AMP Chairman's address at the 2019 Annual General Meeting

AMP and why I took on the role of Chairman

In the lead-up to last year's AGM, the then Board approached me regarding the role of Chairman, following the resignations of the previous Chairman and CEO, and in light of issues at the Royal Commission.

Following agreement from the full Board, I commenced as Chairman on 21 June last year.

On behalf of the Board, I would like to thank Mike Wilkins for stepping in as Interim Chairman and Chief Executive last year, for steering the company through those testing few months, and for chairing last year's AGM at short notice.

I joined AMP because I believe this is an important Australian institution for our customers, the community and the wider financial system, which, in the context of the Royal Commission, must make earning back trust a priority.

Last year AMP was shown to have faltered from its purpose.

The Board and I are acutely aware of the loss our shareholders suffered, both in share price and dividends. We also know the follow-on consequences were felt keenly by our customers, employees and advisers.

This company belongs to our shareholders and as always, your input and interest is valued. I would like to thank those attending today's meeting both in person and via webcast, as well as those who submitted their vote via proxies.

As your new Chairman, I am focused on driving change, improving governance, facing squarely into the issues and being accountable.

Your renewed Board, new CEO and restructured management are also committed to the task ahead.

There is no quick fix but with the right leadership, capability, systems and customer focus, we intend to turn this business around.

In speaking with shareholders and reading comments submitted in advance of today's AGM, it's clear that many of you have questions about last year and what the future holds for AMP.

I will endeavour to address your questions today, as well as outline the actions taken since my appointment as Chairman as we position AMP for the future.

Responding to shareholder questions

Royal Commission

Starting with questions regarding the Royal Commission.

Last year, AMP, and the wider financial services sector faced unprecedented scrutiny from regulators, politicians, media and the community.

The Royal Commission (Royal Commission into Misconduct in the Banking, Superannuation and Financial Services industry) was a confronting experience for the industry.

For AMP, it brought a number of issues to the fore, many of which were already known to the regulators.

I believe that the Royal Commission provided three key lessons for our business and we have taken decisive action as a result.

Firstly, the business was too slow to identify customer issues and take appropriate action. Putting things right for customers is therefore critical. Not only is it the right thing to do, it ensures that we can put the past behind us and focus on building our future. Our objective is to identify and remediate, as quickly as possible, customers who received inappropriate advice, or paid fees where there was no evidence a service was provided. By building the necessary infrastructure and systems, we are on track to compensate all affected customers within the estimated costs and planned, but challenging, three-year timeframe.

Secondly, in hindsight, investment in monitoring and systems was not adequate for the complexity of the business. Strengthening risk management, controls and governance has been a priority. We know we must address the root causes of past failings and create the structures to prevent recurrence. Our investment of A$100 million (pre-tax) over two years has already funded a number of initiatives to strengthen practices on governance, culture and accountability, and we are committed to ongoing improvement.

Thirdly, accountability and consequence management should have been more explicit. The Board has taken firm decisions on consequence management and those accountable for issues highlighted in the Royal Commission are no longer with the business.

The Royal Commission's final report has delivered a clear, positive legacy and provides valuable guidance for legislators, regulators and organisations, including AMP.

For a wealth manager the size of AMP, the implications for our business are proportionally larger than many other institutions, given the focus on advice and superannuation. The final report set the challenge of improving the system. This must now be AMP's focus, as we embrace the findings as a catalyst for change, perhaps more than any other institution.

Legislators are moving swiftly to implement the final report's recommendations. Consistent and fair application across the industry will be crucial, allowing all players to adjust and implement solutions in the best interests of their customers.

At AMP, there are a number of legacy issues to work through and we will continue to work constructively and co-operatively with the regulators to resolve these.

Sale to Resolution Life

Perhaps the most significant change of last year was the transformative, but necessary decision to sell our life insurance and mature (or closed businesses) to Resolution Life.

Our life insurance business has been challenged for some time, where structural changes in the industry and regulation globally have restricted our ability to compete on a sustainable basis and deliver acceptable returns to shareholders.

In response, the Board undertook a review of our life insurance and mature businesses. In May 2017, AMP confirmed that it was considering options to release value from the insurance business. At last year's AGM, we advised that the review was still progressing, although we were focused on performance of the whole business, Board renewal and the appointment of a new CEO.

Following a process to find an acceptable buyer, the Board unanimously agreed to sell the insurance and mature businesses to Resolution Life, an international specialist insurance business.

The significance of selling a business that has been a proud part of AMP's heritage since inception was not lost on the Board.

However, we firmly believe that the sale is the right outcome for our business and shareholders and as stated previously, we're committed to returning the majority of net cash proceeds from the transaction to shareholders upon settlement, subject to unforeseen circumstances.

For our customers with insurance and mature policies, there will be no change to existing policy terms and conditions. And once owned by Resolution Life, the businesses remain subject to the same regulatory regime as at present.

We are progressing the work required to legally separate the insurance and mature businesses and gain regulatory approvals. This is a difficult and complex task. We are continuing to deal with multiple regulators in different jurisdictions to achieve the conditions precedent for the transaction. In some cases, these requirements have changed since the transaction was agreed. Nevertheless, we continue to work towards completion of the sale by the end of the third quarter this year.

Since the sale agreement in October, our financial results have reinforced that AMP is not the best owner of a life insurance business with higher capital requirements and earnings volatility. Indeed, the recent sale of many major life insurance groups in Australia are also attributable to these factors.

There has been some criticism of the transaction with Resolution Life. As a Board we respect differing viewpoints, but we are bound to act in the best interests of the company and all shareholders, rather than satisfy the particular agenda of a few.

Life insurance is a very long-term business. Given we were faced with deteriorating prospects, a sale was the best option when considering the interests of the company over the long-term.

Explaining the 2018 financial performance

Turning to our financial performance in 2018.

It was undoubtedly a difficult year for our business and our shareholders.

Overall, in 2018 we reported an underlying profit of A$680 million and profit attributable to shareholders of A$28 million.

A number of factors influenced this result, including the urgency to remediate customers in our advice business, a deterioration in the performance of our insurance business and the impact of the Royal Commission.

After careful consideration, the Board determined a reduced final dividend of 4 cents per share, bringing the total dividend for 2018 to 14 cents per share. This took account of the financial results, the related impact on the business' capital surplus position and uncertainty in the operating environment.

As a business with a large customer base, we must hold a strong capital position to continue to honour our obligations. In 2018, we maintained this position, holding A$1.65 billion above minimum regulatory requirements at year-end. After the sale of our life insurance and mature businesses, the Board will be in a position to reassess AMP's future capital buffers.

AMP's approach to sustainability

Next, I would like to address recent public commentary on sustainability and related environment, social and governance (ESG) issues.

AMP's Sustainability Report, published as part of AMP's annual reporting suite, provides a full outline of our approach to ESG issues, and details the material issues of greatest importance to our customers, our people and our community. These 11 material issues are customer experience; digital disruption and innovation; cyber security and privacy; the regulatory and legislative environment; ethical conduct and professional standards; inclusion and diversity; supporting and developing our people; climate change and the environment; responsible investing; sustainable supply chain and community investment. To be clear, this report carries the collective endorsement of the Board and I encourage those interested to study the report.

Actions taken as Chairman of the Board

Strengthening governance

The topics I have addressed cover key questions asked by shareholders and I look forward to addressing further questions during the meeting. I will now turn to actions taken since my appointment as Chairman.

From past experience, I know that reinventing a business requires a ‘root and branch’ review. There can be no areas that are off limit to change, and change must come from the top.

The role of the Board in setting the tone from the top is fundamental to achieving an effective culture, and this has been an important consideration in Board renewal. The culture of a business cannot be imposed via legislation and regulation, but through the quality of leadership and the adequacy of systems.

As a result of significant Board renewal, 70 per cent of the Directors in place at the beginning of last year have left or are stepping down - no Director remaining will have served more than 2 ½ years.

I am pleased to have welcomed four highly competent new non-Executive Directors– John Fraser, Debra Hazelton, John O’Sullivan and Andrea Slattery. All have deep knowledge of the financial sector and significant business experience.

Later in today’s proceedings, John Fraser, John O’Sullivan and Andrea Slattery will stand for election and the Board fully supports their appointments.

I will also stand for election as a Director, at which point the Board has agreed that Mike Wilkins will chair the meeting.

In addition to renewal, last year we also took decisive action to strengthen Board governance. These changes will not only improve oversight of AMP’s subsidiaries but contain the overall cost of governance arrangements at AMP.

Appointment of new CEO

At the end of last year, the Board and I were pleased to welcome Francesco De Ferrari as our new CEO.

In Francesco, we have a leader with a strong track record as a change agent; a critical requirement given the mandate to redesign AMP’s business model and deliver turnaround and growth.

Candidates from within Australia and overseas were considered in our search for our new CEO. However, the Board was of the firm view that a fresh perspective, not present in Australia, was needed to drive our business forward.

The Board believes that Francesco has the ambition, strategic acumen and expertise to steer AMP through this important phase.

Since joining AMP on 1 December last year, he has already injected a refreshed sense of vigour and optimism.

In his first weeks, he made it a priority to speak to as many employees, investors and customers as he could.

Less than three months into his new role, Francesco had restructured his management team to increase accountability, charging his team with simplifying and streamlining their business units.

And by the interim financial results in August, the Board anticipates that he will outline his strategy to position AMP for the future. We expect by then to have line of sight on completion of the sale transaction and clarity of relevant legislation post the federal election.

The CEO's current remuneration arrangements have been designed to drive the recovery of AMP and take account of the challenge in the task ahead. And though the value of AMP's share price declined between agreeing his arrangements and his start date, the Board has made no adjustments to the existing long-term incentives to reflect this downturn, nor have any adjustments been requested by the CEO.

The Board recognises that the sale of our life insurance and mature businesses, and a number of other company-specific matters that affected our share price, occurred before our new CEO took office. A number of shareholders have also expressed concern that the current long-term incentives may no longer be realistic. Following the completion of the sale of our life insurance and mature businesses and, with new value creation more evident in the strategic plan, the Board will consider this matter in the context of the plan.

Remuneration

Looking at our broader approach to remuneration across the business, the Board consulted and undertook a significant review of AMP's remuneration model following last year's AGM.

In setting the appropriate model, there must be a clear link between remuneration and consequence management and accountability.

Let me assure you, there have been clear consequences at AMP.

As a result of the circumstances of last year, the Board did not award any short-term incentives for AMP's leadership team, excluding the CEO of AMP Capital.

Reflecting their overall accountability for the 'fee for no service' issue highlighted during the Royal Commission, the unvested allocations of two former executives will not be paid, valued at A$10.8 million. The Board also withheld incentive holdings for a number of other former executives and employees in connection with the issue.

And at Board level, fees were reduced by 25% last year for the Board in place at that time, in recognition of the collective governance responsibility.

There is no one 'right' remuneration model that can be applied to all businesses across all circumstances, and the Board recognises that there are different views about remuneration practices. But we know that a successful remuneration approach must balance attracting and retaining the right people, with the views of shareholders and regulators.

Transitioning AMP

The Board and I are determined to reinvent AMP as a more agile, valuable and sustainable business.

As the CEO explained at our full year results earlier this year, 2019 will be a year of transition, where we deliver a number of critical initiatives to position the business for the future.

We must complete the separation of our life insurance and mature businesses, progress our remediation program and deliver improvements to our risk management, controls and governance.

Shortly, our CEO will provide further detail on these initiatives.

Externally, we must contend with uncertainty in the legislative and regulatory environment. With a federal election only weeks away, and some regulatory actions from the Royal Commission yet to conclude, we do not have complete certainty, but the path should become clearer.

We must also remain mindful of the economic outlook and the impact to our customers and shareholders from any downturn in wider financial markets.

From my experience in reinventing a business, change can only be successful with a firm commitment to restructuring and associated investments. Additionally, the process of improving control systems usually results in an initial uptick in identified incidents and associated corrective action.

In considering the CEO's strategic plan, the Board will be mindful that these aspects and associated intentions to add value should be made clear.

Conclusion

Since joining as Chairman, I have been encouraged by the latent goodwill towards our business. It's clear that people want and expect us to re-establish AMP as a strong player in the Australian financial services landscape.

We will put the past behind us and build the new AMP.

As we set out on this task, I would like to thank my fellow Directors for applying their expertise in guiding the company and for accepting the collective responsibility that this entails.

Our customers have a great deal of choice when selecting their insurance, superannuation, banking other financial services and I thank them for choosing AMP.

To the great majority of our employees and advisers who remain dedicated to delivering for our customers, thank you for your hard work.

And to our shareholders, thank you for your commitment through some of AMP's most challenging times, and for holding your Board to account to ensure that AMP fulfils its potential.