

AMP Full Year Results 2013 – Media Briefing

Jane Anderson: Good morning. I'm Jane Anderson, and welcome to the AMP Full Year 2012 Results. We have got Craig Dunn, Chief Executive of AMP, here to take you through the results. And of course he'll also be available to take questions. We've got a number of people who have dialled in this morning, and some people in the room, so when we turn to questions, for those on the phone line, the moderator will let you know when it's your turn to ask your question. Please avoid using a speakerphone, because that can sometimes be difficult to hear, and for those in the room, please put your phones on silent. Thanks very much, and over to you, Craig. And, sorry, I should have also introduced Stephen Dunne from AMP Capital, Craig Meller from AMP Financial Services and Paul Sainsbury, who heads up our self-managed super fund business, and Colin Storrie, CFO. Over to you, Craig.

Craig Dunn: Great. Thanks, Jane. Good morning everyone, and welcome. So today we're reporting an underlying profit of \$955M for 2012, and an underlying profit of \$464M for the second half, up 3% on the same period for 2011. And we're focusing on these two halves as the most appropriate comparative periods, given they both include a full six months for the former AXA businesses.

The 2012 result reflects strong earnings growth in AFS Wealth Management and AMP Capital, on the back of a substantial uplift in assets under management and very good cost control, with controllable costs down 3% over the second half. As we flagged in our third quarter update last year, our insurance business has been impacted by the challenging conditions across the industry, with poor lapse in claims experience. And I'll take you through the actions underway to address this a bit later on.

There's been a big turnaround in AFS net cash flows of \$1.7B, and the integration continues to track very well, with the timing of run rate synergies continuing to run ahead of plan. We have strengthened our capital position, with \$2.4B in surplus capital above minimum regulatory requirements, based on the standards in effect at 31 December 2012, and we're well positioned to meet the new capital standards and the broader regulatory change occurring across our industry.

At the same time, we have delivered encouraging results from some of our new growth opportunities, like self-managed superannuation and through our alliance with MUTB in Japan. On Chart 4 we set out our key performance indicators, and you can see coming through here the growth improvements in many parts of our business and the benefits of falling costs on our cost ratio, as well as the impact of that difficult insurance market and softer cash flows in AMP Capital, while the merger and further strengthening of our capital base in the lead up to the new capital standards has weighed on our return on equity in 2012.

The Board has declared a final dividend of 12.5 cents a share, 65% franked, up 55% at the half, which takes our total dividend for the year to 25 cents a share, and represents a payout ratio of 76% of underlying profit, and which is within our target payout range. We have also removed the discount on our DRP. Chart 5 sets out our profit summary for the full year.

On Chart 6 you can see the big drivers of our improving underlying profits, including strong growth from increased sales and improving markets, higher 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. And you can see on Chart 7 we remain well on track to hit our integration synergy target of \$150M, with benefits emerging faster than forecast.

And the first quarter of this year, rather, will be an important milestone for us. By that time we will have completed more than three-quarters of our integration projects, at which point the governance of the program will shift to more of a business-as-usual footing. Pleasingly, we are delivering these cost synergies from the integration while at the same time growing our business franchise, by driving growth in both adviser numbers and market share in superannuation.

So we turn now, briefly, to the business unit results. And so on Chart 9 we have set out an overview of the results for AMP Financial Services my major business area. And this really is a tale of two businesses. Our Wealth Management business is driving strong growth, with very good sales, a 10% lift in assets under management – that's excluding our self-managed funds business – and a good contribution from AMP Bank. That's been enhanced by good cost control across the AFS business.

CWM investment-related revenues margins also held up very well, and after costs and taxes, you can see that overall margins were up strongly to 36 basis points, against 30 basis points in the Second Half of 2011, and 33 basis points in the First Half of 2012.

Off-setting this performance has been our wealth protection business, and results across the industry clearly demonstrate we're working in a difficult and challenging insurance market right now. While our business model with aligned advisers and a substantial proportion of our risk insurance sales through superannuation does provide us with some benefit, as one of the biggest players in the market we're obviously not immune to this environment. Chart 10 gives an overview of how this is impacting our business and what we're doing about it.

And the Second Half of 2012 and especially in the third quarter, we saw our claims experience reversed to incur claims losses driven by higher claims costs in our income protection book for AMP Life and our group insurance business. The trend up in lapses has also continued particularly in our individual lump sum businesses, as more people decided in challenging economic times and some because they're reaching retirement to reduce their amount of cover and to forego their insurance policy, or to forego their insurance policy altogether. Some customers are also switching their business more regularly than in the past.

While some aspects of this shifts ... or the shifts are clearly cyclical, we have actions in train to address the claims experience and customer retention. These include some targeted pricing reviews and product design and also an increased investment in customer retention activities and claims management novelty. This remains a key focus for the business going forward.

Moving to wealth management on Chart 11, and the performance of this business has been very pleasing, as we've driven net cash flows higher and costs lower while maintaining good margins.

We've tripled net cash flows in North over the year as we've continued to upgrade the functionality of this platform and roll it out across our broader AMP advice network. And we've maintained Flexible Super at the same time as one of the fastest growing products of its type in the market. And so together, Flexible Super and North accounted for nearly \$5B in net cash flows in 2012. And this success, along with our push into self-managed superannuation has helped drive up our market share in superannuation and retail-managed funds over the past 12 months, and importantly for the future growth of this business, we've also continued to grow our planner and adviser numbers again at a faster rate than the market more generally.

If I could ask you to turn to Chart 12, which goes through the result for AMP Capital, and the very good results you see here reflect the business' success in reshaping its capabilities and some of its key business partnerships during the year, along with the benefits of the AXA integration and its leverage to improving markets. This success is a clear demonstration of the strategy we put in place more than four years ago when we began investing to replace or upgrade AMP Capital's operating platform, upgrade its investment talent and capabilities and move in to targeted markets offshore. That investment is now paying dividends in the form of high fee income, as a new operating platform has absorbed the additional AUM from AXA without an increasing cost. It's also seeing in this business higher performance fees, good cost control and improving investment performance. And it includes also the very good progress we're making with our partnership with MUTB in Japan where we've launched two new funds and attracted over half a billion dollars in net cash flows in the second half of last year.

The next few slides talk to some of our financials in a bit more detail including our position. I'm not going to go through those now but I'm very happy to take questions on those a bit later on.

So if I ask you to turn to Charts 23 and 24, and both these charts demonstrate the real progress we're making in the delivery of our strategy. The merger with AXA along with other actions we've taken mean we now have two of the fastest growing superannuation and investment products in Australia, in Flexible Super and North, that are generating significant new net cash flows, the largest financial planner network in the country. That's growing faster than the broader industry as well, and of course, positions us very 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 investment market which is the second-largest savings market in the world. Significant new investment flows from blue-chip international clients into AMP Capital all supported by a strong and flexible capital base. And we're continuing our work to position our business to succeed in a world that is being reshaped by changing consumer behaviour, changes in digitalisation and mobile technology and ongoing regulatory change.

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

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

As I highlighted before, building our presence in self-managed super is also a key part of our plans for the future. And on Chart 26 we've set out more detail on our new SMSF business and our strategy for generating profits in this market. In just seven months we have built a leading position in the self-managed superannuation administration market, and with the acquisition of Cavendish we're now clear market leader and our organic growth in this sector is running twice at the market rate. And we continue to be very excited about the great potential for this part of our business.

We are also making good progress in our targeted offshore expansion through AMP Capital as we set out on Chart 27. And, as we have outlined before, the real two key elements to this strategy, if you like, are first partnering with very prominent local distributors like MUTB to take our investment capabilities into new markets – in a sense replicating our very successful model in Australia – and, second, linking large saving pools, particularly in Australia and Asia, with attractive investment opportunities both here and abroad.

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

So, to sum up, over the past 12 months, while we have delivered successfully on the integration and driving costs lower, we have also turned cash flows around in AFS, grown our adviser numbers, moved aggressively into new growth areas like self-managed super and like our alliance with MUTB in Japan. We've continued to reshape the AMP Capital business, we're preparing our business and business partners for the new regulatory changes ahead of us, and we've also 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 very large and complex change agendas, while at the same time driving strong business momentum which holds us in good stead as we move into another very busy year. And we continue to look hard at our business, to invest in the right opportunities and to drive ongoing efficiencies to ensure we're well positioned for this changing world.

So I'll finish up there Jane and pass back to you.

Jane Anderson: Thanks Craig. Firstly, is there anyone in the room that would like to ask a question?

Leng Yeow: I just wanted to ask you how much you spent cleaning up some of your practices within Financial Planning and getting ready for FOFA?

Craig Dunn: Yes, there has been a significant investment Leng and we've set out in our results that we expect the overall investment or cost to shareholders of FOFA and stronger super to be in the range of \$60M to \$75M, and we've already provided, Colin, I think a bit over \$50M for that program. So it is a significant change program; it's something that, you know, we've been embarked on for some time. As you know, in both the AXA, former AXA and AMP businesses, we moved away from commissions on new superannuation business in July 2010. So, strategically, you know, we're very well placed, but it's a big change program we need to work through over the coming year.

Leng Yeow: And a second one if I can, what are some of the retention themes that you have in place and how have you managed to grow your planner numbers?

Craig Dunn: Yeah, so the growth in planner numbers is really a function of three things. Firstly, you know, it continues to be a very competitive market and the value propositions that we provide all our advisers are very strong and very attractive to them. We have continued to have strong growth from our Horizons program. And, thirdly, we also made an investment in Futuro, another advice network, during the year, and that's the three reasons why the network has continued to grow.

Brendan Swift: You're facing a lot of change in markets, structural change, regulatory change, investment markets; what are the sort of two or three biggest risks that you see facing AMP's business? So, those are the risks facing AMP, not the risks for the public or government sort of risks.

Craig Dunn: Well, typically, in our business, the biggest risks are market-related, what investment markets are going to do. But, again, as I said earlier, Brendan, I think a really good thing about the results this year – and you've referred to, you know, constant change – is, with the merger, with the regulatory change, and with the new growth initiatives that we've been investing in, we've had an enormous amount of complex change in our business this year, and I think we're growing a real reputation in the market to deliver very well on effecting that change. Also, I think what the results over the past year have shown is, not only a capacity to drive change and implement effectively, but also move quickly. We've done that in self-managed funds. In seven months we've gone to the leading administrator in that business. And, similarly, we're, you know, moving very quickly with MUTB. So you're right, there's a big change agenda, and the market's continuing to change, but we're really comfortable with the way we're managing that and getting through our growth initiatives and driving good momentum in the business at the same time.

Brendan Swift: So you mentioned investment markets. So you're not as concerned about government and those sort of issues, that's been a big one?

Craig Dunn: Yeah, well, that's a fair point. I mean, there's been a lot of regulatory change over the past few years although, to be fair, you know, the principles underpinning much of that around FOFA and stronger super we've been very supportive of and that's just the function of being in a very regulated industry. It's true also for the changes in APRA that Colin's been managing with the capital standards, which has also been a very good result.

I mean, it's just a function of the industry we're in and that's why you do need to have very capable change management capabilities and skills.

Leng Yeow: On the self-managed funds, I thought that administration businesses would be adversely low margin businesses. Is that not the case? I just wonder – so in a self-managed fund business, are you doing anything else to try and move in to attract more self-managed fund trustees as customers above and beyond?

Craig Dunn: We are. So I mean, if you look at the self-managed fund business we have today. I mean, we have Cavendish, which is sort of the broker/high net worth market, we've got Multiport focussing on the accountant market, we've got our own Ascend offer focussing on our adviser force and we've got our partnership with SuperIQ, which is also going very well which also provides direct opportunities for trustees. So we're pretty well covered in every part of the market.

Leng Yeow: That's all in administration, though.

Craig Dunn: It is administration but you also work through that. What growing relationships with those clients or customers allow you to do, and in the end it's got to be their choice, is to provide other opportunities for them to invest in other skill capabilities that we have in the network. Say, for example, AMP Capital is working very closely with Paul, who's running the SMSF business to develop investment opportunities that are very targeted to that market. We recently launched in our banking business a lending product or debt product facility for self-managed funds. There's opportunities to grow into that space with our insurance offering as well. So there's a range of opportunities that we can bring to those clients. And, again, it has to be their choice but we do think we've got the capabilities to build on the success we'll also have in administration.

Leng Yeow: The administration is reasonably low margin, though ...?

Craig Dunn: It tends to be more low margin but that's why the scale in that market's important and that's why some of the technology advantages we've got through our relationship with SuperIQ are also important. And we've had, I think, a good history of driving out efficiencies in our administration platforms, and doing that very well, and being able to deliver good returns from shareholders. So we're confident that the administration, a business in its own right, will deliver reasonable returns for shareholders. And, beyond that, we think we'll deliver greater opportunities for shareholders, and indeed customers, through the opportunities for them to invest in an extended product range.

Leng Yeow: And on the insurance side, how long do you see the current cycle lasting for of high claims and high lapses?

Craig Dunn: That's a good question. Clearly, this is an industry-wide issue so we've seen with results from our competitors over the past week that they're experiencing the same challenges. In fact, if you look at the lapse rates in the industry, they're at all time highs in the last decade or so. What you tend to see in a challenging economic environment is pressure on your lapse rates. When household budgets are stretched and there are cost of living pressures, families have to make choices about where they spend their limited family budget.

And, unfortunately, what you tend to see is some families deciding that they don't need the same insurance cover or they don't need insurance cover at all. And that's something that we've got to get better at as AMP and as an industry in persuading people to say, well, we understand the challenging economic environment but insurance is something that you should keep. So it is, in many ways, cyclical and so, in part it will tend ... it will depend on how quickly the economy improves, some of those costs of living pressures abate but at the same time, as I said earlier, we're working very hard with some clear actions to turn it around in any event. It does depend a bit on the economic cycle.

Facilitator: Thank you, we have a question from Louise Weihart from Merger Market. Go ahead thank you.

Louise Weihart: Hi Craig. I was just wondering if you could give some comment on ... towards how the mergers and acquisitions could play a role in growth in the next year. And in particular I'm thinking around offshore expansion and wealth and then just was wondering if you were looking to grow through that, all the investment managements.

Craig Dunn: Yes, so thank you for your question. So obviously M&A has featured large in our recent history with the AXA merger and as I said before, we were really pleased with the way that is going and the competitive strengths we now have as an organisation. Looking forward, we don't see the need for any significant M&A. We did move quickly in the last 12 months to acquire Cavendish in self-managed super, and there may be some other small opportunities in that market to undertake further acquisition. There may be some, you know, small opportunities in Asia around asset management. But I'd emphasise "small". You know, we are very confident with our capacity to grow the organisation organically. Sorry, I didn't quite catch your second question.

Louise Weihart: Okay. Well, that's kind of most of them.

Craig Dunn: Okay.

Louise Weihart: Just ... I'm not sure if you'd be able to comment, but there has been speculation about IOOF and AMP's appetite. Can you comment?

Craig Dunn: Well, we don't ever comment on ...

Louise Weihart: Comment on ...

Craig Dunn: ... market speculation, but I just go back to my earlier answer: if we were to do some more acquisitions they would be very small, and they would be focused on self-managed funds, and possibly some targeted Asian markets, but, again, emphasis on "very small".

Louise Weihart: Yeah, okay. All right. And just, sorry, one last one, with regards to your investment management: any possibility of small acquisitions locally?

Craig Dunn: I think we are very comfortable with the franchise we have and the way AMP Capital is going in the local market.

I mean there's a significant opportunity for AMP Capital and the business Stephen's responsible for in broadening out the benefits from the broader advice network in Australia, which we're focusing on. And we have seen the benefits from the AXA merger come through AMP Capital's results. I mean, we are really pleased with the performance of that business. As I said earlier, you know, through Stephen's leadership we took a major approach to reinvesting in that business four years ago, a significant investment in new platform, upgrading our investment capability, targeted relationships in Asia – we're really pleased with the way MUTB is going – so we are very confident of the opportunities to grow that business organically over time.

Louise Weihart: Okay. Thank you.

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

Jane Anderson: Is there any in the room?

Brendan Swift: Okay.

Jane Anderson: Yes, sure.

Brendan Swift: Yeah, just going back to the SMSF area, are you seeing much of a flow of clients, either by assets or numbers, going from the traditional platform business to the SMSF area? And if so, I mean, how do you stop ... I mean what sort of mix are you going to end up within five years? Are you going to end up with a lot less platform-focussed investors and a lot more lower-margin SMSF investors? How do you sort of stop that trend, if you need to?

Craig Dunn: Yeah. Yeah, that's a good question, Brendan. So, obviously the self-managed fund market is growing very strongly. It's now the largest sector. That has meant we have some ... we have in the past lost some clients in AUM to other participants in that market. And one of the great things about now having a presence in that market is if clients feel they want to move to a self-managed fund, they can do it with AMP, and so that's an opportunity to keep that business within the family, if you like. But also it's important to make the point that within the sort of legal structure of a self-managed fund, a lot of those funds are still managed on a platform, and that's one of the benefits that we have now with North and the Wrap platform. So we'll have clients that will go to a completely separate administration platform, we'll have clients that will manage their SMSF through the North platform. So we're seeing both. And, again, that's one of the advantages of North. And, again, we are really pleased with the way North is going. As I said, it has tripled its net cash flows. We're continuing to invest very heavily in that Wrap platform, and clearly it's working well in the broader AMP advice network, which have really taken to it and are supporting it strongly.

Brendan Swift: Thanks.

Leng Yeow: Can I just ask how concerned you are that with all this ... with regulatory change and continued rumours of tax change in superannuation, whether people are going to lose ... clients will lose confidence in superannuation, they will contribute less, and I assume that you've got a fairly high proportion of voluntary contributions in your business.

Craig Dunn: Yeah, look, we have typically, although they've come off, particularly following the GFC. I'll just make a couple of broader points here. There is no doubt we have one of the world's best superannuation systems, and at the envy of many Western democracies. And that's been great for improved retirement outcomes for Australian families. We shouldn't forget it was also great for our country during the GFC. I mean, we had corporates in Australia recapitalise following the GFC faster than any other market in the world. So we've got a great system, and to give credit, we've got that great system because Australian Governments, over time – from both parties – have shown real courage and foresight in putting that system in place. The challenge we have a bit at the moment is that, you know, you're asking people to invest savings for the long term. You know, it might be a 35-year-old saying, "Put your money in now, but you can't have it until you're 60". I mean, they need to do that ... or to do that they need two things: they need tax incentives, and they need confidence that the rules of today won't be that different from the rules when they retire.

And so it is undermining confidence in the system. And, you know, we've got a great system – we need to stop tinkering with it.

Sally Patten: I notice that you listed quite a few offshore investors into Capital; are you winning any money locally? Are you sort of getting – I know your focus is about (28:11) – but any mandates (28:13)?

Craig Dunn: Yeah, Stephen might like to add to this, but I mean we have. I mean, one of the things we've seen this year is we have had some clients internalise mandates, so we had a big infrastructure mandate with Duet and that's now been internalised. Against that, particularly in fixed interest, Stephen, we've had some real success in growing our fixed interest out. I think we had net cash flows of over \$1B in the ...?

Stephen Dunne: Fixed income, yeah.

Craig Dunn: Yeah, in the past 12 months?

Stephen Dunne: Also in equities we've also had, I think, quite a number of mandates in relation to ...

Sally Patten: Local mandates?

Stephen Dunne: Local mandates, yeah, which was good. And then also in the area of the multi-asset capabilities.

Sally Patton: Yeah.

Stephen Dunne: And we've also had a number of good mandates. So, institutionally, we've done quite well domestically but, as Craig said, with Duet, which was a \$1.2B internalisation.

Sally Patten: Yep, okay.

Facilitator: Thank you, the next question is from Elizabeth Redman from Insurance News. Go ahead thank you.

Elizabeth Redman: Just on the issue of, like (29:21), in the Life business, you mentioned the need to get better at explaining the value of insurance in a typical economic environment; I wonder if you can provide any more detail on how you plan to do that?

Craig Dunn: Well, it's in part an industry challenge but also an AMP one, and that's where, you know, our adviser network is very important; sitting down with clients and Australian families and just reinforcing the benefit of insurance. I mean, it's an interesting point to make – and Craig might like to add to this – I mean most people's biggest asset is their capacity to produce income, yet it's one of the least insured assets that Australian families have, and that's an important point that we need to make. Craig, do you want to add to that?

Craig Meller: Yeah, I think the most important thing is making sure that either we directly, or our financial planners, carry out an annual review with the clients to (a) remind them as to why they took insurance out in the first place and why there's such an important need for insurance. But, secondly, if they're finding it tough being able to afford the full insurance premium, to discuss with them a range of opportunities for maybe alternative levels of cover, maybe lower levels of cover. Whereas, what we tend to see is people just switching off and cancelling altogether. So it's making sure that that sort of annual interaction and discussion of what's right for the client's circumstances happens on a regular basis every year. I think that's the biggest and most important part.

Jane Anderson: Are there any other questions from people in the room? Okay, thank you very much, and if there's any further questions ring me or Amanda. Thank you.

Craig Dunn: Thanks everyone.

End of Recording.