AMP AGM 2020 Chairman address

This is not the first time AMP's shareholder meeting has occurred in exceptional circumstances. Just over 100 years ago, during the Spanish flu pandemic, the AGM was held in tents on the roof of our then Pitt Street offices.

This is a reminder of AMP's long and proud history in Australia, and that crises, however confronting, do pass.

At AMP, we have moved quickly to take action in response to COVID-19 – launching a relief package for clients, mobilising employees to work from home and ensuring frontline teams are ready to respond.

At last year's meeting, the Board was encouraged by the strong support shown for the election of Directors and the remuneration report.

Since that time, the Board has had to take critical decisions to position AMP for the future – renegotiating the sale of AMP Life, launching our three-year transformational strategy, undertaking a capital raising and continuing to address legacy issues.

But we are also acutely aware that the fall in our share price and our decision not to declare a dividend in 2019 will have been very disappointing for shareholders.

Today, I will outline the progress made against key priorities last year and our focus for 2020, including how we're responding to COVID-19 in the best interests of the company, shareholders, clients and employees.

Progress in 2019

Sale to Resolution Life

I'd like to start with the sale of AMP Life to Resolution Life which will be a key step in our transformational strategy.

In August last year, we reached a revised agreement with Resolution Life, following challenges in obtaining regulatory approvals for the original agreement.

Before reaching this decision, the Board assessed the revised agreement against a range of options as we communicated at the time.

The Board recognises that the sale of AMP Life marks a strategic shift for our company. Whilst life insurance played an important role in our history, our business' future and growth lies in wealth management, banking and investment management. We strongly believe the sale of AMP Life delivers the best outcomes for shareholders, policyholders and the business.

The task of unwinding 170 years of processes, systems and complexity associated with the sale of AMP Life should not be underestimated. Recent and continuing sales of major life insurance groups in Australia only reinforce the challenge and time required for such an undertaking.

The pandemic has created added complexity, but our work program continues unabated.

We have sent over 1.1 million communications to superannuation members, employers and advisers, with further communications to follow.

The transfer of superannuation funds from the life company back to AMP as part of the sale will be one of the largest in Australian history. To date, the business has executed seven ‘dry runs’ to confirm our capability to deliver the transfer– the most recent run successfully with our team working remotely given COVID-19 restrictions.

The regulatory approvals and conditions precedent required span Australia, China and New Zealand. Earlier this year, approval from the China Banking and Insurance Regulatory Commission was confirmed. In recent weeks, we have received approval from APRA to facilitate the transfer of MySuper accounts – one of the key consents required in Australia. And in New Zealand, engagement with the Reserve Bank of New Zealand continues.

We are satisfied with the progress being made, and again reiterate that we remain on track to complete the transaction by 30 June 2020.

Client remediation

At last year's meeting, I provided an assurance that we would face squarely into legacy issues in 2019.

I'm pleased to report that we've made significant headway, including on client remediation.

In 2019, the remediation program accelerated as we said it would. In the second half of the year, we paid $190 million, from funds already earmarked. And major policies for our remediation program have been agreed with ASIC, the corporate regulator.

Due to rigorous management of the project, overall remediation costs remain broadly in line with the original estimate.

Following a significant ramp up in activity, we expect the program to be 80 per cent complete by the end of this year and remain on track for completion in 2021.

This is testament to our commitment to doing the right thing for clients and addressing issues of the past, and improving our risk management systems, to enable us to focus on the future.

Explaining 2019 financial performance

Turning to our financial performance.

To provide context, last year's performance reflects the challenges faced as we transitioned and fundamentally reset the business.

Overall, in 2019 we reported an underlying profit of $464 million and net loss attributable to shareholders of $2.5 billion. The bottom-line loss was predominantly due to a non-cash charge of $2.35 billion (post-tax) which we took in the first half of the year, mainly reflecting a write-down of assets and past investments. It's important to remember that this is predominantly a non-cash charge that does not affect the financial stability of our business.

AMP's capital position remains strong, holding $2.5 billion above minimum regulatory requirements at year-end.

However, to maintain balance sheet strength through a period of significant change, the Board took the difficult decision, as I mentioned earlier, not to declare a full year dividend in 2019. This is understandably disappointing for shareholders, but this decision was made in the long-term interests of your company. This position will be reviewed after the completion of the AMP Life sale.

Shareholders have asked how proceeds from the AMP Life sale will be distributed. AMP anticipates that any capital in excess of target surplus post completion will first be used to fund delivery of the new strategy. Beyond this, AMP will assess all capital management options with the intent of returning the excess above target surplus to shareholders subject to unforeseen circumstances. As you would expect, the Board will consider current economic and business conditions as it assesses any use of the proceeds from the sale.

Governance

I will now turn to governance – focusing on board renewal and remuneration.

Board renewal

The Board plays an important role in setting the tone from the top and achieving a culture that reflects the company's purpose.

This has been an important factor as we renewed our Board. The new appointments bring valuable insights to AMP as the industry navigates increasing regulatory, governance and risk management obligations.

I am pleased to welcome three highly capable new non-Executive Directors - Debra Hazelton, Rahoul Chowdry and Michael Sammells. All have significant experience in financial and professional services and have operated at the level required to understand the challenges and opportunities at AMP.

Trevor Matthews will also stand for another term, continuing his significant contribution to the Board.

All will stand for election and re-election today and the Board fully supports their appointments.

I would like to acknowledge the retirement of three non-Executive Directors. Mike Wilkins stepped down from the Board in February 2020. Mike has served AMP and its shareholders with distinction, particularly as interim Chairman and CEO at a deeply challenging time for the company in 2018. The Board and company sincerely appreciate the contribution Mike made during this period. He will remain a non-executive director on the board of AMP Life until the completion of the sale.

Peter Varghese and Andrew Harmos will also retire as directors at the conclusion of this meeting with Andrew remaining as a non-executive director on AMP Life Board until completion of the sale.

I would like to thank Peter and Andrew for their significant contributions to AMP and wish them the very best for the future.

Remuneration

I will now turn to executive remuneration and outcomes.

Prior to today's meeting, AMP has engaged with shareholders to explain our approach to remuneration, listen to views and respond to feedback.

When we reach item 3, we expect a significant vote against the remuneration report.

Naturally we are disappointed, so I would like to comment on remuneration in three key areas.

Firstly, the Board takes seriously its duty to act in the long-term interests of the company in serving the interest of all shareholders.

The 2019 remuneration structure was designed to reflect the scale, complexity and challenges involved in transforming the business as I referred to earlier - executing an ambitious strategy, separating the life insurance business, completing client remediation and addressing the company's challenging regulatory and legal matters.

The Board also recognised that an extraordinary remuneration plan was required to attract and retain an executive team with the knowledge and expertise to deliver the strategy, deal with the company's legacy issues, and ultimately improve business performance.

In our CEO and executives, we have a capable and driven team to deliver our plan. Their awards are substantial, but the hurdles are challenging. For the awards to be realised over the long term, these demanding hurdles must first be achieved, including a significant improvement in business performance and share price.

This approach to executive remuneration aligns with the view expressed by the Hayne Royal Commission - boards must remain mindful of the long-term impact of their decisions on both shareholders and the health of the business.

Using the health analogy, AMP has suffered multiple complications requiring continuing treatment whilst preparing for major surgery – the excision of the life business. In these circumstances in our private lives we would expect our health costs to rise substantially with specialist treatment and we would want to retain clinicians with best knowledge of our medical history.

This reflects the way we think about AMP because we believe there is a future, as the CEO will point out in addressing the strategy. In the corporate world the requirement for non-binding votes and potential board spills every two years reduces the incentive to properly invest in specialist care ultimately leaving the more difficult workouts to the unlisted markets.

Moreover, for companies in less challenging situations trying to match remuneration year-on-year precisely to profit and dividends, there is less incentive to invest in higher management skills for higher returns.

Either way listed company shareholders lose. Put simply, investment in specialist care is expensive.

Last August, when we announced the capital raising, a new strategy and revised agreement for the sale of AMP Life, the Board also revised the CEO’s remuneration arrangements, as foreshadowed at last year’s annual meeting. The revised remuneration arrangements included adjusting the recovery incentive hurdles and withdrawing the share option component of the incentive. The Board recognises that retrospective adjustment of hurdles should only be considered in exceptional circumstances. I want to assure shareholders that the Board has no intention to further amend the hurdles now in place.

The second point I want to address is about the complexity, and potential misinterpretation of statutory reporting of remuneration.

The statutory reporting required in our remuneration report and notice of meeting can easily be misinterpreted.

However, the amount disclosed is neither the amount paid to the executive in a particular year, nor a reliable indicator of what proportion of long-term awards granted that year will be paid in future.

In the case of our CEO, he did not receive $13.4 million in 2019 – this was the statutory disclosure. Last year, he received approximately $4 million in fixed remuneration and short-term incentive, reflecting the scale of the challenge he has undertaken, and the Board’s judgement of work done to date.

The remainder disclosed included awards the CEO received when he joined the company – strongly supported in last year’s remuneration report – and potential future earnings which are subject to challenging hurdles and the Board's discretion.

In our remuneration report for this year, we will aim to provide more detail to improve clarity.

The nature of reporting has also raised questions about the hurdles that executives must reach in order for long term incentive outcomes to be awarded.

Let me be clear – for these awards to vest, AMP's total shareholder return (TSR) growth will need to keep pace with other financial services companies which face far fewer challenges.

Thirdly, the Board recognises there are widely differing views across shareholders and proxy advisors on the appropriate remuneration structure.

Given the unique requirements and characteristics of a company, there can be no 'one size fits all' approach. The Board must design a system that meets the specific circumstances and challenges facing the company.

This was the driving force in developing the 2019 remuneration framework - to retain and incentivise an experienced and capable management to take the business forward, address the legacy issues and ultimately grow the longer-term value of our company.

However, we have heard and respect the feedback of our shareholders.

The Board will carefully consider all issues raised as we make our remuneration decisions in 2020.

In doing so, I can confirm:

1. There will be no further adjustment to CEO recovery incentive hurdles;

2. The Board will continue to apply discretion to all awards; and

3. There will be no further long-term incentive awards in 2020 for key management personnel, given these were intentionally higher in 2019.

I would also like to comment on Directors fees.

Last year, we considered how to best deliver greater operational and cost efficiencies at Board level. As a result of actions taken, overall spend on Board fees reduced by 8 per cent last year compared to 2018.

And by the end of 2020, we expect to see a further reduction in Board fees following the sale of AMP Life, a more streamlined Board and a reduction in Chairman fees, as signalled last year.

Appropriately, I am not involved in the discussion of my fee as Chairman so, I will hand over to Debra Hazelton, to comment.

Debra Hazelton to provide brief remarks

Thank you David.

As the Director who led discussions on the Chairman’s fee at the Board, I would like to briefly comment on the Chairman’s fee in 2019.

David accepted the role of Chairman at a particularly challenging time for AMP. Appointing a Chairman with his stature, expertise and drive was absolutely critical to turning the business around. On his appointment, there was unanimous Board agreement that David’s fee was commensurate with his experience, the task ahead and in recognition that he would forego income in relinquishing other roles which would have been in conflict with his role as Chairman of AMP.

David is very cognisant of the costs of the Board, including his fee as Chairman. In 2019, he approached the Board with a proposal to reduce the Chairman’s fee from 2020 onwards, reflecting the expected reduction in the scale of the business.

The Board gave in principle approval for a 22 per cent reduction in the Chairman’s fee from 1 January 2020, in anticipation that AMP Life would be sold, board renewal would complete and the strategy would be refined by that time. However, in January 2020 when the Board reviewed the Chairman’s fee they determined (with the Chairman abstaining) that there should be no change to his fee since the overall size of the business had in fact not reduced (given the extended time frame required for the revised AMP Life sale), board renewal was ongoing, and refinement of the strategy was still underway.

In March this year, for a second time, David expressed his strong view that the Chairman's fee should be reduced. His argument was that by now the initiatives I've mentioned were, from an internal perspective, well advanced.

The Board agreed with this approach and the Chairman's fee was reduced from A$850,000 to A$660,000 effective from 1 March 2020, taking it to back to the level set in 2015.

Back to Chairman

AMP's forward agenda

Strategy update

At our AGM last year, we made the commitment to transform AMP into a more agile, valuable and sustainable business.

In the second half of 2019, we took a critical step in delivering on that commitment by launching our three-year transformational strategy including a significant cost reduction program.

Following the renegotiation of the AMP Life sale, and to support the immediate implementation of our strategy, and thus the turnaround of the company, we also undertook a capital raising last year. The strong support from new and existing shareholders was welcomed and reflects confidence that AMP has a promising future.

In 2020 we are focused on execution, and delivery of our strategic priorities, which the CEO will discuss shortly.

Today, we have also announced an update to our New Zealand wealth management business. Given recent economic and financial market disruption, we have ceased plans to divest the business. We will now focus on developing and growing the business in its existing market.

As we have said before, the transformation of our business will take time, but we now have a clear three-year roadmap in place.

Responding to coronavirus and the path forward

Finally, I'll return to the subject of the pandemic, the impact of which the Board and management are assessing closely.

COVID-19 has threatened our health and wellbeing and disrupted the economy.

In our health system, governments face an upward spiral in infection rates and overall health system stress, including first and second round effects on mortality and morbidity. Health professionals have prepared well to date without yet having the ultimate test placed on the system's capacity.

At the same time, efforts to contain the pandemic will put pressure on the economy, with the risk of self-amplifying downward spirals in business failures, employment, and a decline in property and other asset prices.

At this stage of the pandemic, although the government's response has been timely and effective, we still cannot fully understand how their unenviable policy balancing act will play out.

At AMP, scenario modelling is based on variables including infection rates, health system impacts, the time lag to vaccination and the cost and duration of the economic downturn. The outcomes in terms of community health and economic impact vary from mild to very severe. They demonstrate that as yet there is simply no way to forecast the outcome.

What we do know is that by the time the virus is contained or managed, Australia will have accumulated substantial incremental government debt, on top of the high level of existing household debt.

Given the challenges we face, policy initiatives on a scale of the 1980s and 1990s seem inevitable.

If policy is directed to higher productivity, we have the opportunity to 'grow into the debt' – meaning that the economy grows quickly enough to service it.

Alternatively, we could take a protectionist approach to ‘inflate out’ or to tax our way out of the debt. In this scenario, there would be a higher risk that our economy stagnates similar to the 1970s, with external pressures forcing an unpalatable agenda.

In evaluating these policy options and considering our client’s best interests, we believe it is only a productivity driven agenda that will best protect the value of our clients’ financial assets.

We will continue to play our role as an essential service for our clients, people and shareholders and do our part to preserve stability and confidence in the in the country’s financial system.

Conclusion

There is still much work to be done to drive the turnaround of our business.

But with the critical initiatives delivered in 2019 and implementation of our new strategy underway, we have the foundations to do just that.

Our transformation will not happen without the commitment of many and I would like to acknowledge their work to date.

To my fellow Directors, thank you for your expertise as we steer the business towards a better, brighter future.

To management and employees, thank you for your significant effort, belief in our strategy and determination to deliver it.

And finally, thank you to our shareholders, for your continued support as we work to realise this once in a generation opportunity to rebuild our iconic business.

To conclude where I started regarding our special meeting arrangements for COVID-19, our AGM this year has recorded the highest voting participation rate from shareholders since 2004. We thank you for that.