

**ADDRESS BY AMP CHIEF EXECUTIVE OFFICER AND MANAGING DIRECTOR CRAIG DUNN  
TO THE AMP ANNUAL GENERAL MEETING  
9 MAY 2013**

**Introduction**

The Chairman has just outlined some of the more significant structural changes that are transforming our industry and indeed, our broader community.

While right now, we are seeing much more positive trends in share markets, these structural shifts mean we must continue to reshape our business to respond to a rapidly changing world.

This morning I will update you on what we're doing to reshape AMP, and the steps we're taking to sustain AMP's strong competitive position.

**Business performance**

You may recall that at this meeting last year, both the Chairman and I talked about how AMP has been responding to some of these shifts.

Indeed, our merger with AXA in 2011 was driven by our strong conviction that we needed increased scale and investment capacity to capitalise on the opportunities we could see developing.

Our 2012 results show some of the benefits of this strategy starting to emerge despite share markets and investor sentiment remaining subdued for much of last year.

We delivered an underlying profit of \$955 million, driven by strong profit growth in our superannuation, advice and investment businesses, and very good cost control.

Our 2012 result also demonstrated the benefit of our broad set of quality, award-winning products and services, supported by the unparalleled reach of Australia's leading financial advice network.

At the same time, a tough personal insurance market, constrained our insurance profits in both Australia and New Zealand.

The Australian insurance industry is suffering from poor lapse and claims experience across the board, with industry lapse rates at a 10-year high.

In challenging economic times, more people are deciding to reduce their insurance cover or to cancel their policies altogether.

The cost of some insurance claims also tends to increase in tougher economic environments, as it takes longer to get people back to work.

While some aspects of these changes are clearly cyclical, we are taking actions to improve our customer retention and better manage our claims.

These actions include:

- targeted pricing reviews and product redesign
- increased investment in retention activities, and
- better claims management by, for example, helping people get back to work sooner.

Pleasingly, the momentum we built last year in our wealth management business has continued into the first quarter of this year.

We have driven almost a \$400 million turnaround in our first quarter net cash flows.

Very pleasingly, we are delivering good earnings momentum in many parts of the business, while at the same time successfully implementing very substantial change programs.

In addition to integrating two very large businesses, we have continued to prepare AMP and its business partners for big regulatory changes this year, including the introduction of the new Future of Financial Advice and Stronger Super regulations, as well as complying with stringent new capital standards.

Achieving improved business results while simultaneously delivering big change programs like these is not that common, particularly during a large, complex merger.

It is a real testament to the commitment and passion of both our people and business partners, and to the underlying strength of our merged business.

### **The value of our merger**

It is now just over two years since we finalised the transaction to merge with AXA and began the hard work of putting together two long-established, well-respected companies to create more value than either company could generate separately.

At our shareholder meeting in 2011, I outlined the three criteria against which we would judge our level of success with the integration.

They were our ability:

- to maintain momentum in both businesses while bringing them together
- to sharpen our competitive edge, by delivering the additional revenues and cost savings that underpinned the economic case for the merger, and
- to build a stronger growth platform for the future than either business had as a standalone organisation.

We have unquestionably delivered against all three of these measures.

## ***Business momentum***

You can see the business momentum we've generated in our earnings growth in 2012.

To deliver this:

- We have tripled net cash flows into the award-winning North platform. This now has over \$6 billion in assets under management up from \$1.7 billion at the time of the merger and has just been rated the leading wrap platform in the Australian market<sup>1</sup>.
- We have maintained AMP Flexible Super as one of the fastest-growing products of its type in the market, now with over \$8 billion in assets under management.
- We have continued to grow our bank, with both our mortgage and deposit books expanding.
- We have increased our assets under management to over \$172 billion at the end of last year.
- And, we have significantly lifted our share of the Australian superannuation and retail managed funds markets.

## ***Sharpen competitive edge***

In terms of our second measure of success, a sharper competitive edge, we've created a more efficient new business that is able to compete more aggressively to deliver better outcomes for customers.

We have increased the annual recurring revenue and cost savings we aimed to deliver from the merger from an initial \$120 million to \$150 million – up 25%.

By the end of April, we had delivered close to 90% of this target on a run rate basis, with the full run rate synergies expected to flow through by the end of next year.

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<sup>1</sup> 2013 Wealth Insights Service Level study for platforms

With more than 4,000 professional advisers and planners in Australia and New Zealand, we now have more ways to reach more people with quality advice and services.

The combination of AMP and AXA means we have a broader, more diversified set of quality products and platforms to meet changing customer needs.

This is helping drive our improving trend in cash flows.

We are unquestionably a stronger, more competitive organisation post-merger than either company was as a standalone firm.

### ***Stronger growth platform***

The most exciting outcome of the merger is the stronger growth platform we now have - our third measure of success.

As markets and investor sentiment improve, we are set to benefit more fully from our significantly larger advice footprint and broader, more competitive product set.

Investor confidence is, of course, a key driver of our cash flows.

What will help drive it higher is a sustained improvement in investment markets, along with a commitment from both sides of politics to stop changing the rules on superannuation.

As an industry, we also need to take a strong lead in reminding all Australians that despite the changes to the taxation of superannuation in recent times, it remains, by a country mile, the best way for Australians to save for the long term.

Take, for example, a typical Australian family, where both parents work.

In the last decade before they retire, with their kids off their hands, let us assume they can save an extra \$1,000 a year towards their retirement. That is a bit under \$20 a week.

Investing this through their superannuation, using salary sacrifice, will help them save over a third more than if they invested outside the superannuation system. That would turn their \$10,000 in savings over the decade into an extra \$21,000 for their retirement<sup>2</sup>.

It is time to blow the whistle on further changes to superannuation and as investment returns recover, to begin rebuilding the community's confidence in superannuation, by reminding Australian families just how much value superannuation can really deliver to them.

If all Australians truly appreciated the benefits of our superannuation system, I have no doubt that individuals and families would save more. This means they would be better off, and so would our community.

Our job, as an industry, must be to help Australians see more clearly how our world-class retirement system can help them have much better futures, with only a small shift in thinking and action.

### **Opportunities for growth**

As a business, we also have to continue to shift our own thinking and focus, if we're to respond successfully to the new growth opportunities we have identified.

We see those in three key areas.

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<sup>2</sup> Based on saving \$1,000 a year after tax (or \$1,515 when salary sacrificing) over 10 years. Assuming investment returns of 3% income (40% franked) and 6.3% capital growth, with no deferred income, no turnover, all disposals at end of period, no fees or charges etc. Based on marginal tax rate of 34%, including 1.5% Medicare levy at all stages. Exit/retirement at age 60.

They are:

- an increasingly customer-focused Australian business
- in growing market segments, like self-managed superannuation funds, and
- in targeted offshore expansion, through our investment management business, AMP Capital.

### ***Transforming our core business***

Let's take the opportunities in our Australian business first.

As I've outlined, we have built a strong, competitive business in Australia, through the merger and the ongoing investment we've made in this business over many years.

We plan now to take this business to the next level, to succeed in a world being transformed by:

- changing consumer behaviour
- digitalisation and mobile technology
- and ongoing regulatory change.

We are developing new ways of interacting with our customers and business partners, including through:

- the use of mobile technology
- trialling new options in financial advice and different ways of accessing that advice, and
- using deeper customer insight to develop more compelling offers in key market segments like corporate superannuation.

While AMP's business is already one of the most efficient in the Australian market, we believe there are still more opportunities to drive down our costs and deliver better value.

That will also be part of this ongoing focus to ensure we remain competitive in a world where customers are increasingly expecting more value and are inclined to pay less for it.

To drive that deeper customer insight, we have recently appointed one of our senior executives, Paul Sainsbury, to a new role as our chief customer officer.

Paul, who reports to me, and who has been leading both our integration and expansion into the self-managed fund sector, will represent the customer voice at the most senior management table at AMP, and work across the organisation, to develop and use these customer insights to deliver more products and services to help Australian families.

### ***SMSF***

AMP is now the market leader in the administration of self-managed super funds, with this new business growing very strongly, thanks to a combination of organic growth and targeted acquisitions.

Building our presence in self-managed super is a key part of our plans for the future and we've moved quickly and aggressively to build this leading market position in under a year.

To survive and prosper in the future, AMP must be where the market growth is and that means moving more quickly to build businesses that meet the needs of our customers today and tomorrow.

### ***Offshore expansion***

Market growth is not just in Australia.

We are living on the edge of one of the fastest-growing regions of the world, one that is benefiting enormously from the shift of savings and investment from west to east.



We have a clear strategy to participate in that growth in Asia through our specialist investment management arm, AMP Capital, in a way that does not put significant shareholder capital at risk.

As the Chairman outlined, capital is now a much more scarce and expensive resource.

There are two key elements to our offshore strategy:

- first, partnering with prominent local distributors in their home markets, as we have done with Japanese trust bank MUTB, to take our investment capabilities into new markets – largely replicating what we already do successfully in Australia, and
- second, linking large savings pools, particularly in Australia and Asia, with attractive investment opportunities here and abroad.

We're continuing to expand our international client base, while building out our alliance with MUTB, and we've attracted significant new investments from some of the world's largest and most sophisticated institutional investors.

This has helped us create a property development pipeline in Australia of almost \$4 billion, which will generate thousands of new jobs for Australians.

### **The AMP Promise**

Underpinning these growth plans, and the work we're doing to turn them into reality, is a core belief in the value of what we do.

In a fast changing world, it is worth reminding ourselves of the things that don't change.

One of those is AMP's core purpose.

We were established 164 years ago by three men who believed that financial security helps people live their lives in dignity.

We still believe that today.

Expressed in today's language, that is the AMP Promise: to help people own tomorrow.

We do that by helping people own their homes, protect themselves and their families from misfortune, and to save for a more comfortable retirement.

At the heart of all the changes we're making and the goals we are pursuing, is a driving need to deliver on the promises we make to all the people who depend and rely on us.

That is who we are and that is what we are here to do.

## **Conclusion**

Looking forward, we expect the business environment in Australia to remain challenging this year, although improving investor sentiment both domestically and internationally is welcome given AMP's significant operational leverage to stronger investment markets.

Regardless, we are intent on controlling the things we can control and reshaping AMP to succeed in a new world and by doing so, delivering value to you, our shareholders.

Our focus is on driving better outcomes for our customers and clients, investing in the right opportunities for growth and continuing to drive efficiencies across the business, so that AMP is strongly positioned to meet the challenges of today and into the future.

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