AMP 2013 Half Year Results – Media Briefing

Good morning and thank you very much for joining AMP's first half 2013 results. Today we've got Craig Dunn, Chief Executive Officer of AMP in the room. We've got a number of journalists in the room but we've also got a number of journalists on the phone as well. So after Craig has made a presentation he will be answering questions. For those on the phone if you have a question let the moderator know and we'll let you know when it's your turn to ask your question. For those in the room would you mind making sure your mobile phones are on silent and for those on the phone would you make sure that if you ask a question you're not on speaker phone. Thank you very much and over to you Craig.

Craig Dunn

Great. Thanks Jane and good morning everybody. Before we work through our half year results in some detail obviously we also made another announcement this morning regarding my decision to retire as CEO of AMP at the end of this year and the Board's appointment of Craig as AMP's next CEO and Managing Director.

This hasn't been an easy decision for me to make and it's one that I've not taken lightly and while the circumstances obviously vary from CEO to CEO and company to company when I first started the role I always had in the back of my mind that five years in the job would be about right and when I finish up at the end of the year I will have been in the role for six years. So I started discussing this with the board about 12 months ago and we both decided that now was the right time, particularly because of the AXA integration being almost complete.

By the end of this year we will have largely broken the back of all the regulatory change and we're now at that point where we take the strategy of the group to its next phase and most importantly we have the ideal internal successor in Craig Meller to take up the reins and lead that next evolution of the company's strategy. And I know he's going to be an outstanding leader and an outstanding CEO for AMP. So congratulations Craig.

So we'll be happy to take any questions on the leadership change when we get to Q&A but we've also got a result that we talk to, so we'll get into.

So today we report an underlying profit of $440 million for the first half of 2013, that's against a $488 million for the same period last year. The result came in a little higher than the upper end of the market guidance we gave in June and that's largely because of better claims experience in that month. Excluding the disappointing result in wealth protection the combined earnings from our other business units were up 17%, so they're all performing very strongly. We had a very big turnaround in net cash flows in AFS, terrific investment performance in AMP Capital, tight cost control across the group and a strengthened capital position.

In addition to this we are seeing some encouraging signs in the recovery of confidence in our customer base, we're seeing that through the stronger net cash flows. We also saw substantially higher member contributions which if you like is a proxy for discretionary contributions in the half and we've also seen some up tick in the weightings from our customer base to growth assets and away from cash.

Now while they're only early signs the result does show today the real scaleability in operating leverage of our business along with the potency of our advice footprint when markets and investor confidence are on the improve. And with our integration program now largely complete as I said before and the regulatory change being effectively implemented we have a very sound springboard for the next phase of the company's growth and development and Craig's going to take you through that in a short while.

The board declared an interim dividend of 11½ cents a share, 70% franked which represents a payout ratio of 77% of underlying profits. On chart 4 we set out our key performance indicators. You will note that there has been some edging higher in our group's cost to income ratio given the lower revenues in our wealth protection business. The cost ratios though in all our other businesses have improved substantially with controllable costs falling again down 3%.

Chart 5 sets out our full profit summary for the year. While on chart 6 you can see the drivers of the result being business growth, improving markets and lower costs all driving underlying profits higher then offset by our wealth protection results and also lower interest rates have had a significant impact on reducing the underlying investment income from our shareholder assets.

So if I turn now to a quick overview of our business unit results, on chart 8 we've set out an overview of the results for AMP financial services by major business area. You can see here a 20% increase in the operating earnings for our wealth management business over the first half of 2012 including a 31% jump in AMP Bank. Mature earnings are up 12%, New Zealand are up 21%. We have driven costs down in this business and that's despite the inclusion of additional costs from the Cavendish SMSF business which we acquired last year and net revenue margins are moving in line with our medium term guidance.

On chart 9 you can see that we generated an almost sixfold increase in net cash flows over the same time last year as we've driven sales and planner growth harder while capitalising on improving markets and this of course resulted in our best net cash flow result in this business for six years. We've continued to invest in the north platform and made it available to our broader advice network following the merger, that's lead to a very strong growth in north cash flows, they've almost tripled on the same half last year and flexible super has also continued to do well generating more than $1 billion in net cash flows.

We've also boosted cash flows by attracting new planner practices to our network. We've got a very competitive value proposition for advisors and in Hillross for example we generated additional flows of more than $330 million over the first half through new practice recruitment.

On chart 10 we go through or start to go through a wealth protection result and given the significance of this outcome I'm going to spend a bit more time than I normally would working through the key drivers of the result and the actions we're taking to turn around this business.

First half operating earnings were down $64 million and that was a consequence of lower profit margins and larger experienced losses and while our better claims experience in June was very welcome it does highlight that claims experience can be volatile particularly over short periods of time. And across the industry we're seeing poor claims and lapsed experience and it's really being impacted by a combination if you like of cyclical and structural factors. Rising unemployment and cost of living pressures are important cyclical factors while lower customer engagement along with a greater propensity to both changed policies and claim on the more frequently are some of the more important structural factors in the industry right now.

In the individual risk insurance market AMP has experienced very similar trends to many other competitors although we have seen some increase in some of those competitors with higher increases in income protection claims and lapsed rates more recently. Now clearly in improving the performance of our wealth protection business is a really critical priority of the management team and chart 11 gives an overview of how we intend to do that particularly with income protection and success in this part of the business really is about our ability to help customers return to work sooner and that's a good thing for customers and it's a good thing for AMP.

On chart 12 we then go to more detail on the actions we're taking to improve the performance of the business, enhanced customer retention campaigns, increased pricing where it makes sense to do so and changing the terms on which we do business with a minority of advisors. And as we highlight on chart 13 these actions also include the appointment of new management with deep industry expertise and so to sum up on wealth protection, while some of these actions we do expect to deliver short term benefits given the current industry dynamics, sustained improvements in both claims and lapses are more likely to be achieved over the medium term.

So if we move now to chart 14 and it's another very good set of results from AMP Capital, operating earnings after minority interests are up 13%, AUM has grown to $131 billion, pleasingly we've driven costs down 4% and also significantly improved investment performance particularly over the last 12 months. This is a high quality result. The growth in earnings is being driven by recurring fee income and lower costs.

We do have a more challenging economic situation in Japan at the moment which as I said is proving challenging for the short term. We are very pleased with our alliance with MUTB, we're continuing to commercialise that with funds already in the market and more scheduled for launch over the second half. As I said before we've continued to improve investment performance and chart 15 shows that AMP Capital is now responsible for three of the top 20 best performing balance funds in Australia and the top default Kiwi saver fund in New Zealand which of course is great news for our customers and clients.

The next few slides look at our financials in more detail including our capital position. I'm not going to go through them in any detail but they do highlight the dynamic way that we've been managing our capital base over the past couple of years and that's enabled us to adapt effectively to the introduction of a whole series of new regulatory capital standards, fund a successful integration and new business growth, deal with significantly lower interest rates, pay out $1.6 billion in dividends to our shareholders and at the same time strengthen our capital base.

Clearly a focus over the past few years has been to sharpen our competitive position and our merger with AXA has obviously been a critical part of that strategy. As I said earlier the integration is now almost complete and chart 24 details how we've met or exceeded all the targets we set for measures of success for the integration. And that builds as I said before a very sound springboard to take the business to the next level and now I'm going to ask Craig to take us through how we're going to do just that. So welcome Craig.

Craig Meller

Thank you very much Craig and good morning everybody. And at the outset can I say that I'm very excited by the opportunity and the responsibility that comes with being CEO of this company and I'm very much looking forward to the challenges and the opportunities that lie ahead. But it's not just the leadership change that makes this another inflection point for AMP. Under Craig's leadership AMP has built a very strong base from which to launch the next phase of our strategy and we now have the capacity to accelerate change in our core domestic business by investing to improve customer engagement and drive down costs even further.

As we've set out on chart 25 we have a very strong starting position and the execution capabilities to drive this hard and successfully. That starting point includes our scale, our advice footprint and expertise, our product suite and capabilities across the value chain, the investments we've made in our core technology platform and a refreshed brand that is appealing to a much broader customer base. Indeed the SMSF campaign we've run this year is helping consumers see us as more innovative, more contemporary and in touch with market trends.

We'll be using these strengths to build on our current strategic priorities as shown in chart 26. Our strategy for the future is being driven by our core belief that the Australian wealth management market remains highly attractive with the market projected to double in size in less than a decade. But to maintain success in this market we have to continue to change. We have to change because our customers are changing and want different things from us.

There's a convergence of factors that are driving these changed behaviours, the aftermath of the GFC, digitisation in mobile technology, regulation and demographic shifts. The result is a more demanding customer base that is searching for more control, more simplicity, more convenience and better value. In response we intend to deepen our relationships with our customers because we believe that in an increasingly commoditised world relationships will drive revenue. And that is why our number one position in face to face advice is and will remain a critical differentiating factor for AMP.

However our customers are also demanding other ways to access our advice on products and our solutions. Distribution in wealth management will no longer be face to face or direct, it will be both and this will require targeted investment in new capabilities and solutions to maintain and improve our relevance and accessibility for customers and these initiatives will be funded out of our annual project spend.

As outlined on chart 27 that means investment in next generation advice models, further improved customer experience, technologies to deliver more sophisticated customer analytics and new digital and mobile platforms and enhance products and services. This sharpened focus on our core domestic market will not be at the expense of investment in other growth opportunities that we've already been pursuing.

As chart 28 details we're growing our SMSF business very strongly and we see significant further upside in this market. And we'll have no lesser focus on the offshore opportunities that AMP Capital is successfully capturing. We also intend to enhance our operating leverage by driving top line growth at the same time as improving the efficiency of our business. We've set that out on chart 29.

We've kicked off a program to reduce recurring costs by $200 million per annum pre tax over the next three and a half years. This will ensure that we remain competitive, are able to offer more choice and better value to our customers and deliver stronger bottom line growth as well. Some of those sources of savings are detailed on this chart and our overriding focus is to eliminate activities that our customers don't value. That $200 million cost saving should be set against an unexpected underlying cost growth rate of 2 to 3% per annum.

On chart 30 we've set out our expectations of the cost benefit profile of this program with the expected ?? that this is based on our current planning and as we did with the integration program will manage this to ensure we have the flexibility to respond to change in priorities and external markets.

At this stage we expect about 80% of the recurring cost savings will be controllable costs with the balance being variable costs like third party asset management fees. It will require a one off investment of $320 million to deliver these recurring savings. That's a cost benefit ratio of about 1.6 times and this will be funded through a combination of future retained earnings, the existing capital surplus that we've built up and the continuation of the dividend reinvestment program.

So that's an overview of how we'll progress the next phase of AMP strategy. Our execution priorities are clear, drive top line growth through stronger and broader customer engagement and deliver bottom line outcomes by generating that growth across a more efficient business base. I'll now hand back to Craig to summarise.

Craig Dunn

Great. Thank you Craig. Alright. So I'll sum up quickly so we can get to your questions. So in wealth protection we're implementing a very focused plan of attack to improve our results and returns to shareholders over the medium term and clearly the rest of the business is performing very well very strongly with the combined operating earnings of those businesses up 17% over the past half.

It is worth pointing out as well that this result is a very good reminder of just how quickly improved markets and investor confidence can lead to much higher rates of growth and profitability in AMP and most parts of our business particularly give the work we've done over the past years to enhance our scaleability, our operating leverage and the strength of both our brand and advice footprint.

The business is well capitalised as I said before and with the integration almost complete and the regulatory change well under control we're in a very good position to take AMP's business forward under Craig's leadership. We'll go to questions.

~~??~~Leng Yeow – Professional Planner

Congratulations on your retirement and your appointment. Have you made an announcement on who will replace you Craig as head of AFS?

Craig Dunn

No, we've made no announcement on that but what we are saying is we're taking the opportunity to combine the AMP leadership team and the AFS leadership team and obviously one of my first priorities to work on appointing members to that team which I'll be doing over the next month or so.

~~??~~Leng Yeow – Professional Planner

And if I could just ask you again about advisor number growth and talking about the different models that you'll be working on are you going to be building a big direct sales force do you reckon?

Craig Dunn

So we already have a number of people who are working on telephone based advice, we're finding some increase in customer interest in accessing that type of advice and we're expecting that to grow going forwards but we don't see that as being at the expense of the more traditional face to face advice model that we've been operating very successfully for a very long period and we expect that to continue to grow at the sort of rates we've seen over recent years.

Brendan Swift

Can you give a bit more of an overview of some of these funds flows and what's driving it, as a positive result there and also I guess the sort of outlook, it seems from what you said investors are a little bit more positive moving money away from cash but I guess the economy is a bit mixed in some ways.

Craig Dunn

Thanks your question. So I mean time will tell whether that improvement, well the improvement we're seeing in our customer base is confidence is sustainable and continues forward but as I said before there are some good signs, the growth in net cash flows, there's be a substantial increase in the proportion of member contributions relative to employer contributions and we have seen a weighting away from cash. So I think you're seeing some of the growth come through because of an improving market backdrop. I also think you're seeing it because of some of the things we've been doing in our business. A key part of the reason for the merger with AXA rather was the north platform.

We've invested very heavily in that. In the first six months of 2011 when we consummated the merger with AXA the net cash flows into north were just over $200 million. This half they're approaching $1.9 billion. Now we've continued to invest very heavily in that platform. It's ranked very well by the market and we'll also use the broader advice footprint so that AMP Financial Planning and Hillross are also participating in the growth of that platform. So that's been very strong and flexible super has continued to do well and also as I said before one of the outcomes of the FOFA regulation and legislation is that it has caused some advisors to think about where they're best placed in terms of who they partner with and we've seen good plan of growth, good advisor growth, that's against a market that is otherwise falling, so we're going against the grain and Hillross is a very good example given the strength of its value proposition how it's attracting new practices across.

So I think there's a range of factors. Some of them go to the broader market and some of them go to the work that we've been doing as a company.

John Durie – The Australian

Hi Craig and Craig, again congratulations. Two questions if I could. You had a profit warning on June 24 due to surprising large spark in experienced losses could you tell us how they've tracked since then and how you're looking at it in terms of how much you think it's structural or whether people are waking up that you've been charging too much for the product?

Craig

Thanks for your question John. If you look at the result today, what we saw in June was a much better outcome on claims experience particularly compared to May which led to the profit announcement towards the end of June. It is difficult to gauge how things are working through when you're looking at claims or lapsed experience over a month space because it's a very short timeframe of which to make a judgment.

I think the better way to look at it is the trends we've been seeing more recently that have led to some of the challenges we've had in the broader industry. We believe we've got a very good understanding of what's driving it. We also know that we can take actions to improve it and that could lead to some improvement in the short term, more likely over the medium term but some of those structural and cyclical issues that you refer to in your question, they do set a context for the market and the industry. So whilst we believe we can substantially improve our performance, the pace at which we can do that to some extent is driven by that industry dynamic.

As far as the pricing of the product goes or the premiums, clearly with the fall away in returns in the whole industry you're seeing some upward pressure on premiums in the market. What we need to make sure we do as a company and also as an industry is we strike that balance appropriately. We need to make sure it provides value for money for customers but at the same time there needs to be good returns for shareholders to participate in that market and we believe that with some product redesign and other things we can get that balance right which means the very important proposition service we offer to our customers can continue but also we can improve returns for shareholders.

John Durie – The Australian

Thanks for that.

One quick follow up if I could. You mentioned FOFA and how that's causing advisors to reassess who they should partner with and they're coming to your door. Could you tell us why that is please?

Craig

Sure John. I'll give a high level answer and then pass to you Craig. I think one of the consequences of FOFA is there are potentially competitive benefits to a more integrated model and also I think advisors are attracted to having a very strong business stand behind them, it's very committed to investing in the channel with a very good brand. I think that's more important going forward as they work through the change. Do you want to add to that?

Craig

The only point I'd add to that John is I think the cost for smaller licensees of ensuring ongoing compliance with the regulations is a significant one. Organisations like AMP that have such great scale can spread those costs over a much broader base and therefore it makes for a more efficient business for our planners' businesses.

Malcolm Maiden – Fairfax Media

Congratulations to you. I guess I'm after much the same thing that John Jury was just asking. I can't pretend to understand this market very well wealth protection but I've seen reports that there are concerns that we might have an emerging black hole here in the industry. I gather from what you were talking you think it's a business that you should still be in and one that where you can fix the returns first of all. Is that correct?

Craig.

Thanks Malcolm, that is correct. I mean the insurance industry has always gone through cycles over time and you've had better times and not so good times and we're going through one of those cycles now in terms of it being more challenging. Having said that though there are structural changes that are happening in the market as well and that doesn't mean though that the industry can't respond to those structural changes and deal with them effectively over time but structural shifts tend to take a bit longer to address than other types of challenges.

Malcolm Maiden – Fairfax Media

So you don't think it's a mispriced market that is basically just going to be something everybody is just going to have to cop?

Craig

Well I think at the moment you've got pretty well every competitor in the market dealing with the same challenges and over time generally you see industries respond to that and work through it and develop better propositions for customers and improve returns for shareholders. There's an element of the cyclicality which over time will be addressed. There are structural factors that also will have to be addressed. We're confident we can do that but given that dynamic what we're saying today is that we expect not to see significant improvement until the medium term. But it is a very important part of the market for Australians and customers in being able to get that protection and over time, in past times, it's been a very good and high performing business for AMP. Now it's not that right now, we know why and we can work through it but it's a business we remain committed to because we think it's important for our customer base, our advisors and also we think we can improve returns over time.

Malcolm Maiden – Fairfax Media

I don't want to take up too much time but just finally you said there has been some repricing event. How much has there been and how much do you think there needs to be in a structural sense in the industry?

Craig Meller

It's Craig Meller here Malcolm. I think the group insurance market is probably the best example where it's been widely publicised that people have seen increases in premiums of 30 to 50% across a number of our competitors' superannuation funds. That order of magnitude comes after a period of significant price competition in the marketplace which has brought prices down. So to my mind that's more of a move to normality but underlying that I think we and others have seen an underlying growth in claims rates. Fundamentally you pay insurance premiums to pay those claims and if the claims are higher than the premium needs to be higher.

~~??~~ Ruth Liew – Australian Financial Review

Congratulations Craig on your appointment. Just a quick question about the efficiency programs to deliver $200 million in savings. Will there be head count reductions be part of this?

Craig

In looking at our approach to how we're going to achieve the efficiencies, there are going to be a number of areas that we look at. I think as a company we've got a very strong track record of driving efficiency in the business and there's no doubt that there will be some head count reductions. It's not something that we target and it's certainly too early to have a view on what the numbers would be.

I'd also say that there are other parts of our business that are growing very strongly and are creating employment, our SMSF business that Paul runs is a very good example and of course the growth in planner numbers is actually creating new businesses and jobs across the whole of our country.

~~??~~ Tony Boyd – From the Australian Financial Review

Hi~~gh~~, I just wondered, we've seen the policies of both parties in this area of wealth management and we've seen that Shadow Treasurer Joe Hockey has got a better proposition for you guys in the sense that basically we have to wind back FOFA and the red tape and free up companies from things that are heavy in maintenance with more money contributing to the economy. Is it fair to say Craig and Craig that a coalition victory is better for this company?

Craig

From time to time obviously political parties will have different policies which potentially different impacts on our business. I think what we're pleased about is both sides of policy seem very committed to having stability in the taxation superannuation. We think that's really important in a long term savings vehicle for that to occur. Also both parties are committed over time to the increase in 9 to 12%, which we also think is very good for the country and obviously also favourable for AMP shareholders and our customers.

We've been very supportive of the principles that have underpinned stronger super in FOFA. We do think they go to improving confidence of consumers in financial advice and superannuation so that's a very good thing. We've also been clear from time to time that we think that once that settles down it will be worth looking at some forms of streamlining, to that change, so that it's as efficient as possible and it means that we can deliver the most efficient outcomes to consumers.

Craig

I've gone through the policy and how they're likely to impact our business. As I said we're very pleased that both parties are committed to our sector, particularly around the stability of taxation superannuation.

~~??~~ Tony Boyd – Financial Review

In principle would you think that whoever wins there should be an inquiry into the financial system given that the last one was in 1997?

Craig

Our view would be given that the last inquiry was some time ago and given the world is very different from that time, we've all been through the global financial crisis and the like, which by the way Australia's financial system has held up extremely well and is seen throughout the world as having done that, given I think good supervision by regulators and very good governance by some of the people running the major banks and the like. So we can understand why that would be appropriate. We'll be interested to see if there is a change in government the terms of reference to that inquiry.

~~??~~Wouter Klijn – Investor Weekly

Just a question for Mr Dunn. Can you tell us a little bit about your future plans. Are you planning to stay in Australia? I can imagine there would be a more interesting role abroad for you?

Craig Dunn

No, I'm very committed to this country and I haven't told the family yet so it would be a bit of a surprise.

I haven't got any real definite plans. I want to take a good break and spend a bit more time with the family. I've got an aspiration to paint the house over the summer, my wife will then pay someone to re-paint it.

But look I'm a very strong believe that it's the right time for the company, it's the right time for me. In my view in life sometimes you have to close some doors to open new doors and that's what I'm doing personally and I'm very excited for the company with Craig's appointment and equally excited for me personally.

Craig Meller

I think we're buying him a season ticket to every Collingwood game as part of his leaving present.

Ky Chow – AFR

Craig, you don't feel a bit nervous taking on this big new role

Craig Meller

Well I'm very excited, yes I'm a bit nervous too but also it's a very great privilege. This is a company with a great history and I'm very proud to be able to take on the leadership of it.

Ky Chow – AFR

People are always interested in if the new CEO is going to have a different approach in terms of strategy, both of course worked it all so that it will be a smooth transition. In terms of your approach, I think the last time I saw you, you were repelling off the side of this building. So does that signal that you are going to bring a slightly different risk appetite and a much different approach?

Craig

Well I'm going to be doing it again in October I believe as well because it's for a very good cause and we raise a lot of money. But if you look at it you'll see that our risk management practices around it are pretty solid too. I think I had about five ropes attached to me as I was going down the building.

I think Craig and I are very aligned. We believe that the way you go about running a business is you set a very clear vision and a very clear strategy for the organisation then you go about finding the best possible people you can to work in that business with you and then you empower them to go and deliver the best thing for the customers in the organisation and if you do that we think that will deliver for the shareholders.

?? – AFR

I mean obviously you're both your own man as well. How would you consider yourself slightly different to Craig?

Craig

I don't support Collingwood. I'm probably more of a rugby fan than I am an AFL fan. That sort of comes from my heritage.

But in other respects, I think we're pretty similar sorts of leaders. I've had the great privilege of working for Craig for 11 years. I've been able to watch him do his job, I've learnt an awful lot from him and I hope the organisation will see a lot of that reflected in the way I lead the organisation.

~~?? Peck~~ Vishal Teckchandani – Australian Banking and Finance

Hi Craig and Craig. Just wanting to focus on two questions. Firstly on the AMP, I notice it's delivered $38 million in operating earnings. Can you flesh out your long term plan for this business, what's the targets and what are you looking at in terms of product development there?

Craig

We're very pleased with the results of AMP Bank in the first six months of this year. The business is showing good growth and obviously good bottom line growth as it has done for a number of years. Over the past few years it's been growing our mortgage book above system and we aim to continue that going forwards.

We've been very focused about measured growth for the banking business as well. The funding of banks has been an issue around the globe and it's something that we in the board pay very careful attention to in deciding on our growth ambitions.

I do think that banking is going to be a more integral part of the offering that we and our financial planners take to our customers going forwards and in the digital and direct space I expect the development of mobile technologies and capabilities will be led by our banking business, indeed I think we will be bringing out a mobile banking up by the end of this year.

Vishal Teckchandani~~?? Peck~~ – Australian Banking and Finance

I spoke to a couple of Hillross advisors recently and said they've been really frustrated by the level of service AMP is providing as a deal group because you've centralised compliance, centralised the technical team and in fact they have to print their own financial services guides now, this is what they told me and this is making it more difficult for them to service their clients. Is that true and can you comment?

Craig

Well I can't comment on what individual advisors are saying. What I would say is that with the implementation of FOFA this is a period of extraordinary change for every advisor around Australia and we're taking a very measured and relatively conservative approach to the implantation of those changes and that means we're reviewing centrally every piece of advice that our planners provide to customers since the change in the legislation and we acknowledge that that's causing some bureaucracy but it means that we're ensuring that we keep the quality and the standards of advice high as the country goes through these changes.

??– Financial Review

In the current financial year do you plan to increase your employer numbers and if so by how many do you think? Just on the life insurance side, what do you think needs to be done to try and stop customers from churning life insurance policies? I think the government has indicated that if industry can't do it itself it may try and legislation to try and get people to or try and encourage planners not to get people churn their policies.

Craig

Our planners in the Australia grew by net 44 year to date and we hope that we can continue that through the rest of the year.

Underlying those numbers is probably a slightly larger number of retirements in the lead up to FOFA and I think we might see that through the second half of the year, the number of planners moving to us and also the continued recruitment of planners to our businesses through the Horizons Academy means that we've been able to achieve good growth here to date against this, as Craig said earlier, a declining industry trend. So we hope to be able to continue the growth we've seen to date.

Craig

On the issue that you raised a question on regarding the length of policies and how long they stay enforced, in our presentation today we've mentioned that we have changed the terms on the basis of which we work with a small minority of advisors. But in terms of the broader issue of Life's rates, I think what we're seeing is a fundamental shift in customer behaviour where customers simply aren't holding onto life insurance policies for the same period of time they used to and I don't' know that that's inconsistent with some of the other changes that we've seen in customer behaviour that Craig talked about before which underpinned some of the evolution of the strategy. What that means of course is reviewing whether the industry remuneration structures that underpin a particular type of customer behaviour that's now changed to continue to remain relevant and Craig can talk more about the discussions around financial service council, how the industry is looking at that and also the discussions we're having with our own advisory forces to work through that. So it's fundamentally a change in customer behaviour which then means we need to re-think some of the remuneration structures in the industry. Do you want to add to that Craig?

Craig

The only think I'd say is my early career was spent in the UK and the life insurance market there is what people would call a level premium market where when you buy a life insurance policy you might be paying a hundred pounds a month for it and it never goes up from that level. In Australia we have what's called the steps premium market base where each year people's life insurance pricing goes up and as you get older it gets more and more expensive.

That's good in the early years of a policy because if you get a quote for a level premium policy it will be higher than a step premium policy but those increases get higher and higher each year and when you get to your 50s, as I've done recently and you receive your policy renewal it makes you think "am I getting value for money because of that increase". I personally think that whilst I understand the Australian market has developed with the step premium market I think there's got to be a stronger place for level premiums in the marketplace going forward and it's up to us as an industry to persuade clients to think out a bit longer term and say "I'm going to need this cover for a longer period of time and it's actually worth my while to take the level premium" and that will be better for the industry too.

~~Katarina – ??~~ Katarina Taurian - IFA

I was just wondering if you could flesh out a little bit the results of AMP, SMSF and your plans for the future of it?

Craig

We've been very pleased with the way we've entered the SMSF marketplace. That's been led by Paul Sainsbury who is sitting directly opposite me. The approach we've taken is to say can we build a foothold in the administration of the marketplace and we've achieved good growth in the administration of SMSF funds on behalf of fund trustees. We believe that can be a good business in itself and we're now the number one administer in the country, we've got what we believe is very innovative technology that enables clients to get more effective access to their SMSF funds but also makes administration much more efficient. So growing that in its own right we think is going to be a good business for AMP but on top of that it gives us the opportunity to have a conversation with members of SMSF funds and trustees to say that there are other services that AMP can provide and that might be providing life insurance to members of funds, it might be lending them money to buy property within the fund, it might be providing investment solutions that can be more specific to the requirements of an SMSF fund member.

Malcolm Maiden – Fairfax Limited

One for Craig Dunn. Your final financial assessment of the AXA takeover, what has it delivered?

Craig Dunn

Thanks Malcolm. We're very pleased with the merger of AXA, particularly the integration. I think the way you could think about value from a shareholder perspective is break it into two in terms of how is the underlying value of the two businesses performed since the merger and then you can talk about what value have we created from integration.

On the first point, there is no doubt that it has continued to be a very challenging market and that's meant that the growth in those businesses haven't been a strong as we would have liked. We've also had much lower interest rates and a significant array of new capital standards which have added to the capital pressure there but that would have been true for both businesses independently; and if you go to the second bucket, we're extremely pleased with the success we've had on integration. We set out three objectives at the start of integration process, maintain momentum, delver on the synergies and deliver a growth platform that was better than the two businesses as stand apart entities. If you look at maintaining momentum, I think the good demonstration of that is the growth in planner numbers that we've seen since the merger and that goes against an industry that's frankly going the other way.

On the synergies delivery, we increased our synergy cap or target by 25% from our first target and 93% of those run rates in synergies are now being delivered. And if you look …

Malcolm Maiden – Fairfax Limited

That's 150 is that right?

Craig

That's right Malcolm and then if you look at the growth platform, a good example is North. As I said around the time of the merger net cash flows of just over $200 million, now approaching $1.9 billion. So we're very pleased with the way integration has gone and there's no doubt in my mind we're a much stronger more competitive business with a much greater future because of it.

~~??~~Leng Yeow – Professional Planner

Can I quickly ask you Craig about BOLA? You mentioned that there's been a few more advisors retiring and you expect that to continue. Can you give us an outline of your BOLA liability?

Craig

Well we have a policy of only buying planner's businesses at a margin that we can then on sell them in the market, so if you like we drop the marketplace rather than build a significant BOLA liability.

We'll always hold a pool at any one time but we don't have any problems with selling on the businesses, in fact I think it's something like 90% of the transactions within our planner businesses are transacted directly from planner to planner rather than through AMP. It tends to be where planners have businesses across broader geographies that we take them together.

~~??~~Leng Yeow – Professional Planner

Do you have a number of transactions that you've done in the last …

Craig

We would have to come back to you on that. I haven't got the details.

~~??~~ Sally Patten - Financial Review

Your strong in flows this year have come despite continued rumours of change in the superannuation roles so do you think that the good equity markets is much more of a driver of in flows than regulatory uncertainty.

Craig

I think there's no doubt that improving markets or the spectrum or likelihood of improving markets is very significant in the confidence people have investing in superannuation as a longer term savings vehicle and you saw that in terms of discretionary contributions particularly in the lead up to the GFC before we sort of had markets fell out of bed and I think with the recovery we've seen in markets some trade off of yield versus bank deposits and the like you're seeing greater interest in superannuation.

Having said that it's a long term investment vehicle and people need to have confidence that when they invest in that long term investment or savings vehicle that the rules that they invest in at the time are going to be largely the same as when they call on that savings vehicle 20, 30, 40 years later. So there's no doubt markets are probably more significant in driving the change but I think as I said before in response to Tony's question I think it's really pleasing that both parties have committed to stability in the taxation of superannuation and that's something that both myself and Peter Mason, our Chairman, spoke about at our AGM in May.