AMP Full Year Results 2012 – Analyst Briefing

Howard Marks: I think we're done. Good afternoon everyone and welcome to AMP's 2012 Results Briefing. My name is Howard Marks and I am Director of Investor Relations. To my right sits the CEO, Craig Dunn, and CFO, Colin Storrie, who will take you through the results. Thereafter, the MD of the Australian Financial Services business, Craig Meller, and AMP Capital business, Stephen Dunne, will join the guys on stage for Q&A. So, without further ado, I think we should begin. Thanks Craig.

Craig Dunn: Great. Thanks Howard and good afternoon and welcome to everyone. So, today we're reporting an underlying profit of $955M for 2012, an underlying profit of $464M for the second half, up 3% on the same period for 2011. And, just to be clear, we're focusing on these two halves as the most appropriate comparative periods because they both involve a full six months of the former AXA businesses. The 2012 result reflects strong earnings growth in AFS Wealth Management and AMP Capital on the back of good growth, or good uplift, in assets under management, and very good cost control with underlying ... or controllable costs, rather, down 3% in Second Half 2012 against the same half in 2011.

As we flagged in our third quarter update to the market last year, our insurance business has been impacted by the challenging conditions across the industry, with poor lapse and claims experience, and I'll take you through the actions underway, or that we have underway in that business, in a moment.

There's been a big turnaround in AFS net cash flows by around $1.7B and the integration continues to track very well with the timing of run rate synergies continuing to be ahead of plan. We have further strengthened our capital position with $2.4B in surplus capital above minimum regulatory requirements, based on the standards in force at 31 December 2012, and we're well positioned to meet the new capital standards and the broader regulatory change occurring across the industry. At the same time we're delivering encouraging results from our new growth opportunities, like our move into self-managed superannuation and with our alliance with MUTB in Japan.

If I can ask you to turn to Chart 4, and that's where we set out our key performance indicators, and you can see here we've got growth improvements in many parts of our business coming through; the benefits of falling costs and our costs ratio, as well as the impact of that difficult insurance market and softer cash flows in AMP Capital, while the merger and the further strengthening of our capital base in the lead up to the new capital standards, has weighed on our return in equity in 2012.

The Board has declared a final dividend of 12.5 cents a share. That's 65% franked up from 55% for the first half. It takes our total dividend for the year at 25 cents a share, and that represents an underlying payout ratio of 75% ... 76% rather, which is within our range. We have also removed the discount on our Dividend Reinvestment Plan.

Chart 5 sets out the profit summary for the full year. I'm going to take you through the business unit results in a bit of detail and then Colin will talk you through the movements below the line, if you like, or below underlying profit, as well as taking you through an update on our capital position.

On Chart 6 you can see the big drivers of our underlying profit, being strong growth from increased sales and better markets, high performance fees in AMP Capital, the delivery of our cost synergies and otherwise tight cost control, partly offset by the results from our insurance business.

As you can see, on Chart 7, we remain well on track to hit our integration synergy target of $150M with benefits emerging faster than planned. And the first quarter of this year will be a pretty important milestone for us; by that time we will have delivered on or completed around 75% of the projects of the integration, and so we'll move the management of that program back to a more business-as-usual footing.

Pleasingly, we're delivering these cost synergies while at the same time as growing our business franchise by driving up both adviser numbers and an improvement in market share in superannuation.

So, if we go down to a bit more detail on the business unit results, and on Chart 9 you can see the outcome, or the overview for the results in AFS, a bi-major business area, this really is a tale of two businesses. Our Wealth Management business is driving strong growth with very good sales, a 10% uplift in AUM, excluding SMSFs, and a good contribution from AMP Bank.

That of course has been enhanced by good cost control. CWM investment-related revenue margins also held up very well, and after costs and taxes, overall margins were up strongly to 36 basis points. That compares with 30 basis points in the Second Half of 2011 and 33 basis points in the first half of 2012, and offsetting that strong performance has been out wealth protection business. And the results across the industry clearly demonstrate we're operating in a difficult insurance market now, and while the business model we have we've heavily relied on aligned advisors and also a lot of our risk insurance written in superannuation does give us some benefit as a big player in this market. Obviously we haven't been immune to the broader market pressures.

On Chart 10, we give an overview of how this is impacting our business and what we're doing about it, and in the Second Half of 2012 and especially in the third quarter we saw our claims experience reverse from profits into losses, and that was driven by higher claims or poorer claims experience in our AMP Life income protection book and also in our Group Insurance book. The trend up in lapses continued across the second half, particularly for our individual lump sum businesses. As more people have decided in a challenging economic environment, and some because they're reaching retirement, to reduce their amount of cover or forego their insurance policy altogether. Some customers are also switching their business more regularly than in the past.

While some aspects of those changes are clearly cyclical we have strengthened a number of our key assumptions at the year end, so at the full year the major changes or strengthening of our assumptions were, for lapses, in our lump sum products for AMP Life and MLA and for our claims and lapse assumptions for AMP Life's income protection book. And as we note on this chart, the strengthening of our lapse assumptions had the much bigger impact on EV and this will also be true for the impact on planned profit margins for the coming year. The degree to which we've strengthened those assumptions in part reflects our past experience where claims outcomes typically are more volatile than trends in lapses.

That's particularly true for lump sum claims, and has also allowed for the management actions we have in train to improve the trends we're seeing, and those actions include some targeted pricing reviews and product redesign and increased investment in retention ... client retention or customer retention activities and claims management. And obviously that remains a key focus for the business going into the coming year.

If we move now to Chart 11 where we talk about wealth management, and the performance of this business has been very pleasing as we've driven net cash flows higher, we've driven costs lower while maintaining good margins. And following the merger, we now have a much more complete set of high performing contemporary products and platforms now supported by Australia's largest advice network. We've tripled North net cash flows over the year as we've continued to upgrade the functionality of this platform and also as we've continued to roll it out across the broader AMP advice network. We maintain Flexible Super as one of the fastest growing products of its type in the market, and so together, Flexible Super and North contributed almost $5B in net cash flows for 2012. And this success along with our push into the self-managed funds market has helped drive up our share in superannuation and total retain-managed funds over the past year. Importantly for the future growth of this part of our business, we've also continued to grow our planner and adviser numbers, and again at a faster rate than the rest of the market.

If you could turn now to Chart 12 and we'll go through the results for AMP Capital, and the good results you see here reflect the business' success in reshaping many of its capabilities and some of its key business partnerships over the past year, along with the benefits of the AXA integration and its leverage to improving markets.

The success we're starting to see in this business is a clear endorsement of the strategy we embarked on four years ago where we made a major investment in a new operating platform in this business. We upgraded our investment talent and capabilities and we started our move into targeted markets offshore. That investment is now paying dividends in the form of high fee income.

The new operating platform has meant we have been able to move across the AUM from AXA without any increase in our costs base in AMP Capital. It also means we're seeing higher performance fees, good cost control and, pleasingly, ongoing improvements in our investment performance in that business. It also includes the very good progress we're making with our alliance or partnerships with MUTB in Japan. We launched two new funds in the second half of last year attracting more than $500M in new net cash flows and also won our first institutional mandate through that relationship.

So I'll come back and talk a bit more later on about our future strategy but I'll pass across now to Colin to talk about some of the other financials including our capital position.

Colin Storrie: So, thank you, Craig, and good afternoon, everyone. Today I'm going to take you through the profit and loss statement, our tight cost control and our strong capital position. And then, later on, I'll spend some time explaining what happens to our capital position particularly under the new Life and General Insurer Capital Standards or LAGIC.

So just turning to Chart 14, which is some of the key points on our P&L. I'm going to explain how we go from our underlying profit of $955M to our net profit of $704M. First, I'll go through some of the market adjustment lines and the accounting mismatches.

These line items are based on financial market variables and they cannot be forecast. So, first of all, those market adjustments over all were negative $25M and that reflected lower short term investment returns on our shareholder capital as interest rates fell, market impacts on the annuity book and the affect of bond rates on policy liabilities. Accounting mismatches were negative $29M, largely reflecting the mismatch in the valuation of assets held on behalf of policy holders versus the valuation of policy liabilities. The largest mismatch arises from owned AMP shares, which increased in value in the second half.

Other items were positive $34M and that reflected the positive resolution of certain items with the ATO offset by providing for the cost of regulatory change. And both of those items were articulated in the first half. In the second half of the year, there was a $28M benefit from the Duet transaction. And the key thing to note is that, for 2013, we've assumed that our after-tax underlying investment income will move from 4.25% to 3% for shareholder capital and to 1.8% after tax for deferred acquisition costs and that's due to reductions in interest rates. So moving to Chart 15, which is cost control. So, overall, controllable costs are down 2% and that's in line with the guidance that we gave at the half year which was that, on a like-for-like basis, our costs would be 2% to 3% lower and that included the absorption of some costs associated with Cavendish and also the internalisation of the Brookfield Venture.

In the second half of the year, groupwide costs were down 3% on the second half of last year. In AMP financial services, second half costs were down 4% on 2011 despite the addition of the self-managed super fund business of Cavendish to AFS's cost base. And then also, in AMP Capital, second half costs were down 1% on the Second Half 2011 despite the fact that we in-sourced the Brookfield joint venture and had an increase in variable staff costs as the business performed well. So in 2013, we expect that our costs will be down by around 2% right across the group and we'll continue to evaluate opportunities for further efficiencies throughout the year.

So just moving to Chart 16, which is the balance sheet, we have more capital resources as a result of strengthening our capital position and our total capital resources are now $9.3B. Our debt metrics remain broadly unchanged in relation to gearing and interest cover. The group continues to have significant access to liquidity with around $1.1B of cash and undrawn facilities and no corporate debt maturities within the next 12 months. Chart 17 shows AMP's capital position, that's under the old standards, at the 31st of December 2012, total regulatory capital resources above minimum requirements have grown by $877M to $2.4B and this growth was driven by profits net of dividends and the DRP, proceeds from the MUTB alliance, capital efficiencies and positive markets offset by capital used in the business for growth, integration and investment. Total shareholder capital surplus above minimum regulatory requirements increased by $654M to $1.6B.

So moving on to Chart 18, which is an update on LAGIC. As a result of the strength and capital position, we're well placed to absorb the impact of LAGIC. There are some presentational changes under LAGIC and we're provided a proforma of how that may look on Chart 18. And we've done this because there are two main changes required under LAGIC.

First, there's a change in the split between minimum regulatory capital requirements and deductions from capital resources and this largely relates to the removal of deferred acquisition costs from both capital resources and also capital requirements.

And, second, the policyholder surplus does not form part of the revised prescribed capital requirements. So to talk you through the surplus capital position, the pre-LAGIC surplus is $2.4B and of this $776M was policyholder surplus which leaves $1.6B of shareholder surplus in excess of minimum regulatory requirements. And from this, the increased LAGIC capital requirement of $272M is subtracted to $1.4B in surplus above MRR post-LAGIC.

I'd also like to emphasise that while policyholder surplus no longer forms part of the LAGIC capital base, it's purpose has not changed, and it's still there to absorb market shocks for the participating business. So that's what we show is the way that we believe we'll be presenting this information going forward, subject to any changes in the Conglomerate Standard. So, moving onto Chart 19, the increase, as I mentioned before, of $272M is larger than the $200M that we estimated in June, and the difference is predominantly driven by market movements. So, just to emphasise that both standards behave differently under different market conditions, so they have moved alternatively, and that's the main driver of the difference.

The new capital standards also provide a different sensitivity to varying market conditions, and we've provided those on Chart 36 of the Investor Presentation. So as you can see from Chart 19, we have built up our capital position substantially in anticipation of LAGIC, and we're well placed to cover the increased capital requirements.

So Chart 20 on dividend. The final dividend will be 12.5 cents per share, at 65% franked. That's up from 55% at the half year. That makes the 2012 dividend 25 cents per share, which represents a payout ratio of 76% of underlying profit. Given our current strong capital position, we are removing the discount from the DRP allocation price. So, just to sum up, AMP Capital … AMP continues to be well capitalised, even after applying the new LAGIC standards, with $1.4B in shareholder regulatory capital resources above minimum requirements. This capital strength gives us the flexibility we need to manage market volatility, respond to regulatory change, including APRA's conglomerate proposals, where we have transitional arrangements with APRA on the subordinated debt that we hold at the Group level, and also our dividend payout ratio is in line with our target range.

So with that, I'll hand back over to Craig. Thanks Craig.

Craig Dunn: Great. Thanks, Colin. Okay, so apart from working hard to drive improved financial results, we continue to push forward on our strategy to sharpen AMP's competitiveness and enhance our growth platforms. On Charts 23 and 24 we are showing real progress in the delivery of that strategy. The merger with AXA, along with the actions we've taken around that, mean we now have two of the fastest growing superannuation investment products in the market, in Flexible Super and North, that are generating significant net cash flows. The largest financial planner network in the country, that's growing faster than the broader industry, and positions us well as markets continue to recover.

The leading SMSF administration business, also growing faster than market. A strong new alliance with one of the largest distributors in the Japanese market. Significant new investment flows from blue chip international clients, all supported, as Colin said, by a strong and flexible capital base. And we're continuing our work to reshape and reposition the business as the world changes, with changing consumer behaviour, digitalisation and mobile technology, and of course, ongoing regulatory change.

And you can see that on the next chart, Chart 25, how we're continuing to adapt AFS in this new environment. These changes go well beyond preparing for regulatory change, although clearly that will be a very important priority for us, and our business partners, and a strong focus for us in 2013.

But we are also developing and investing in new ways of interacting with our customers and advisers, including the use of greater mobile technology. We are trialling new options in advice and different ways of accessing that advice, and using deeper customer insight to develop more compelling offers, including the important market space of corporate superannuation.

As I said earlier, building our presence in self-managed super is also a key part of our growth plans going forward. On Chart 26 we've set out more detail on that strategy, on our new SMSF business, and how we're working to grow that over time. In just seven months we've built a leading position in the administration of this sector, and with the acquisition of Cavendish we're now a clear market leader, and our organic growth in this sector over the past six months is running twice the market rate. And we continue to be very pleased and excited about the potential in this business.

On Chart 27 we also look to the good progress we're making in the targeted offshore expansion through AMP Capital. I've talked about this in the past. Essentially, there are two elements to this strategy, if you like. The first is building relationships with major distributors, or national champions, like MUTB, to take our investment capabilities into large new markets, in a sense replicating the model that we've done very successfully, or used very successfully, in Australia. And secondly, we're working to link large saving pools, particularly in Asia and Australia, with attractive investment opportunities both here and abroad.

We're continuing to expand our international client base. That includes building our alliance with MUTB, but we've also attracted significant new investments from some of the world's largest and most sophisticated institutional investors over the past year. They include the Abu Dhabi Investment Authority, the Canadian Pension Plan Investment Board and China's National Council for Social Security Fund.

So, to sum up, before we go to Q&A, we're pleased with the progress that we're making and the earnings momentum we're building across both our wealth and asset management businesses, while we adapt very quickly to new growth opportunities across the broader market. And, while the business conditions we're seeing in our insurance businesses continue to be very challenging, we're doing all we can to help turn around that, at least for the things we can control. Over the past 12 months, while we've delivered successfully on the merger and driven merger costs, or overall costs lower rather, we've also turned around our cash flows in AFS, we've grown our adviser numbers, we've moved aggressively into new growth areas, like SMSF, and with our relationship in Japan with MUTB. We've continued to reshape the AMP Capital business, we've prepared our business well, and our business partners, for the regulatory change coming up this year, and, as Colin said, we've managed the introduction of stringent new capital requirements across the group.

And, in doing so, we've clearly demonstrated a strong capacity to manage capably a very large and complex change agenda, while at the same time still growing business momentum which holds us in good stead for what is going to be another busy year in 2013. And we continue to look hard at our business for further opportunities to invest in the right investments and also to drive ongoing efficiencies as we move into 2013.

So I'll finish there, Howard, and pass back across to you.

Howard Marks: Thanks Craig. While Craig and Stephen join the guys on stage, I'd just like to remind everyone that today's briefing is being webcast live, so if you do have any questions please wait for the microphone and then state your name and company clearly so that you can be registered.

You guys ready? So, if there's any questions I'd like to take them from the floor first and then we'll take them from the phones thereafter. James?

James Coghill: Thanks Howard. James Coghill, UBS, a question on life insurance. Craig, you mentioned that lapse assumptions had been strengthened in both NMLA and AMP Life, so I was just interested to understand the relative performance of the two businesses. I would have thought that AMP Life and all your dealer groups would have had better lapse performance, but has there been much of a difference relative to a business more focused on the IFA channel?

Craig Dunn: There hasn't been a great difference. That's a good question James; I'll ask Craig to add to the detail, but the changing assumptions that we made at the end of the year, December, had about the same proportional impact on the value of both the AMP Life business and the NMLA business. Craig, do you want to add to that?

Craig Meller: Yeah, so the change for both the businesses has been broadly similar, albeit that AMP Life's lapse rates, historically, have been a little bit stronger than NMLA's, but principally that's been almost entirely due to the mix of aligned planner business relative to IFA planner business. But the worsening has been pretty even across the whole book.

James Coghill: If we're just, if we're looking at the average lapses that you disclosed for '12, because I appreciate that there's seasonality first half to second half so I think it was disclosed as 13.9%, how should we be thinking about that rate relative to the revised assumptions?

Craig Meller: The lapse rate typically shows some improvement in the first half of the year, and principally that's because the AMP Heritage Superannuation linked business has the price increases all go through on the 1st of July, whereas the rest of the portfolios typically will see a smooth increase in premiums on the policy renewal date for the clients. That means, typically, we can expect to see a drop in the lapse rate in the first six months of the year against the Second Half of 2012, but then you'd expect to see a higher lapse rate again.

James Coghill: Yeah, I guess the question was more related to how the assumption compares to actual lapses that you're currently experiencing. Does the assumption factor in an improvement in lapses from what you are currently experiencing?

Craig Meller: Yeah, okay, okay. So, if you look at the $50M of, broadly $50M or so, of negative experience in the business during the course of the second half – but frankly that's pretty similar to the whole – approximately $20M of that was due to lapse experience and $30M due to claims experience, with $20M being retail business and $10M being group business. In terms of improvement in lapse assumptions into the planned margins, $20M, it's about $20M from lapses and $10M from claims.

James Coghill: Just a quick one perhaps for Colin on these revised assumptions for underlying investment income, perhaps you can just explain why the different assumption for the asset that earned a return, that back stack – emphasis back – relative to real cash assets that you've got sitting in your shareholders' funds, the 1.8 versus 3%?

Colin Storrie: Yes, sure. So DAX discounted at the interest rate curve and it has unwound and the short ... the short-term interest rate, which is the discount rate that we use for all of our liabilities which is a government rate, and if you look at the asset mix that we have in the shareholder's fund it's slightly different and we do get an uplift on the cash. Even though it might be ... there is a large portion of that asset mix in cash, we still get an uplift because, if you like, of credit because it's invested in different forms. So that's why we split the two different assets, different asset mix and different ... compared to the discount rate we use for that. Does that make sense?

James Coghill: Yes, that's fine.

Howard Marks: Yes. Nigel.

Nigel Pittaway: Craig, it's Nigel Pittaway here from City. First of all, just on wealth management, you obviously highlight the cost control and improved flows in that division and the way that has impacted the profit. If, however, you look on Page 22 of the investor report, more at the sort of value of new business, you are seeing continued declines in that. I think it's about 6% for the full year and 8% Second Half '12 versus Second Half '11. So can you maybe just make some comments about that and whether that concerns you at all.

Craig Dunn: Yes. I don't - I mean, Craig might like to add to this. I don't think that concerns us. I mean, that's an important metric. We tend to focus more on fees less expenses given the nature of that business. I mean, from time-to-time we're going to get margins improving, so I don't ... I don't see that as an issue. As I said before, we've had good cost control in that business. The margins have held up pretty well and we've had very good growth in net cash flows. I don't know, Craig, do you want to add to that?

Craig Meller: Yes. The only other point I would make about the value of new business for the wealth management business is because of the way the actuarial calculations are put in place, it doesn't truly reflect the operational leverage in the business because it doesn't anticipate the future costs base being as flat as it is. It presumes a future costs base growing in line with the current costs ratio. So that's one reason why in the wealth management business many years ago we've moved away from talking about VMB for that part of the business and focusing more on a fees less expenses basis.

Nigel Pittaway: So that's not because new businesses require more capital or anything of that nature?

Craig Meller: No, no.

Craig Dunn: It's more around the costs assumptions.

Nigel Pittaway: Okay. And then picking up Colin's point on the changes in sensitivities under the new standards, if you just compare the sensitivity table you've provided this time to the one you did six months ago, it does look at oversensitivity to bond yields and property have significantly increased and the sensitivity to equities has declined.

Is that all due to the change in capital standards or are there some changes in protection that are also affecting that?

Colin Storrie: Yes, there's some marginal changes to protection but the main change there is the impact of the LAGIC capital standards and the sensitivities there, and just bear in mind that the sensitivities that we previously had also included the policy holder capital in there as well and that's no longer in there. So the standards only focus on shareholder and the shareholder sensitivities.

Nigel Pittaway: Fair enough. All right. And just one final question, the other revenue in contemporary wealth management has obviously gone up a lot from first half to second half. I realise there has been a transfer of Multiport there. It was meant to be down in the first half because of the sale of the general insurance business, so, I mean, is it right to presume that all the difference between the 46 in the first half and the 57 in the second half relates to Multiport and other SMSF-related profit?

Craig Meller: The growth in that part of the business, firstly there's a one-off in terms of us taking the revenues from SMSF out of the AUM-related revenue and putting that into other ...

Nigel Pittaway: This is about three million and a half.

Craig Dunn: Yes.

Craig Meller: Yes. And that wasn't quoted in the previous half, so there's something ... that was a change we made in the second half of the year. Apart from that, the revenue growth in that business tends to come from the share of revenue that the distribution businesses take out of the product manufacturers, both AMP and the broader market.

Nigel Pittaway: All right. So it's only really Multiport that's the main SMSF ...

Craig Meller: Yes, and Cavendish can be there as well.

Nigel Pittaway: Yes. All right. Thank you.

Craig Dunn: Remember, Cavendish was acquired early in the first half, Nigel, so that sort of accelerates the shift, or that change in the second half.

Howard Marks: Kieran.

Kieran Chidgey: Kieran Chidgey, Deutsche Bank, just a follow-up question on the wealth business and then one on the investment assumption. Just when we have a look at the investment-related margin within Australian Wealth Management, which held pretty flat at 125 basis points second half on first half.

Colin Storrie: Yes.

Kieran Chidgey: Historically, you’ve given us the building blocks behind that margin. Have there been any changes beneath the surface? Are you starting to see a bit of a change in fund allocation towards higher margin products which is potentially going to lead to some sort of margin step up in the period ahead?

Craig Dunn: Craig?

Craig Meller: Nothing that impacts on these results, essentially. It was pretty flat from the first half through to the second half of the year. The margins are slightly higher in the AMP-owned platform business, which the cash rates have been much more strongly positive and much lower in the external platform business where margins are lower for AMP. And so that's been one of the sort of mitigating factors of the broader margin decline that we've seen over the period.

Kieran Chidgey: And the fund flows you have seen this period, has there been a change in allocation away from cash?

Craig Meller: Again, not in the figures that you see here if you think the market only really started to move in December last year. And so the performance of the cash flows is very much, to our mind, driven by a change in our business activities and driving the business harder rather than a sort of more general move to improvement in investor sentiment causing a move into growth assets. We have seen a marked improvement through the end of December and into January and up to date in terms of cash flows and flows into more growth-oriented investments over the last couple of months.

Kieran Chidgey: Thanks. And a second question just from James' for Colin in terms of the underlying investment assumption. Can you just talk about – given this has been a review which has been a bit of a long time coming, what thought process went into the asset allocation around that 3%, whether or not there was the possibility of taking more equity exposure to keep that assumption high just given there's quite a material drag on your underlying profits for the year ahead.

Colin Storrie: Yeah, I think you could say it's a long time coming. I guess it depends on what interest rates ended up doing, and I guess with falling interest rates, obviously the change became bigger. I think, also, we do look at – so we do have – if you look at the asset mix, which is on Page 35 of the Investor Report, you can see there that there are some other assets in there other than cash but I think you're right. So that's something that we do look at within our risk appetite, whether there's scope for us to target higher rates. And that went into us setting that higher, if you like, credit or other asset risk to target the underlying investment income assumption of the 3%. So that's something that we're comfortable with and obviously the business targets in terms of its investment mix. So does that make sense?

Kieran Chidgey: Yeah. Well, I mean, basically. So we're not expecting the asset allocation to change from this point forward?

Colin Storrie: So will make – obviously we keep a conservative capital position and we like to make sure that the capital that we do have held there for the various risks is largely stable but it doesn't mean that we should be lazy on that capital, we should also be trying to chase as much return on that capital as we can and certainly we do look at that asset mix from time-to-time. And we do, if you like, compare that to what our underlying investment assumption is try and align the two.

Craig Dunn: It's fair to say, just building on Colin's answer, that whilst we might tweak that, the risk appetite for that portfolio hasn't changed fundamentally. And there is a consequence, Colin, of the amount of capital you have to hold under the standards by putting more into growth assets. So there's a trade-off you need to think through there as well.

Colin Storrie: Yes. So I guess we look at the return on capital of that. So, obviously, you hold more capital for a higher return and that generates different return on capital outcome. So that's something we have to balance that up against, obviously, the security of having cash, which doesn't change in value.

Kieran Chidgey: Thanks.

Toby Langley: Hi, it's Toby Langley from Nomura. I've got a question on the North platform, which performed very well in the year, and increasingly so. You saw much less of the business coming on there in the form of non-guaranteed products. I'm just wondering if you can give us some sense as to whether that … well, that was also changing during the year? Presumably there's a correlation between market level and the propensity for the customer to take a guaranteed product? I guess that's the question, and whether you've seen that continue as the market has rallied into the first few weeks of 2013? And then, separately, this is maybe not so much a question – more an area for discussion – but with regard to the partial lapses on wealth protection, is the kind of householder leveraging process something that we should be keeping an eye on, and should we not be anticipating some kind of step down in demand for life insurance as a result of that process … and … if that's clear?

Craig Meller: Okay. On the North guarantee, we repriced the book early in … for new business, early in 2012, and that saw a drop off in people taking up the guarantee. And I think it was more price-lead than any views about the market. We're continuing to see very low take up levels of the guarantee with current pricing. The pricing is driven by a number of factors. One is market volatility as a whole, but also long term interest rates. And as long term interest rates have come down, so we've needed to increase the price of the product to ensure it delivers an adequate return. So that's been the challenge with the North product. On the other hand, we're much more comfortable with the mix of North between guaranteed and non-guaranteed as it's running today, so we're very comfortable with the way the platform's performing.

On the partial lapses, it's more been an issue of – and I think this is the industry as a whole – the Baby Boomer Generation, as it's sort of got into its 50s and 60s, has caused a lessening in the requirement for life cover as a whole. And of course, that's a larger percentage of the population. And so partial lapsation is something we've seen much more in older people getting nearer to retirement, if you like, rather than any sort of broader de-leveraging in the population.

Toby Langley: Thank you.

Howard Marks: Ross.

Ross Curran: Hi, gents, it's Ross Curran from CBA. I've just got a … sort of a bigger-picture question on the competitive landscape following ANZ's very aggressively priced super product at 50 basis points. Is that putting pressure on you to revisit your pricing assumptions?

Craig Dunn: Craig?

Craig Meller: We'll always act to ensure that we have competitive pricing in the marketplace. But the structure of products can be different, and the way that players extract margin from the products can be different.

So, for instance, there's a number of products in the marketplace that have appeared over the last year where they have very high allocation to cash balances, with not great rates on the cash balances. So the MERs appear to be very low, but the end value to the client is maybe not quite so strong. So we don't see any concerns about our capacity to compete effectively going forwards. You've got to make sure that when you're looking at comparisons you're comparing apples with apples.

Howard Marks: Dan.

Daniel Toohey: Thanks. Daniel Toohey from Morgan Stanley. Just a couple of questions. Firstly, just on the life company. Can you talk about what you're seeing on the rate cycle across both group and individual business?

Craig Dunn: Sorry, Daniel …

Daniel Toohey: In terms of pricing.

Craig Dunn: The pricing. Oh, okay.

Daniel Toohey: The pricing across the group … group Life and individual?

Craig Dunn: Yeah, sorry. Yeah, okay. Thank you.

Craig Meller: We're seeing pretty aggressive price increasing across the group market, and they've been well published in the media. It would be fair to say we haven't seen the same sort of quantum that I've seen quoted in the media for increases in some of the larger group schemes in place in the retail marketplace. But if I look at the landscape more broadly and look at the financial performance of the retail business of our competitors, in a marketplace that we think is rational, we think over the medium time … over the medium term the market is going move to reflect the change in the underlying claims ratios that we're seeing in the market.

Daniel Toohey: Okay, and then just on the lapse experience, my understanding is the proposal that was put forward by the industry from the FSC has actually been taken to the ACCC to respond on; is there any ... have you got any thoughts on what your expected outcome would be?

Craig Meller: Yeah, I think the FSC – well I don't think, I know – the FSC made a decision in the last week not to proceed, but because of the complexities of the legal issues with getting an approval from the ACCC both AMP and the FSC were very interested in the end consumer's interest with regards to the sort of replacement business terms, and it was essentially designed to ensure that any premium increases that may go through would be as low as possible and weren't being affected by those customers who were moving their premiums very regularly. That intention is still there but we're going to have to find another way, both within AMP and the broader industry, to mitigate some of those problems that we're seeing across the broader industry at the present time.

Daniel Toohey: My final question relates to regulatory changes under FOFA.

I'm hearing a little noise that there may be some tinkering of some of the grandfathering provisions, and I was just wondering whether that, if that outcome emerged, would that have any adverse implications on your margin expectations or on the, I guess, on the investment required to provide the necessary transparency on the legacy book going forward?

Craig Meller: Yeah, so there's nothing we're aware of that would change the underlying guidance that we've given for our margins going forwards.

Daniel Toohey: Okay, thanks.

Howard Marks: Nigel?

Nigel Pittaway: Sorry, just one more. Just on the, obviously, the lower investment rate of the 3%, obviously what that's going to do is potentially impact underlying profit numbers moving forward; given where your capital position lies and the fact that merger costs – I know you've still got one half to run now they've been deferred – but given the pressure comes off on merger costs, is there no temptation to lift the payout ratio of underlying profit for the dividend moving forward?

Craig Dunn: Temptation to lift it?

Nigel Pittaway: Yeah, lift the payout range? 'Cause otherwise, obviously, the dividend effectively comes down with the higher investment yield.

Craig Dunn: Yeah, I understand. Yeah, so that obviously does have an impact on underlying profits going forward. I mean, against that you've got further cost-out to come through the business, you're seeing stronger growth in net cash flows, you've seen a good, a very good start to the year in AUM pick-up, so I mean the Board's declaration of a dividend is obviously going to be driven by what's happening at that particular time, but, you know, the Board does look forward to the future when it sets it dividend level. We're comfortable with the dividend level we've set in absolute terms and the target payout ratio we have.

Howard Marks: Brett?

Brett Le Mesurier: Thanks, Brett Le Mesurier, BBY. Rocko, I see you down there not answering a question yet, so I'll give you one. I presume that the pricing and the reserving assumptions are the same in the wealth protection business?

Rocco Mangano: Sorry, I'm not, I'm not understanding what you're questioning me about, I'm sorry?

Brett Le Mesurier: I'm asking whether or not they're the same. In other words, is the ... in particular, for example, the disability reserving assumptions you're using on claims are exactly the same as what you use for pricing the business, and the same would be true for lapse assumptions and term life policies?

Rocco Mangano: Yes, certainly the pricing assumptions as ... the best estimate assumptions that we use for valuation are the starting point for pricing. Typically, when you're dealing with pricing though you'll go to a more granular view and there'll be places where you'll take a different view for the future, and that's reflected, but, broadly, the starting point is always the best estimate used for valuation.

Brett Le Mesurier: Thanks, and Craig, a more general question, I notice you didn't put in any guidance this time on the future margin that you're expecting, or the margin decline, in your Contemporary Wealth Management business. I presume you did that because nothing's changed?

Craig Dunn: Yeah, so we would reconfirm or reiterate the guidance we've given in the past, Brett. Yeah, that's right.

Howard Marks: I think that there's ... James? Sorry, James. And then we'll go to the phones, I think, after that.

James Coghill: James Coghill, UBS. Sorry, Craig, just a quick follow-up. I thought you left us hanging on that response to the FSC question. So given that there was a view that you need to strike consumer best interests, do you feel that there is a road forward ... a path forward for an industry response to this lapse issue or do you think different members of FSC are going to have to deal with it individually? Is there actually a way to take a submission to the ACCC and get it up?

Craig Meller: Yes. I think that's going to be very challenging. That's the discussion we have had around the FSC Board table to get a very clear and coherent economic argument that would be compelling would be very challenging, was the essence of the conclusion the FSC reached. But I do think with the changes in business performance that we're seeing, both with ... obviously within our numbers but in the industry more broadly, it's going to drive more innovation and thinking around product structure, product design, and how those are organised and then how products are sold through the marketplace going forward. So my expectation is that sort of innovation in product design will help to eliminate some of the lapse issues that we're seeing.

Howard Marks: Right. No more questions from the floor for the moment. I think we will go to the phones if we can.

Facilitator: Thank you, the question is from Lafitani Sotiriou from Bell Potter Securities. Go ahead, thank you.

Lafitani Sotiriou: Thank you. Good afternoon, everyone. Just one remaining question. With respect to the synergy target of $150M and given the company is tracking ahead of expectation, is there still capacity to upgrade the target or will any further gains be captured as business as usual?

Craig Dunn: We're comfortable with the target of $150M. It doesn't include, and it never has, the benefit of some of the revenue growth that we're seeing in the North platform because it's almost impossible for us to prove to the market that that's a net synergy. So we're comfortable to leave it at the 150, but having said that, you know, I think the ... one of the most pleasing things about the 2012 result is we're hitting those synergy targets and at the same time the net cash flow momentum and the adviser momentum in the business is improving.

Lafitani Sotiriou: And can I just clarify, with the investment platform offering you have, is most of the investment an ongoing investment going into AXA, North and ... or I guess the four products, or is there still investment going into some of the Legacy AXA product?

Craig Meller: The principal investments on the wealth management side are into the North product and into the AMP Flexible Super arrangements as well as significantly increased investment into our self-managed super capability.

Lafitani Sotiriou: Okay. No worries. Thank you.

Facilitator: Thank you. The next question is from Ryan Fisher from Goldman Sachs. Go ahead, thank you.

Ryan Fisher: Thanks. A couple of quick questions. Firstly, you guys are doing a great job controlling what you can control, but if you just look at one of the things that's not controllable is all the government noise. So I was just curious, is one of the more material things that they've talked of is potentially doing away with transition to retirement. I was just wondering how significant is that to your business given you did such a good job of getting it in? And what are your thoughts broadly on what to do with the retirement income space?

Craig Meller: The transition to retirement arrangements we think are very attractive because they encourage greater retirement savings for Australians. But more broadly for our business, I think the key issue is Australians need help in planning for their retirement, particularly as they move into their 50s and get nearer to their retirement. And so having the capacity to deliver advice to people is what really drives our business more than a particular tax treatment at any point in time, so whilst we're not keen on tinkering with the system which could potentially cause a loss of confidence in the system, we think our business model is going to be very effective at providing advice to 50 year olds and then downstream benefits to both the customer and to AMP, frankly, whatever the TTR arrangements.

Craig Dunn: It's fair to say, Craig, that with the reduction in caps particularly for people over 50 whilst the TTR is still effective you don't have quite the same volume coming in because the caps aren't as large.

Craig Meller: No, no. But similarly, I think we and the industry as a whole has seen increases in non-concessional contributions coming through at the same time.

Craig Dunn: Yes, that's true.

Ryan Fisher: Great, now just following on from that, and this isn’t my second question but just a follow on, you have, I guess, jumped over the pack with SMSF and made it pretty clear show as to what you’re going to do there. Could you talk about your retirement income product and whether it’s going to be more of the same or whether you have anything new planned?

Craig Meller: I think the products can be served within an SMSF capability or they could be served within a traditional pool superannuation trust investment. I think maybe the point you’re alluding to is do we see re-entry into the annuity market as attractive beyond what we’re already providing with the sort of variable annuity type of North product. And I think the challenge we find there is finding a product construct that can deliver adequate return to the consumer, adequate return to our shareholder and match our risk appetite is a challenge that we haven’t been able to solve to date.

Ryan Fisher: Okay, thanks, Craig. And, finally, just on the DAC assumption. As James mentioned, the 1.8% are fairly low although I guess it is tax adjusted. But is there an offsetting benefit to the protection business from effectively charging them that lower rate?

Craig Dunn: It's effectively the same rate both sides of the equation.

Ryan Fisher: But is the change in that underlying assumption actually flow to an improvement inside protection?

Peter Sainsbury: I think it only impacts where it appears, whether it appears above or below the line. But the outcome is the same because the business is valued on a risk-free rate and has been valued on a risk-free rate in the past as well.

Ryan Fisher: Okay, thank you.

Facilitator: Thanks. There are no further questions from the phone at this stage.

Howard Marks: That's all right, We'll go back to the floor.

Daniel Toohey: Daniel Toohey from Morgan Stanley. Just another question on the Life business. I guess we've had our second hit to the EV, we've had a second go at rebasing the plan margins. Do we think that, in terms of the development of this negative experience, it's peaked or do you think we've still got more to run?

Craig Dunn: That's a difficult call and Craig might like to add to this. I mean, because, to be fair, a reasonable part of its cyclical, i.e. if you look back over time, when you get a tough economy and when you sort of get cost of living pressures on families, you always see lapse rates go up. And, frankly, in tough economic times, you always see income protection claims go up. So it depends a bit on the economic cycle and how quickly that turns around. Of course, we can do stuff internally that we've talked about before, and Craig's discussed, to drive that down and improve for AMP but the cyclical bit does depend a bit on what the market does.

Craig Meller: Yeah. I mean, the only point I'd make there is the planned margins are based on our best estimate assumptions at any point in time and these are our best estimate assumptions at the present time. Experience has been positive in the past and negative in the past, and I've no doubt it's going to be again, so it's very difficult to try and forecast that. But I'd also make the point that it's based on our best estimates as we see the world today.

Ryan Fisher: Thanks.

Howard Marks: We'll go back to the phones, if possible, please?

Facilitator: Thank you. The first question is from Richard Cole from CIMB. Go ahead thank you.

Richard Cole: Just following on from the last question, and I guess it's more from our side that no-one seems to be getting an extreme amount of confidence that the pricing they're putting through is enough for what they're currently seeing. So we almost get the feeling there's going to be another couple of halves of continuing lag here.

Can you maybe talk through the price increases you put through in the third quarter and whether you already think they're enough on what you've seen or whether you have to reprice it again and where do you think you can get it?

Craig Meller: So we take a very granular approach to repricing the life insurance book to try and look at, essentially, the trade-off between how much could that impact lapsation and how much of it could impact lapsation over the long term and what do we think our competitors may be doing because clearly that will have an impact. I would say we, and I would expect the rest of the industry, would see further price rises coming through over the coming year. It's almost a direct consequence of what you've seen in our experience line items and what you've seen in the same lines for nearly all of the competitors that I've seen report in recent times and frankly over the whole of the last year.

Howard Marks: Thank you, it looks like there's no more ... no one on the phones. Any other questions on the floor?

No? In that case, I'd like to wrap up today's briefing. Thank you all very much for coming. If you do have any other questions as the afternoon wears on, please feel free to call either myself or Stephen Daley and we'll be happy to answer. Thank you.

End of Recording.