tends to be a lower revenue business.

Andrew Crean – Autonomous Research

Jackie the question was, have your fee revenues increased at all Q1/12 on Q1/11?

Answer: Jackie Hunt

Yes they would have and focusing on…

Andrew Crean – Autonomous Research

Because the average AUAs on fee business were up about two or three percent, with that level of bps fall it's quite difficult to see that?

Answer: Jackie Hunt

Yes I mean we will point you to David's statement where he talks about driving growth and fee-based revenue - they are up, and clearly up. And certainly in terms of profitability when we talk about what's actually dropping through to the bottom line, the simple reality is, over the group as a whole, for every £1 of additional revenue on the fee business as at year-end we're saying about 50p of that is dropping through into profits. And if you look at the UK standalone the trend is even more marked with a very significant scalability in the UK operation, so you should expect for every £1 of revenue more and more to come through into the operating profit in the UK.

In terms of the international business, again the downwards trend we've been flagging since we started publishing these numbers, and this is structural in nature, as we grow our international businesses. If you go back two or three years ago the German business was a larger proportion of international sales, that tended to be at that stage largely with profits type business and the charges were on a product charging basis as opposed to on a basis points charge. International has grown over that period quite strongly in terms of its fee-based businesses. So last year Ireland did well, we've seen a bit of a slowdown there and we expected that because the tax efficiency of some of these pension savings has been reduced as a result of some of the austerity drives. Our German business is increasingly focusing more, and we're seeing some good progress focusing more, on fee-based revenues. And our Hong Kong operations and joint ventures are obviously growing at a much faster pace. So over time you should expect to see that margin come down more into keeping with what you see elsewhere.

In terms of spread returns I mean I'd point you to a couple of things. The first is that we do talk in the Release about the increased amounts of annuities that we're now rolling over, I think we talk a bit about the 29% increase in the rollover rate of our business, that clearly will have an impact. I think when we last spoke to the market we'd indicated we were taking a number of actions around annuities more generally to increase take-up rates. That's starting to show considerable traction. So in volume terms you should expect to see that come through.

Overall it is a low interest rate environment so if you look at our Canadian business, for example, yields have fallen in Canada, they fell particularly in December, came back a little bit in the first quarter of this year but that will have some impacts on overall margins that are made on spread.

Andrew Crean: Great thanks very much.

<u>Question 4</u>

Kevin Ryan - Investec

Thanks. I have another question on annuities and I'm just wondering what your view is of what your natural market share within your products to annuitise? And the second question is rather more general on the new business outlook for the UK - could you say or are you seeing some demand that it's waiting for investment markets to pick up? Is there any sense that we can look forward to stronger quarters because customers are keeping their hands in their pockets at the moment? Thanks.

Answer: Paul Matthews

Okay well let me pick both those up so first, the target market share on annuities. We literally have an existing customer base which we know when certain retirement dates are due and we have a focus these days on far more engagement with what customers want to do because often they basically want to go for drawdown typically. You have to look at our back book - it's historically quite a small pot so many of those customers will just go straight into an annuity and the engagement we're having with them is more of them are staying with us than leaving.

I mentioned on our previous call that we're having a look at the larger customers into SIPP because those customers are probably going to go more into drawdown. We have a flexible drawdown product, we're a market leader in flexible drawdown. What we're looking to do is whether we can offer them a bettter price going forward. And I think what you can predict is that we'll be looking to spend far more time and energy with our existing customers as we go forward because we do see now many of those customers are going to go through to a longer retirement with us, they'll go into a drawdown situation.

The retail market is difficult to predict. What I can say though is the current climate is that customers, higher rate taxpayers, will continue to want to find ways to save and pensions continue to be a very attractive place to be, and we are the market leader in the retirement space. What we can't predict is the actual amounts they have because there might be lower bonuses etc. but people continue to want to look to save.

The second thing is that there is a consolidation market here and more people are going to want to put their money onto a platform where they can see that money and they have a greater investment choice than they have today, so we see that there will be a continuing trend to platforms.

Thirdly the retail distribution review will come in. At the moment there is a commission market out there so a number of advisers will offer a commission option to customers. That ceases to be in existence in 250 days. So from our point of view we only deal with about 50% of the market. We think over the rest of the year there is a lot of good options that people will look to us to come towards and particularly once RDR gets to a couple of months rather than 250 days we see ourselves as being in a very strong position. We're a nil commission company, we have very strong wrap capability, so we remain very positive on the future but we're conscious of the fact that the marketplace is challenging.

Question 5

Gordon Aitken - RBC

Morning Paul, morning Jackie. Just three questions please. Firstly on auto enrolment. You've talked about 400,000 additional customers post auto enrolment and that's a big number, I'm just wondering what the average pension contribution you expect from these people is?

Secondly wrap platforms, there's a huge number of very small platforms which lack scale at the moment and they're not backed by, say an insurance company with deep pockets, is there any scope to acquire some of these platforms?

Finally on Standard Life Investments you've got distribution agreements now in the US and Sweden can you just talk about how the basis points compares to say the basis points you get when you sell GARS to retail investors in the UK? Thanks.

Answer: Paul Matthews

Shall I pick up the first two? On the auto enrolment side I think what we've flagged is we see 400,000 of our own schemes auto-enrolling, we actually see more than that out there for us to pick up. So I won't give the figure at the moment but we've had a pretty good level of engagement with the existing schemes of when they will look to transfer their scheme and when they will look to put this auto enrolment in. So I would say we're encouraged by that 400,000 figure of our own schemes. We also believe there's a lot more of other companies at the moment so we're seeing quite high levels of interest from companies wanting to auto-enrol, those companies that we don't currently have. So I would hope we would improve that 400,000 level.

The second thing is on platform consolidation. Well there's a couple of big areas here. So the FSA are taking a big interest on the actual capital adequacy and financial strength of a lot of the platforms out there. So our own view has always been that some of these companies have set up venture capital businesses, small capital invested in them, we think they'll come under pressure going forward both to develop their proposition but also to ensure they comply with the capital adequacy and industrial strength side.

So we do think that 2013 is a pivotal year and that many companies will come under pressure, particularly some of those early leaders that have come into the market. From 2013 you can transfer assets in specie and currently a number of companies have not developed their platform functionality, do not have the capital adequacy and at the moment you'd have to take a capital profit or loss on cashing in particular funds. From 2013 you can do it in specie, so we also think that's another issue for a number of companies. So we think we're industrial strength standard, we've invested as you'll know in the last couple of years, we think we're in a very strong position going forward.

Answer: Jackie Hunt

And I'll pick up the last question there, Gordon, around the two strategic relationships, the John Hancock in the US and I think it's pronounced as the Länsförsäkringar Bank or something like that in Sweden, both of these are to distribute GARS global absolute return strategy products. This is undoubtedly a premium product. Its performance has been very strong again over this quarter, strong on each of the key periods over which investors look at it. It's a product that works perfectly in volatile markets because clearly it aims to deliver LIBOR plus 5% but with lower volatility, and as a consequence I think has been attractive, both to pension funds and institutional investors, and increasingly on the retail side. Because it's a premium product there's significant demand for it and we have a policy of not discounting that product so you should expect the returns on it to be exactly the same as you would see elsewhere. It's relatively early days on both of those arrangements, I would say, I'm a bit closer to the Hancock deal, the initial indications are promising, but clearly it's second half 2012 and 2013 sort of flow story.

Further question

That point on the GARS, I mean what do you give up in terms of basis points, I mean how are they just getting paid?

Answer: Jackie Hunt

I mean we wouldn't talk about particular contracts, individual arrangements, I think we've been out sort of publicly in saying on average institutional GARS around 80 basis points, retail can be 110, 120.

<u>Question 6</u>

Ashik Musaddi - JP Morgan

Yes hi, good morning, thanks for this. Just one question, in your press release you have mentioned about Master Trust scheme and it looks like it's pretty sizeable because just one scheme gives you 24,000 employees into your group pensions versus your whole of group pensions in one quarter was 26,000 employees. So how should we think about this and what are the flows from this and can we get some clarity on margins on these things? Thank you.

Answer: Paul Matthews

Morning, Ashik. There's two ways of going forward really on auto enrolment, companies either choose a Master Trust basis where the employer takes control really of that business or you have individual pots. We launched our Master Trust a year ago, it's something that we, Standard Life has a very strong track record in, we're the market leader actually in Master Trusts in the UK on StanPlan, on the smaller schemes, and we've come now into the Master Trust into the larger schemes. So a number of companies are looking at whether they would like to retain control of the schemes on an own trust base going forward. So this is our first one, we would expect to pick up a number of these going forward as some companies will choose to go down that route.

Large schemes, as I've said before, there is a capability and a capacity issue in the UK with the amount of auto enrolment going on, we think we're pretty well placed, you can come to us on a group SIPP, a group money purchase or a Master Trust scheme. Not every company offers that same flexibility, so I think we would do quite well. And auto enrolment is really a time when employers are now looking at what they're going to do going forward. So again we would expect some existing schemes to change from their old structure to a new structure, but it doesn't matter to us, the margins are the same for us, whether it's a Master Trust, whether it's a group money purchase or a group SIPP.

Ashik Musaddi - JP Morgan

So, just to then follow up, this 24,000 is over and above the 26,000 quoted or is it included in that?

Answer: Paul Matthews

It's additional.

Ashik Musaddi - JP Morgan

It's additional, so it has not yet come but will be there in the second quarter number?

Answer: Paul Matthews

I'm not sure exactly, when you'll start to see it coming through is over the year, so it would depend on, I'm just trying to think exactly, the employer has particular dates and times when they bring staff on, so it would depend on what dates those are, but you can expect to see that coming through the results over the year.

<u>Question 7</u>

Raghu Hariharan – Citigroup

Morning, thank you very much. I had just three questions please. The first question was really on institutional pensions. I remember two years ago you had significant inflows and then there were outflows after a year or two and I was just wondering is the duration of this product short or long or how sticky is this product? And just in terms of momentum, whether you would expect a similar rate of growth that you've seen in 1Q through the rest of the year.

The second question was in annuities. I'm trying to size the opportunity here, so could you give us a sense of what's the expected roll off of pensions every year and what proportion of these pensions have you captured today, and where can this take up rate if you will, can go in the future?

And the third question was on Standard Life investments. There's been a couple of mandates which have been lost, I was just wondering whether you can give us details around what the driver has been, you've said there's a change in pension strategy, I would be keen to know what that was, and just to check whether this is more of a one off issue rather than being a structural issue. Thank you.

Answer: Jackie Hunt

Morning, Raghu. I'll pick up the institutional pensions questions and then this discussion about the mandates and ask Paul to pick up the question around the roll off of pensions. In terms of institutional pensions, there's nothing about these particular mandates that would make us think that they are any more or less sticky than any other mandates and we expect the duration to be similar to what we've seen on the other funds. In terms of the momentum in the business we have always said the one thing about institutional pensions is it does tend to be lumpy by nature, it's quite difficult even for us to forecast the timing of those types of flows. In terms of overall momentum in the business, when we last spoke in March I did talk about, and I think David talked about the fact that we see the shape of growth in the Group being different this year to last year. Last year it was geared towards the first two quarters, this year we think it will be geared towards the last two quarters, so the second half of the year.

In terms of the two mandates that have been lost, there was one mandate in Canada that's led to an outflow of about £600 million. This was a very large, very low revenue yield institutional fixed income mandate, four basis points, so we do see this as a one off, we don't see that as part of a trend we expect to see across the year, we've seen improvements and quite significant improvements in the fund performance in Standard Life in Canada. So we see that very much as a one off. The second which we are flagging, and is not in these numbers but we are saying we are expecting to experience in April of this year, is a £1.8 billion sterling outflow in the UK, this is clearly not performance related, it's again low margin, I think we've talked about that in the release. It is one off and really this is as a consequence of the Postal Services Act last year where you'll be aware that there's been a decision to in-source some of those assets back into the government.

The next question I think is about the roll off?

Answer: Paul Matthews

Yes, so we've got about 2.8 million customers in retail and about 1.1 million customers in the corporate space. The size of the prize for us I suppose is that we typically roll over about 35% of our individual pension customers. The corporate customers, I haven't got the exact figure on that, but I think if you take going forward with our engagement programme we don't see any reason why we shouldn't be rolling over around 30 odd percent of our existing customer bases in both retail and corporate, and certainly with Lifelens, the whole focus of Lifelens is about more customer engagement, it allows the customer to have more than a pension as their savings vehicle and the investment solutions, they have a stronger relationship with us and the stronger the relationship they have with us, as we've seen over the last twelve months, the stickier they become, the more they stay with us. So our strategy is to get close to our customers and to have, both in the retail and the corporate space, a relationship with these people that means they're doing more with us during the year rather than investing and then seeing us again in 25 years time.

Raghu Hariharan

Sorry Paul, I just missed the roll off rate, did you say it was 35% today and…?

Answer: Paul Matthews

35% at the moment. It's been around 30% for some time actually, so it's around 35% at the moment.

Raghu Hariharan

And you expect that to go to what? I missed that as well.

Answer: Paul Matthews

Well, it's changed at the moment, I mean I think at the moment we're saying we're estimated around 35%, we're not a highly active annuity changer, so you don't see us at the top of the tables etc, so our annuity strategy is we'll stay where we are on our rates, we're piloting a couple of things, we've said with SIPP the longevity of giving people loyalty bonuses as such with annuities, but I think you can expect to look around 35% of our customers we would expect to keep.

Raghu Hariharan

And what were the average pot size, the retail and…?

Answer: Paul Matthews

On the retail side the average pot size, after they've taken their tax free cash, has been about £16,000 historically.

Raghu Hariharan

Right, okay. And corporate?

Answer: Paul Matthews

I haven't got a figure for corporate actually.

Question 8

Greig Paterson – KBW

Just in terms of the annuity pricing I need a bit more clarity there. If you look at the main aggressive pricers in the annuity market, Aviva and Just Retirement, they have been doing in the mid-20s in terms of year-on-year growth. The baby-boomer bubble is coming through at 50% and it is low interest rates that is causing the clients to defer – so that's all a consistent message. But you guys are doing year-on-year growth of near to 40%, you're pricing off the pace, is that because your experience on the baby-boomer bubble because you've got smaller clients they aren't sophisticated enough to defer, so, we're seeing the full effect of the baby-boomer coming through because of the demographic nature or the income nature of your clients? What is giving here? Because if you're not pricing why have you had such a surge?

Answer: Paul Matthews

I think going back to about 12 months ago we were talking about the 50-55 campaign. What we learned from the 50-55 campaign a year ago is that we weren't engaged with our customers, we weren't giving them enough communication running up to their retirement. So when it came to retire they literally had no relationship with us. So our strategy has been quite consistent over more than the last 12 months, Greig, we're within around the top 10% of the rate. Typically we don't adjust hugely on that, we don't offer impaired life rates etc. But we've been far more engaged with customers. Our customer engagement is with letters going out, communication going out, the actual scripts with our customer service teams when people come through – that's been the majority of the reason that customers have rolled over with us.

Further Question

So is this is a sort of one off surge as you move from no communication to communication, and we expect the growth rate to moderate now?

Answer: Paul Matthews

We've had this in place over the last probably nine months, probably the first quarter of last year. Our staff training goes on, continues. Our involvement with communications, written communications with our customers I think it's 16 weeks, 32 weeks. We actually have a far stronger communication engagement strategy than we've ever had before. So we'll continue that, that's not a pilot, we'll continue to do that.

Further Question

So, I'm just saying we've got a baby-boomer bubble coming through now for this year and next year. You're also rolling out, as I say, better communications, you haven't fully done that, let's say. So do you expect these to surge for the next 12 months and then to sort of moderate after that? You must have those numbers. I'm just trying to figure where your bubble is.

Answer: Paul Matthews

I think if you look at the baby-boomer age band you can expect that over the next – I'm a baby-boomer at 52 – so you can expect that over the next ten years as such. I think the baby-boomer range, if you're purely talking about baby-boomer range, you've got another ten years of baby-boomers coming through to retirement. You've got to remember that the higher income baby-boomers aren't going to go into drawdown, and the lower earning baby-boomers are going to go into annuities. So you've got the mix of drawdown, flexible drawdown and annuities.

Further Question

I'm talking about particularly World War II soldiers get back, babies, it's 65 years, it's 2012; so that has to taper off in 2013, 2014. I mean, have you got some stats on that?

Answer: Paul Matthews

I haven't. I'll have a look and see whether we… I don't suppose we can identify how many Second World War veterans we've got but I'll have a look for you.

Further Question

I mean age profile you might have a surge coming through this year.

Answer: Paul Matthews

We'll have a look, Greig, and see what we can find for you.

Question 9

Toby Langley – Barclays Capital

I've got two questions. One is about the budget and the speculation that we saw in the press leading up to the budget that the pension tax relief is conceivably at risk. I'm just wondering if you've got any comment you can make about any interaction you have with the government, what kinds of assurances you may have had or not had, either before or after the budget.

And then secondly you have, as I understand it, exited the tracker market or the passive market and intuitively to me it makes sense that there is a bit of a synergy between the tracker market and the auto enrolment space. And conceivably post the other side of RDR we may see passive, a bit of resurgence in the passive market given the likelihood of lower AMC charges in that space versus shall we say more transparent AMC charges in the active space. So I'm just wondering if you could talk around that exit, and maybe also give some colour on your expectations of whether you do indeed see good flows from auto enrolment into active mandates?

Answer: Paul Matthews

The first point about the budget speculation - we are engaged with government, but unfortunately we're under Chatham House rules on some of those issues so we can't go into that. But one of the things the government is absolutely committed to is getting people saving far more. And the balance they have is how balanced that is towards higher rate taxpayers versus basic rate taxpayers. And so I think the discussion will continue to go on whether they should be giving more tangible, more transparent tax relief to the average person in the street, and lowering higher rate tax pay. Now, we've been having this discussion now for some time, to be honest, this isn't new and I think the government is committed to try and look at a number of different scenarios. But generally they are going to try and get people saving more money into their pensions for their future retirement. So I think that's very good news for us. We don't really mind if they want to put it in savings plans or pensions, we're ambivalent on both of those. I think if you get any changes in higher rate tax relief I think you will get the government trying to balance that with further incentives for the basic rate taxpayers.

The second thing on the passive market is we are an active manager rather than a passive manager, and our view is we have moved far more now into multi asset management with things like MyFolio, Standard Life Wealth and what we want to do is focus on where we're most strong. So our point of view is – and I think there was a very good article in the FT this week on Monday just talking about far more people now looking at this multi asset management – and if you focus on the returns of multi asset management, MyFolio, particularly GARS, Standard Life Wealth, and look at that versus a passive fund versus active fund there is a really good story on multi asset management. I think many employers and trustees are struggling to know what to do. And I think if you track into a passive you're just tracking the marketplace. So I think there's a very strong argument for active management. But I think also – this is where we're doubling our bets is – there's a very strong argument for things like GARS and MyFolio.

As far as auto enrolment is concerned we've had quite a bit of interest, and we'll have to see how this goes in GARS and MyFolio. And we launched in March our corporate MyFolio range, which is an income range for that marketplace. Now, it's too early to say how that's going to go. But if you look at the success of MyFolio at the moment, I mean, between MyFolio and Standard Life Wealth we've grown assets more than £500m in Q1. This is a business that's now got over £2.4bn in of Standard Life Wealth and MyFolio. 18 months ago nobody was talking about Standard Life Wealth and MyFolio. So there is a big focus both for individuals, IFAs and for pension trustees to look at how they outsource. I think to be honest passives are happy and fashionable but if you look at the performance of multi assets there's a very strong argument that it is something that will continue to grow for some time now.

Toby Langley – Barclays Capital

That's a very comprehensive answer. Can I just come back on the first point? Are you able to quantify what, if any, benefit you took from the speculation around pension tax relief changes?

Answer: Paul Matthews

I think the discussions we've had, and we've had some quite recent discussions, is that the government are absolutely committed to getting more people saving. They recognise that longer term, unless people start savings, then the country has an issue of continually providing state benefits. So they do want to work with the industry and they do want to come up with ideas of how they get actually people doing things, rather than making everything compulsory. So I actually believe from a savings point of view, from our point of view, I include pensions as a savings vehicle, is that they are very keen to do something.

Toby Langley – Barclays Capital

I was meaning more the £900m or so that you booked in the first quarter are you able to put your finger on what proportion of that might relate to contributions that may have been brought forward as a result of…

Answer: Paul Matthews

No. People are limited anyway. To a certain extent people have been limited by their £50,000 cap every year. We didn't see huge amounts of people carrying back. You can carry back three years still, so people could have been putting in £150,000 this year but we didn't see huge amounts of that so I still think there's more to come, and if at any time the government do bring it in, say they want to bring something in with a year to go, you still can carry back three years.

<u>Question 10</u>

Jon Hocking - Morgan Stanley

Morning everyone. Just very quickly I just wonder if you could comment, there was an interesting note from the Institute of Directors talking about people preferring to save now in ISAs rather than pensions I was wondering if you'd seen that trend in your book and whether you're actually well positioned in ISAs because you've obviously got a very big footprint in pensions? Thank you.

Answer: Paul Matthews

Well again we offer both vehicles so whether you come onto our core pension, in fact we're delighted that we launched Lifelens this year, Standard Chartered Bank was our first full Lifelens business. And I think we're still today the only company in the UK that has a fully integrated corporate proposition which offers you the ISA and pension under the same technology. So our view has always been that you should have a combination. When you leave university you come out with debt you should be saving into an ISA and for those higher rate taxpayers that have become capped then obviously an ISA is not going to be enough for them. They'll fill their ISAs up but they should still be doing mutual funds and offshore bonds etc. What we have introduced in our corporate proposition is for employment, proposing employment in a Lifelens scheme you can have the complete options.

On the retail space our mutual funds I think, to be fair, whilst we're still relatively low market share in the mutual funds I think last year we would have bucked the trend quite substantially. So I think the mutual fund market was down 20 odd percent and I think we were up 20 odd percent. So we're actually a net beneficiary in mutual funds in the current marketplace.

And the third thing I would say is you can transfer in specie 2013, you can't at the moment; I think with the technology and the platforms we have today we'll be a net beneficiary of people transferring existing previous mutual funds they have with other old platforms onto our platform. So I think we're pretty well positioned whichever way it goes.

Question 11

James Pearce - UBS

Morning everybody, a couple of questions. You've grown your annuity volume in sales inflows by a lot this quarter and that sort of runs counter to what you've been saying about becoming more like an asset manager and using your balance sheet less, can you put the annuity figure in that context for us and explain whether it means a change in the way you want to use your balance sheet?

Second you're touching on whether the government might move the whole pension market downmarket for standard rate taxpayers rather than higher rate taxpayers, how appropriate is your distribution if that happens? Will you get them all through group business or do you need to reach out to individual customers that you can't capture through group schemes in a different way through direct sales or bank partnerships or whatnot?

Paul Matthews

I'll take a couple of those then James this morning. Our main focus on annuities has been a total revamp since we launched our brand actually on just our customer engagement, James, and we haven't changed our pricing strategy at all on annuities so if you pick up any of the papers today you're not going to see us in the top five generally. We've always aimed to be around 10% of the top rates being offered but what we have done is with our brand relaunch and with our customer engagement programmes internally we spend more time focusing on what customers' needs are during their lifespan. And so there's no magic wand on this one. We haven't changed strategy, but our strategy has been to get close to people. With our communications going out it's been amazing the amount of customers that have simply accepted, looked around, and decided to stay with us on that, so I don't know whether Jackie wants to come in on the capital side of that afterwards.

But on the government side on tax relief I mean it is very early to tell so we could spend so much time on speculation our view would be is we think the employment and the workplace is a huge growing opportunity because we think employers want to be more engaged with their staff, particularly those that have historically had a DB scheme where there's been a lot of loyalty built up for people with final salary schemes and a lot of employers are saying to us they do want to do things for their staff. We had ten large employers in two weeks ago saying the same thing and that might be to try and help with things like contributing to ISAs as well as pensions for particular age groups. So we do think the core way is a cost effective way of getting at people.

The second side in the retail space is that the higher rate taxpayers will continue to look for where they go and we were I think the market leader last year in growth in offshore bonds, SIPPs will continue to be an attractive option regardless of if they do do something with tax relief. And as I say I don't think they're going to take tax relief away but if they decided to play around with the margins you will still see people wanting to put money into SIPPs for future flexibility for drawdown, ability to move to cash, to gold, to various other things. The old fashioned personal pension for those persons with a reasonable size pot are just not the future for them. So I think SIPP will continue to be a big aggregator of money and it will then take you into drawdown flexibility. So even with some changes going on in tax relief for the average customer for us I don't think it's going to make a huge difference, but I do think we will pick up more and more basic rate taxpayers through the Lifelens engagement programme going forward.

Answer: Jackie Hunt

And, James, the only thing I'd really add on this whole question about the annuity strategy is to reaffirm I think some of Paul's comments and to be very clear there is no change in strategy here and we remain as a business largely focused on growing our fee-based business elements. We do see that there's a role for spread-based business more generally provided you make adequate returns on the risk you're taking, and so when Paul talks about his pricing strategy on annuities we do believe that we're making an appropriate level of return at that sort of level. And also that the overall elements of longevity risks which you tend to carry with these sorts of liabilities is of a size that our balance sheet can continue to maintain. So we're very comfortable. I would classify this as a better execution frankly of our existing strategy.

<u>Question 12</u>

Blair Stewart - Bank of America Merrill Lynch

Thanks very much good morning everyone. A fairly comprehensive list of questions, I don't have many left, just a couple. You talked about the ISA strategy that you have on the corporate side, is there a significant ISA push from you guys on the retail side and if not why not? Paul you talked about mutual funds offerings etc. but didn't really mention ISAs specifically.

Secondly, Jackie, I don't know if you want to comment at all on the LTIP range which was published in the Annual Report where the trajectory of growth let's say has tailed off somewhat, just some broad thoughts on the thinking behind that. Is it a market effect or is it something else? Thank you.

Answer: Paul Matthews

I'll take the first one Blair. We do focus on ISAs. I mean I think historically it's fair to say we focused on the higher margin business and the SIPP markets in the individual space. But I would reiterate last year I think we were the fastest growing company in the mutual funds marketplace and our ISA sales are I think growing. We started off with a much smaller base, to be fair, the market leader is 30% plus in the SIPP market and we're probably with 2 - 3% in the ISA marketplace. We're definitely growing that and two things we're growing it for is our platform with the Wrap platform more ISA business is coming to us on that basis, the corporate market will be brand new for us.

The second area with the ISAs is our investment strategy so our MyFolio funds are attracting far more attention from people. So I think moving ISAs into MyFolio is becoming more attractive and you can't get MyFolio everywhere so I think some people are saying, “Actually I do like MyFolio,” and you can buy MyFolio on our Wrap platform but also on our Adviserzone Platform. So fundamentally on that our mutual fund strategy is linked to both corporate and retail.

Blair Stewart

So when you’re talking about mutual funds, Paul, you’re talking about ISAs within that?

Answer: Paul Matthews

Yes. Mutual funds and ISAs you can get on our Wrap, you can get on our Adviserzone and you can now get on our corporate platform.

Answer: Jackie Hunt

And on the LTIP ranges Blair you’re absolutely right if you look at the top end of the 2013 range we've always been clear that that's a stretching internal target. You do know that over 75% of our revenues are fee-based and clearly market levels and the economic outlook I would say are more depressed as of the most recent issuance of the targets than they were in 2010. There's been absolutely no change to our underlying business plans and there’s certainly no change to our underlying confidence about achieving those business plans, so it’s really just a matter of what revenues we’ll be earning on the top line against the gross flows that we expect to achieve.

<u>Question 13</u>

Andy Hughes - Exane BNP Paribas

Hi guys, it’s just a quick question, I was hoping someone else might ask this, but on the competitive landscape in the UK there have obviously been a few changes over the last couple of months. I mean you’ve got a 19% market share of the corporate pensions market, obviously Resolution have probably around 12%. Obviously you probably don’t want to comment about individual competitors but can you see the uncertainty regarding something like that helping you in some way in terms of gaining market share, especially when these transfers are flying around?

And then the second thing that’s also changed is a lot of people have changed their active in-house fund management businesses and I’m just wondering is that a material consideration for trustees? So I guess if you were to buy an in-house product from one of these guys which is actually now tracking if you wanted an actual active mandate you’d have to pay probably one and a half percent instead of 1% before. Does this actually help you a lot in terms of winning mandates going forward? Thank you very much.

Answer: Paul Matthews

Okay, let me take those. So, if you look at the market shares actually, we’re not supposed to give out all the details, so I’m not going to mention who’s second and third, but to me it’s no coincidence that number two and number three in the market share place today are commission payers. We have to accept that over the next nine months there is commission in the marketplace and that will drive some activity.

The fundamental issue though here is for every thousand pounds you collect in a corporate scheme if you’re charging 50 bps you collect £5 a year and at the moment you’re paying out £200 on commission, so if you’re paying 20% commission and you charge half a percent you pay £5.00. £100,000 single premium you pay £5,000 in commission, 5%, you collect 500 quid, and so the difference for us would be is, there’s no point a strategy for us just to pay £200 and collect £5. So our strategy will be to continue, to be nil commission, but we accept those are quite attractive rates for some of our competitors to offer and there’ll be a number of advisers that will be quite keen to get in and to take advantage of that.

The second thing would be on trustee side, and I think this is important for IFAs as well as trustees, is going forward there'll be far more requirements from the FSA as to your independent knowledge and your protocol and your governance process of how you choose. That's quite expensive when you're going to have to charge fees, so if you're collecting 200 quid for every member you put in at the moment and you get nothing from next year, as you're spending money on investment research I think it will be quite tough for people. So we do believe that GARS and MyFolio will be a growing trend for people, for both trustees and providers, they will outsource that investment research and the actual investment mandate and decision making of where they go. And again I would refer people, without pushing particular newspapers, there was a really good article on multi asset management in the FT this week, on Monday I think, and we're seeing definitely a growing trend towards that.

Andy Hughes - Exane BNP Paribas

But in terms of the kind of fee companies, so just comparing yourselves to the companies that have large market shares in the fee business, would you say the landscape has changed a little bit with the changes that have been going on?

Answer: Paul Matthews

I think what you will see in 2013 is when you move away from commission you'll see people focusing on actually the proposition, and I think from an employer point of view if you haven't got the whole suite of things, if you haven't got ISAs etc. for mutual funds for your higher and lower earners I think your pension becomes far more irrelevant in many ways for your whole workforce. So my own view would be the companies that have been investing their money in the proposition as opposed to commission I think will be in a very strong position, I think their propositions will be better, it will offer more flexibility, and I think some of the companies that have relied on short term strategy may struggle a bit.

Concluding Comments – Jackie Hunt

I think we're probably going to need to draw this to a close as I'm told that we're not booked for much longer. Obviously the IR team and I and Paul are all available for further questions if you have any follow on pressing matters. With that I just wanted to thank you once again for joining us today and just to recap, our business has made a good start to the year, performing resiliently against a strong previous year in an uncertain economic backdrop. We continue to expand our footprint through new distribution arrangements and also to improve our capabilities through proposition development. The outlook for the business is positive, and as I've said, we remain confident that we can drive an ongoing improvement in financial performance.

So thank you again all for your time and for your questions and I look forward to speaking with you again soon.