Legal & General Half Year Results, 15th August 2023, Q&A

Sir Nigel Wilson, Group CEO, Legal & General

My colleagues and I are now happy to take questions. Could you each state your name and the organisation that you work for.

Andy Sinclair, Bank of America

Three for me, as usual, please. First, fairly standard question from me. Legal & General Capital, can you tell us how much was the cash generation in H1 compared to operating profit?

Ideally, giving us an idea of how much from disposals, how much underlying, etc.. The second was just on the solvency movements that you mentioned for the reinsurance timing to unwind in H2. How much of the variances was that? And in percentage points as well will be helpful.

And third, was just on the CSM. I think maybe a little bit of surprise that the CSM was only flat year to date excluding the internal transaction, just especially given a pretty good H1 for new business. Just what sort of level of growth do you think we should see from the CSM over the medium term?

Sir Nigel Wilson, Group CEO, Legal & General

Thanks. Jeff, I think all three of those are yours.

Jeff Davies, Group CFO, Legal & General

I was going to say a fair collection for me there. Thanks. The LGC cash… we always prepare this for you Andy, ready. You've said, it could be below our profit some years, above our profit, depending on disposals and activity.

It's about just over 70% of our profit this year. We've actually fairly limited disposals within that. So it's quite a good underlying run rate of cash. So, we have been well over 100% above profits in previous years.

The variances… most of the number that's there we would anticipate to unwind. They were mostly timing differences, as we explained when we put the previous number out, looking at depending between own funds, SCR, it's about up to 500 million of that.

For example, we always sort out the term US term reinsurance in the second half. So that's coming through. We take it out below the line so that we get stable OSG coming through, for example, and there's some other intragroup reinsurance and there's also some of the PRT business that lands late in the period.

We haven't yet reinsured those, so we know that we're going to do that and that will unwind as well. CSM growth, yeah, it's interesting. It was 1.3%, including the pension scheme over the first half. We said UK Retail was a bit more challenged and a reasonably short duration so which runs off, has to add a bit more in there, but annuities did well.

In terms of a good underlying, last year we showed the half year to half year. I think it's better to have a whole year that was 7% growth across the whole business for CSM. Last year, I think we had UK PRT over 22, grew at about 9%. That was including some longevity assumption changes.

And even without that we had 5% growth over the period for the PRT business. So, we're expecting that sort of range. Underlying, we're going to be growing the business plus assumption changes where how much you want to factor in longevity, assumption changes, etc.. You know, I said that we'd expect some benefit from that in the second half again this period.

Andrew Crean, Autonomous

A couple of questions. Could you actually enumerate what your excess capital is? Everyone else says that their target or threshold rate is say, 180, 190. Could you do the same for us? And secondly, I notice you've increased your amount of BPA business that you can write to be self-sustainable to, I think 8 to 12 from about 8 to 10.

Is this an indication as to your ambitions? And have you now cast aside the idea of perhaps investing the excess capital to write 20 billion a year?

Sir Nigel Wilson, Group CEO, Legal & General

Jeff, why don't you take the first one, I'll do a little bit of introduction for the second one and then you can fully answer it, Andrew.

Jeff Davies, Group CFO, Legal & General

So, excess capital, we don't like to set a number. We've clearly shown we've got buffers there… there's a large amount. Part of that is because it depends why we got there. I put on the slide that interest rates in themselves don't create what you would call excess capital. As we go higher on rates, we expect them to go down quicker at a bigger amount. So we change our stress tests.

How we talk about it with the Board in formulating our views on how much have we got for new business opportunities versus buybacks or anything else is, what is the downside stress? So we start from where we are. We said, what do we want to look like over a planning period, assuming PRT volumes with some upside, assuming other investments in the business and then taking the downside stress on that and still not being stressed as a business, if you like.

And so that's how we do it. That changes, depending on why you've got to where you are, which is why we don't think it makes sense to set an absolute threshold. It's safe to say we don't need 230% all the time, but over a period we're anticipating writing significant PRT, even if it's 8 to 12 as we'll cover now in the next part.

And so there's other investments and we'll continue to do that. We'll continue to give more clarity as well on capital allocation policy, I think, over the next coming periods.

Andrew Crean, Autonomous

But what is the excess capital you talk to the Board about?

Jeff Davies, Group CFO, Legal & General

Well, I'm not going to tell you that number, that was a conversation we had with the Board.

Sir Nigel Wilson, Group CEO, Legal & General

I think the challenge that we're trying to highlight here is the PRT model that we have is much more capital-light than any of you have in your models. So we've tried to articulate that. So you can model it a bit better than in the past. And we've given you the quantification of the benefits we're getting from risk margin, which we'll get this year. Clearly there may well be further benefits next year from the asset allocation that we're allowed to deploy. So we can write the 8 to 10 or even 12 very comfortably and keep remaining within self-sustainability. If we then take the credit for the reduction in the risk margin, that gives us further headroom to write more PRT business.

So the challenge for us is the excess capital that we have sits in from a discretionary point of view, pointing more towards LGC and LGIM. And actually a lot of the historic thinking, because the strain's been higher historically, has been about just the PRT business. The PRT market looks as though it's going to be 50 to £60 billion.

We'll probably get around 20% of that. So that's very comfortable from a sustaining point of view. So PRT isn't the strain or the drain you think it is or many of you think it is on the business. It's actually what can we do in LGC and what we can we do in LGIM to accelerate the growth of those businesses.

And maybe Andrew you can give us a bit more colour on the way we're thinking through the opportunities that presented to us. But one of the big points that we just want to make is that a lot of our business is about the 50 million schemes who have 5 billion of assets, not the odd one that has much more assets than that, because every time we've had a very big deal, we've ended up breaking it down into smaller deals historically.

Andrew Kail, CEO, LGRI

Sure. Thanks, Nigel. Good morning, everybody. Very happy with Half 1 performance as you've seen on PRT. To your point in particular about the future, pipeline looks very healthy this year going into next year. That pipeline next year does have some singular very large schemes that we're evaluating. As Nigel says, we don't yet know how those are going to transact, if they'll transact or indeed if we're going to be successful.

So we're looking and evaluating those. But as has been already said from the stage, what's really important to us is preserving margin and doing it in a capital efficient way. And that's not just efficiency within LGRI. As Nigel said, it's not just that, it's about evaluating that capital efficiency right across the Group. Is it the right place to deploy our capital in writing those schemes?

And if it is, we'll look to transact. We're working very closely with clients. We have a great PRT business. We're one of the really trusted brands in the space that the large companies want to transact with. As Nigel says, there are 60 schemes out there with assets over 5 billion and we're working that pipeline incredibly hard to understand if and when they want to transact in the schemes that we can offer.

But of course it has to be on commercial terms that are attractive to us as a Group.

William Hawkins, KBW

Nigel, picking up on the answer you just gave Andrew. So if you're thinking more about capital allocation and the other businesses like LGC and LGIM… on LGIM, how is your thinking on the outlook for that business evolving?

Because you clearly already relative to peers have an awful lot of scale, but in line with peers, there's still great challenges on the fee margin, the cost income ratio, regulation and everything else. So, how are you thinking about the outlook for that business and maybe more numerically, how are we thinking about flows? Because again, big drag from LDI, maybe that was to be expected.

I don't know how much further those outflows have to run and you're kind of either side of zero on the active and index funds. So, what's the outlook there? And then secondly, slightly more nerdy, but the reinsurance contribution to the CSMs, please, can you help me understand that. There's a big reinsurance part of LGRI which I get conceptually that's rising, which I think I get conceptually, but how much further is that going to rise as you may be making more use of it for the jumbo deals?

And then on the Retail side, there seems to be a positive impact of reinsurance on your CSM, which I don't quite understand, and it does seem to be fading. So, it's a small number, but I'd just like to understand why reinsurance is positive to the CSM rather than negative, please.

Sir Nigel Wilson, Group CEO, Legal & General

Yeah, I'll have a go at the first one. Jeff, you can take the second, then Bernie if you want to make a contribution to all of that, you're welcome to.

On LGIM. We're at a point of inflection really in DB, and LDI business is transferring to PRT. We get a high proportion of that transfer and that in flow terms is often negative because we are unwinding some of the overlays.

So it's naturally a negative outflow, but actually it's a positive profit benefit and revenue benefit for the overall Group position. So that's part of the answer. The other part of the answer is that, for a number of years now, we've been building our credibility and presence in thematic ETFs, in the real assets, including clean energy, and we have a couple of very exciting new funds that we're in the midst of fundraising, going pretty well on those funds for LGIM on a global basis.

And we have our multi-asset business as well, which again, for the first time we've been selling it outside of the UK at scale. That's a two-edged thing. One is that we're sorting through the LDI DB transfer to PRT, that's going to happen for the next ten years. And so that's just a common theme. The other one is the same and to get into the ETF business we made a very small acquisition. We're absolutely thrilled that acquisition is performing in line with our plans and for most acquisitions, they tend not to perform in line with plans, so we're pretty happy with that. So we look at, even within LGIM, at both organic opportunities, but also, what I describe as bolt on M&A opportunities. I've waffled on for long enough Jeff to give you time to think through those, particularly the third question.

Jeff Davies, Group CFO, Legal & General

So LGRI. Easiest way to think about the reinsurances, if it's higher than our best estimate longevity assumptions, it's a cost. It's not going to give any benefit. So as that reduces and therefore reduces CSM, etc. Whereas if it's the other way around that comes through as an asset. What you're talking about I think on LGRI is the funded reinsurance which is where you see the increase.

We said 800 million or so in the first half. We gave the numbers on that and we continue to look at that as we need it. It was 800 out of 5 billion of premium. We'll see what we need. It depends how much scale business comes. We continue to work closely with a number of partners to have it available.

If suddenly there's a 5 billion deal, we might want to do a bit more in one go. If it was to be tens, etc, who knows? But we'll use it on an ongoing basis where the pricing makes sense. On the Retail Protection, which is really what you're seeing there, is mostly UK Retail Protection.

It's the same thing as happens on the annuity business. It just so happens that reinsurers in the UK because everyone historically has reinsured 90 to 100 percent of their business, reinsurers in the UK have pretty aggressive assumptions compared to what we would have as a best estimate. They've got way better data. They've done all the work on it because they've had volumes and volumes of this for years.

And so we haven't gone that far in our mortality improvement and base tables for mortality. So actually reinsuring appears as an asset. So that's what you see coming through overall on the net basis.

Steven Haywood, HSBC

You mentioned earlier about the risk margin reforms and asset allocation changes. Does this mean that potentially, going forwards, the PRT business can be sort of sustainable about 20 billion per annum of new PRT every year?

What would be the impediments to achieving that 20 billion per annum? Secondly, on your CSM roll forward, you talk about assumption changes and other companies, UK life companies talk about them being regular recurring assumption changes, longevity releases. Can you give us a normalised level of these assumption changes that we can put into our CSM roll forwards, going forwards?

That would be very helpful. And then finally, on the level of EPS growth normalised going forwards, considering that you say it will grow faster than the DPS of 5%, what sort of normalised level of EPS should we assume going forwards? Similar to the CSM growth? Or higher?

Sir Nigel Wilson, Group CEO, Legal & General

I'll take the first one. Jeff, you can take the second and third.

Jeff Davies, Group CFO, Legal & General

If you do the maths, it comes out at about 14 to 16 billion without any changes to the asset allocation. So just save you a bit of homework, doing the maths for that. Clearly it depends on what the strain looks like in 2024 and beyond.

But, if we do further asset synergies, then maybe we could do a bit higher than that. And so that gives us a very solid platform. I'm not saying we'll get to 14 to 16 of strain, and international strain tends to be higher than domestic strain. So, it also depends on the mix effect going forward.

We were trying to keep you in the circa £12 billion range because that's a nudge up from the 8 to 10 that we've talked about in the past.

Jeff Davies, Group CFO, Legal & General

On longevity, it doesn't quite come out in this way because it is quite lumpy, we've got a very large book and when you start making changes, you saw last year it was reasonably sizable.

We'd held some back for a period of time, but I think on average we've done sort of 100, 200 million. If you average it out because there's some where it's been very little, others where it's been 500 million. So, we still think there's a reasonable amount of prudence in there where experience in poor mortality was very bad experience… January, February in the UK as a whole, struggles in the NHS, that clearly impacts the older lives.

We're looking to project all the different conflicting evidence on this to work out what can we take from the data that's got lots of COVID noise in it. But we do think there's still more to come on longevity which is what we said certainly for this year. Yeah, EPS, DPS. We did say if we wrote 10 billion on the annuity business, that would lead to growth of 6 to sort of 8% overall, as you say we'd, we'd certainly anticipate growing the business at the growth of what's coming out of the CSM, it should be reasonably stable.

Actually, the releases do increase over time depending on how much you write, but if it was just stable portfolio, a bit like OSG, more runs off towards the end. But obviously, as you write new business that slows it. So, it stays about the same sort of level in the short term. So, we'd expect as growing CSM releases more, clearly we want to drive the similar growth in LGIM and LGC, and so we'd be looking to be slightly above that DPS, as we've said.

Thomas Bateman, Berenberg

Just going back to the view of excess capital, I assume the scenario is kind of lower rates now credit spread is a little bit negative for solvency. So, any other colour on what that view of excess capital is? And you mentioned liquidity. How should we interpret the Group's liquidity position?

Second question, you've given really positive commentary on the annuity portfolio. No downgrades, 100% cashflows, etc.. Where are you seeing any pressure, if any, across that portfolio? I assume there's a little bit of pressure here and there. And finally, just on the risk adjustment, I think for LGRI it was down year on year quite strongly. I don't quite understand why that is. So, if you could give a bit of colour, that'd be helpful.

Sir Nigel Wilson, Group CEO, Legal & General

Yeah, I'll do the second one. If you do the first and the third one, Jeff. Jeff do you want to go first with the first one?

Jeff Davies, Group CFO, Legal & General

So, the excess capital liquidity. We discussed the excess capital. You're right, it's a big stress of downgrades along the curve.

We would layer on as our risk people like to do… equities down, property down, all happening at the same time whilst all the things go wrong in credit at the same time. Never happens and it looks diversified. But we obviously have to allow for that. That gives you a significant down stress. As I say, it's not just doing it today, it's doing that over a five year business plan and all the investment choices we're making across that and the optionality that we want, and that's what we present to the Board and ensure that we are sustainable within that.

So, that's the way we look at it. We look at LGIM, LGC investment, M&A optionality and writing extra PRT across that. And what we intend to do.

Liquidity, it was more a comment that similar to capital, rates movements don't create liquidity and they don't create capital. There's nothing more to it than that. The Group has a very strong liquidity position.

You can see that we're sitting on as much cash as ever. So, there is nothing more to it than that.

Sir Nigel Wilson, Group CEO, Legal & General

A few years ago we used to talk about the dividends and do we have a sustainable dividend position. And therefore we developed this theory around sustainability of the annuity business and that has sort of dropped off the agenda now.

We've now become even more efficient at writing PRT business, particularly in the UK, and we've got more work to do on that in the US because we don't quite have the equivalent asset origination capabilities. And we don't reinsure in the US as well. So, there is a mix effect that we're working our way through with Andrew and the team. We've had more discussions with our Board on returning capital via buybacks this year than in any previous years.

And it's a good and very healthy debate. Part of it is really understanding the ambition that LGC and LGIM have for their businesses. In a sense, we've done all the work on the PRT business. There's some international stuff which Andrew's coming forward with and trying to figure out how much will we need for America, Canada and the Netherlands, all of which are markets that are opening up to us right now.

And what sort of level of returns are acceptable for us in those areas. But it is how much do we want to spend on growing LGIM and LGC, which is the swing factor around should we or shouldn't we start a buyback programme?

Jeff Davies, Group CFO, Legal & General

The annuity portfolio had no pressure at all. We had more upgrades than downgrades. The whole portfolio performs really well. But that's not us being complacent. We scour every different asset class, we do rolling reviews of all the different asset classes, whether it's student accommodation, etc.

Sir Nigel Wilson, Group CEO, Legal & General

Nothing went to sub-investment grade in the first six months of this year, which is quite extraordinary given everything that was going on.

And as Jeff said, we had more upgrades than downgrades, but we're not being complacent. The watch list that we have, which we monitor at every capital committee, and sometimes we have 2 capital committees in a week, is relatively modest compared to what we've seen in previous times. As Jeff highlighted, we don't really have any sectors that we're overly concerned about.

Sometimes you get individual sectors that are part of the portfolio, which you're worried about. We don't have that right now.

Jeff Davies, Group CFO, Legal & General

The last question was easy. It's just rates. It's just discounting. So, the same amount of money will come out over time, but it's just worth less today.

Larissa Van Deventer, Barclays

Two questions on sustainability and then one on ex-UK bulk annuity growth, please. On sustainability of earnings, you surprised positively relative to expectations on LGRI and on LGC.

How should we think about the sustainability of the number going forward? On new business, what do you see as the biggest risk to the new business strain and then also sustaining the margin? And then on bulk annuity growth outside of the UK, how fast do you see those opportunities evolving and can they compete with the UK on margin or is the illiquid asset generation prohibitive?

Sir Nigel Wilson, Group CEO, Legal & General

If Andrew gives an overall flavour of the way we're thinking through the PRT business internationally, I think that would be very helpful. And Laura might talk about the sustainability of LGC and what are our plans for not just the UK but internationally as well.

Andrew Kail, CEO, LGRI

So, on the international side, I think the great thing about the business for large DB centres across the globe, UK, US, Netherlands and Canada, we're in all those markets, which I think is a really positive thing for us as a business.

Two of those markets we're in as reinsurers, which is the Netherlands and Canada. US market… expecting that marketplace to do about $40 billion of business this year. So, very healthy pipeline of trades. Nigel has already referenced this. Where we participate in that market is not where we participate in the UK. Our balance sheet scale, our brand, etc means we tend to operate in a different segment of the market, notwithstanding that we did our largest ever transaction in just after the end of the first half.

So, we've given you guidance I think about the size and scale of the ambition we've got for the international business over the next few years, and you've seen that, we're well on track to deliver that. But mindful the whole time about the margins and the strain that we see in that market and, as has already been referenced, that's not always as high as we see in the UK and therefore we're very selective about how we guide our US business to go after options in that market and they're then watching that market very closely. But we're on track to deliver against plan and very happy.

In the Canadian and Netherlands markets that we go via reinsurance from our Bermuda operation… Canada, we have a partnership which is working for us but is a highly competitive market. Canada is a highly competed market and margins this year have been low. And therefore the trades that we've seen, we haven't been successful on the operating margins that we're looking for.

So, whilst we're active in the market and we're quoting, we're being very disciplined about the returns that we're seeking on our capital there. The Netherlands is a really exciting opportunity which is only just opening up, legislation there has been enacted by the government and we're now starting to see PRT schemes come to market. We are actively pricing on a number of schemes in those markets. Initial observations are positive, but until we close those out and report them to you, they're not done.

That's all still subject to DNB regulatory approval as well. So, we're excited, we're working hard. Market looks active, but nothing positive to report to you just yet.

Laura Mason, CEO, LGC

And in terms of LGC, we're very much on track to meet the targets that we've set out in the Capital Markets Day and again has been talked about today.

So, both in terms of the operating profit and the third-party capital. Nigel alluded to some of the work we're doing with LGIM in bringing third-party capital into some of our businesses. So, that generates both fee income from LGIM, but also supports the growth of some of our underlying operating profits. So hopefully we'll have more to tell you on that in the year-end results and have already launched a Clean Power Energy Fund with LGIM that supports our underlying operating business, NTR.

I think increasingly we're seeing that our model can work overseas. We've very much built our business in the UK, but equally we are now seeing opportunities overseas, particularly in the renewable and climate transition space. Many of the businesses that we're investing in today are now starting to operate outside the UK, particularly in the climate transition space.

So, I think the model that we put together, I suppose six or seven years ago now, in really looking at areas that are underserved by long-term capital, the model is really starting to come together. So, I think we feel very confident that we can continue to build on the profits that you've seen today.

Sir Nigel Wilson, Group CEO, Legal & General

And there's other things like the Kensa situation where we got into the ground source heating business a few years ago. Octopus have joined us in helping to scale it up.

They're the example of a specialist who has capability in the energy sector, who we can partner with, a bit like we've done with Bruntwood in the sci-tech space, which at the moment is happening both in the UK and indeed internationally.

Ashik Musaddi, Morgan Stanley

I've got three questions.

So, first of all, thanks for giving the additional colour on the direct property assets. Is it possible to get some colour about the rental yield you're getting? And what is the total return assumption you have in your models for the plan period? That's the first one.

The second one is with respect to giving extra capital return back to investors. Clearly you have a big solvency ratio 230%. So longer term, this trajectory looks very good. But how do we think about the near-term? How is Board thinking about it, given there is a leadership change happening in the company? So, I'm mainly thinking about, say 6 to 12 month view on this. Any colour from the Board on that would be helpful.

And the third one would be, in IFRS there was a big investment variance of about 600 million and then similarly in Solvency II it was about 600. You mentioned on Solvency II, it's largely the internal reinsurance which will come back. But is IFRS investment variance similar or is it anything different? Any colour on that would be helpful.

Sir Nigel Wilson, Group CEO, Legal & General

The direct property is really in two different parts, I'll talk a little bit about the LGR part of it and Laura, if you talk about the LGC part of it.

For LGR, we're trying to cashflow match and we're trying to create a spread in effect. And so how we think about what the return on capital is very different from what we're trying to do in Laura's business.

We're trying to create, as Jeff highlighted with the office sector, we've got the government as a counterparty. We're looking to increase the rents over a specific period of time to match the cashflow with the spread on top of that. And that's been hugely successful for us on any measure.

Laura Mason, CEO, LGC

So in terms of the real estate exposure we have in LGC, probably falls into two buckets. Firstly, the residential, which we talked a little bit about CALA and how well that's performed. The other big part of our residential portfolio is really concentrated around the affordable housing sector, which is performing particularly well at the moment.

And then in terms of any sort of commercial real estate, we very much think about almost the future of real estate where we invest. So, we've invested in digital infrastructure, so data centres and also our biggest other exposure is around sci-tech. So, creating real estate for science and technology, usually in partnership with universities and local authorities, at the moment focussed in the north of England and in Oxford, and has also been alluded to, we've started that model in the US and are very surprised on the upside in terms of how well that model is working. There aren't other players that are really wanting to partner for the long-term to create the real estate that will be needed in the future.

Sir Nigel Wilson, Group CEO, Legal & General

In big picture terms, it's low teens or mid-teens return on capital, which is kind of where we are with CALA and the other parts of the business right now.

On capital returns, yes, we're having a good discussion at the Board about that, but we've got nothing to report at the moment to the forum here.

Jeff Davies, Group CFO, Legal & General

There wasn't the mixing up of variances and IV. The investment variance on Solvency II was 18 million or something.

So, a lot of the rates we'd already moved some of the hedging and we've reduced some of the sensitivity, some of the rates benefit was offset by smaller negatives and inflation moved significantly at the start of the year. For example property, very small negative spreads, etc. So, there was just very small things offsetting some of the rates benefit there, which is why it ended up a small number.

On IFRS, we're moving to neutralise that much more, as I said.

So, we hadn't quite got there, which is why you still see some rates impact coming through on the annuity portfolio. We started taking the action during the first half, designating assets under IFRS 9, which I can bore you with later if you like and we're leaving capacity to do more of that as we write some new business to put new assets, which will again neutralise more of what we're doing.

So, we extend the portfolio, which helps Solvency II, at the same time take more of those assets and put them on amortised cost, which then neutralises us for rates, so we'll be looking to do that.

Mandeep Jagpal, RBC Capital Markets

Two questions from me, please. First one is on new business capital strain, I'm not sure if I heard this correctly, but Nigel said it's going to go from 2.2% to 1.4%.

Sir Nigel Wilson, Group CEO, Legal & General

That's just the maths on the H2. By the time you take the 40 million off...

Mandeep Jagpal, RBC Capital Markets

Between the various components of Solvency II reform, what was driving that 40 million reduction? What would you assume for longevity reinsurance within that.

And the second question is on the PRT outlook. In his Mansion House speech, the Chancellor spoke about DB consolidation on a number of fronts and launched a call for evidence as to whether the PPF should extend its role to include acting as a public consolidator for UK DB schemes, even for sponsors which are not insolvent.

What are your thoughts on this idea and could it impact book annuity demand in the future?

Sir Nigel Wilson, Group CEO, Legal & General

I'm going to let Andrew answer those questions.

Andrew Kail, CEO, LGRI

So, the impact on strain, the move is just the risk margin impact. So that's one piece.

On the PPF, lots of consultation. You've seen all the debates. In many ways, what's behind that scheme is the pooling model that allows you to bring schemes together and invest. Well, that's exactly what the industry does. So, that's what we do. So, in many ways we're supportive of the pooling model, but actually we think the optionality available to the sponsors that we're talking to is better served through them working with the insurance industry and the PPF.

The PPF has its role. But I think in terms of a scheme, that's got a long way to go, and the Chancellor talked a lot in his speech about options, more probably DC than DB. We're continuing to work closely with regulators, talking to government about options for the future and getting the best deal for pensioners in pension schemes.

But from our perspective, whilst we are supportive of examining options, we still feel that the PRT route is a very secure route for pensioners, particularly companies like L&G and the brand strength we've built in the last 35 years. The industry gives us a huge track record to deliver a really great outcome. We've seen examples like British Steel this year where that umbrella arrangement, the partnership, allows us to take a scheme through its life cycle and deliver an outstanding outcome to thousands of pensioners.

And of course, that's what we're looking to do for a number of schemes. So, we're very proud of the role we play in the industry. PPFs got its role, but we're also very supportive of what we're doing too.

Andrew Baker, Citi

Thanks for taking my questions. Three, please. First, just on the operating profit for LGI and Retail, are you able to give the asset optimisation split that was in that? Then, how do you think about the sustainability of that in particular?

Second, CALA. Flat year on year. I get the sense better than maybe you were guiding to at the beginning of the year. How are you thinking about the rest of the year for CALA?

And then third, just on the annuity AUM roll forward, it looked like it was about a 50% jump in payments to pensioners, whether that was year on year or either over the second half last year. Anything in particular driving that and what's the outlook there going forward?

Jeff Davies, Group CFO, Legal & General

The asset optimisation. It was a few tens of millions higher than the previous year, which was part of the sort of outperformance across the annuity portfolio. It's split pretty much in proportion to the assets. Probably a little bit more goes to the PRT business because the nature of what we're doing there and we give the split of assets there.

So, it's pretty much in proportion to that. We think it's sustainable. We have a good few years to do that. We think it's a great way for adding extra value for shareholders. We put the assets against the back-book, don't give away any of the margin in new business, but obviously we're conscious of hitting up against any proportions of DI in the book and doing that over time and making sure it's sustainable.

But that would be there as a feature for a good few years to come.

Sir Nigel Wilson, Group CEO, Legal & General

I think that's one of the exciting things about the reform. It's getting access to a different pool of assets that we can do more asset optimisation on a go forward basis.

Laura Mason, CEO, LGC

So, in terms of CALA, you're right, revenue is flat year on year. If anything, a little bit higher than it was at this time last year.

And that's made up of average sales prices, which are slightly higher than they were last year, and the sales rate, which is just slightly lower. We are very pleased with how CALA has performed both compared with other competitors, but also given the macro changes that have been seen over that year. Given that, I think we feel fairly confident that we will meet our plan and I think it probably is worth just noting some of the sustainability measures that CALA has put into place.

So, this year we bought a very small timber frame making factory which will allow us to make all of the houses using timber frames. So, reducing the embodied carbon of the housing. And from next year we are aiming that no gas will be going to any sites. And given I think the trends that we've seen recently, I think this year we've seen a record number of consumers fit solar and heat pumps.

I think we're certainly catering to what consumers want.

Sir Nigel Wilson, Group CEO, Legal & General

We do that across the Group. If you go and visit one of our newest Inspired Villages, it's all about ground source heating and air source heating and very carbon friendly outcomes.

Farooq Hanif, J.P. Morgan

I'm surprised you didn't see a bigger jump in your Retail annuity sales given the value for money you've got there. Wondering how you're going to play in that market going forward? That’s question one.

Question two, back to Laura, I'm afraid. We were told 10 to 12% return on alternative assets by 2025. You seem to be sort of getting there almost every year already. Is that just because yields are higher? Should we just think about the risk for yield as a base upon which you're naturally earning a risk premium, so we should just assume that you get this level of return going forward?

And then my last question was just on LGIM on costs. So, you talked a little bit about the revenue and the flow outlook, but what about cost? I know you've been investing and is there a point at which we will see the cost income ratio drop? And when is that?

Sir Nigel Wilson, Group CEO, Legal & General

Bernie, do you want to go first and say why 29% is a disappointment?

Bernie Hickman, CEO, L&G Retail

Yeah, I'm really disappointed with 29%. I think there's a couple of points there. We're very active in our pricing, which means as interest rates go up, we reprice more quickly. As they come down, we reprice more quickly.

And actually during the first half, given the time lags involved, they were kind of coming down post the mini budget. So, we hope to see that trend reverse a little bit. The other thing that we're a little bit different to the market is, we have got some really good partnerships with some external companies who've got guaranteed annuity rate business.

And with the big jump in interest rates, the actual size of the pots that are needed to fulfil those guaranteed annuity rates has actually reduced. So, we've got a bit of an offset but 29%, we're really happy with and we're looking to do more of that going forward. We're feeling really positive about the Retail annuity market and both the volumes and the margins that we can get in that market.

Laura Mason, CEO, LGC

And in terms of the 10 to 12%, which we have now started to achieve, we've achieved an over 10% return on operating profit on our assets over the last two years. And we've really set out that number thinking through how our earlier stage investments are starting to perform and mature and therefore get more sustainable returns between the 10 to 12%.

So, I acknowledge interest rates have changed since we set out that target. But really the maths is really around sort of putting in early-stage investments that are maturing and getting to those longer term sustainable rates of return.

Jeff Davies, CFO, Legal & General

LGIM costs... you saw we took action. We had to react to where the market was and what it was doing to revenues.

So, we took some action ,end of last year, start of this year, around workforce etc. and controls around costs. Richard's been extremely diligent on project spend and prioritisation within that. We have some very large things we want to execute. Data improvement is essential. You can't use AI if you haven't got data as I keep telling everybody. And just generally being able to use that for automation etc, as well as doing the large work that we're doing with State Street, which is ongoing.

But at the same time, we've been investing in distribution in Korea, in Switzerland, etc, and we think those are the right things to do. But we are being measured in those and we are being conscious that what has happened to AUM, we have to continue to have a focus on expense. So, we'll do that for the rest of the year, absolutely.

We'll take a view in the plan towards the end of the year and where we think markets are going to go. But, unless the yield curve drops dramatically, we're going to have to keep that focus on expenses. We don't want the cost income ratio continuing to increase.

Rhea Shah, Deutsche Bank

Two questions, please. In LGRI, within the investment margin, what was the release of the prudence and how sustainable is that?

And then second question on CALA. Can you provide some colour on the NAV of CALA and are there any scenarios where you would look at other options for CALA, i.e. reducing your stake or changing how that works?

Jeff Davies, Group CFO, Legal & General

The investment margin, you mean on the CSM, the actual unwind… so, it's mostly the unwind of the assets backing that. So, most designated quite a bit to amortised costs. So, those unwind at the same rate and the rest of it is just the yield less the 41 BPS we talked about in the previous sessions on IFRS 17.

So, that is just the yield across the book. The yield looks very like the one that we talk about for Solvency II, so it tells you the yields. You can add the matching adjustment to the fundamental spread. That's the total yield, knock off 41 instead of 50 something and you get your answer, so you can see the yield, that's just the assets unwinding, so that's very sustainable.

There was that element of back-book optimisation within that number as uplift and we get a higher number because we have surplus assets and obviously return expectations have gone up on those in a higher yield environment. So that's why you get some extra coming through on that. So, there's three areas that that you can just about get to with the modelling around that.

Laura Mason, CEO, LGC

On the net asset value of CALA, it is a significant part of our residential portfolio, which is about 2.2 billion of NAV. In terms of what we are doing with it, we've grown CALA significantly in terms of revenue and profit since we took it on. And our aim very much is to continue to build it, increase the return on capital employed, really embed the sustainability measures to make sure that we are really one of the top ten housebuilders both in terms of revenue and sustainability.

And we are always open to the strategy and what we do with that. Whether we co-invest, merge with another housebuilder… we're continually thinking of what the best option is for that and we'll do the right thing from a sort of investment perspective at any given time.

Abid Hussain, Panmure Gordon

Two questions if I can. Firstly, on Solvency II margins, I'm just wondering why the Solvency II new business margins are lower if the new business strain and the IFRS 17 profitability has improved? I would have thought Solvency II and IFRS 17 move in the same direction. That's the first question.

The second question is on PRT competitors. Who are you competing against in the international market? And are there any plans to enter any new markets beyond the Netherlands?

Sir Nigel Wilson, Group CEO, Legal & General

Andrew, if you take the second. Jeff, do you want to take the first?

Jeff Davies, Group CFO, Legal & General

There's not much in it, really. It's 8% against 8.7 or 9, I can't remember what it was. It's the same as ever. It is just the business mix within that, and just relative, there's nothing really that's gone on between them.

They do broadly move in the same way, as you say, but not exactly, because there are different features within them. There's the cost of capital and one's got different expenses etc, but they're broadly the same. So, nothing has gone on within that. I think the 8% is roughly where we'd expect to be and in line with historic numbers as well.

Andrew Kail, CEO, LGRI

And then just on competitors. There are 19 active writers in the US so it is a very broad based competition. If you bring that down to planned terminations where the US market on balance doesn't always like writing deferred lives, that can bring it down to 7. Who are they? They're the usual companies you see in the market: Met, Prudential, Apollo, etc. So, nothing unusual about that.

In terms of new markets, no active plans to move into new markets. We have Japan on a watching brief. Kerrigan's in the audience as our Asia President. PRT is actually currently illegal in Japan, which makes it a bit of a barrier to entry. But we actively look at that market in terms of potential.

But certainly, we've still got a long way to go to mature the Canadian and Dutch markets so those are taking the attention for now.

Nasib Ahmed, UBS

First question on the OSG. How much asset optimisation or management actions do you have in the 947? And I notice in the second half you're expecting around 800 million and I thought management actions were more weighted towards the second half. So, what's driving that reduction versus the first half?

And then secondly on new business CSM. That fell versus 1H 22. Even though you've written slightly more PRT, is that just mix driven and higher rates? And then finally, can you split the earnings split for LGC between CALA, Pemberton or your key businesses? What percentage is being contributed by these businesses?

Sir Nigel Wilson, Group CEO, Legal & General

If you do the first two Jeff, I'll do the third one.

Jeff Davies, Group CFO, Legal & General

OSG management actions, as we've said, there's certain ones in there that are in the first half, certain in the second half. Things like the internal reinsurance of the US term business. And so, we take that out. We're probably relatively equally weighted in terms of management actions.

Asset optimisation doesn't really figure heavily in the OSG number. We were forecasting surplus generation broadly in line with last year… possibly up a bit, down a bit, 1 or 2%... but we think it'll be broadly in line. But, there's nothing much going in there. But there's nothing major in there that's really shaping it, I would say.

And then the second question was the new business CSM. It's probably best that we talk to you about which number you're looking at because there's a whole lot of complication between which premium you've got for the funded reinsurance or not and whether you're allowing for that and also whether you've got the pension scheme contribution of CSM in there or not.

But broadly, I think actually it was higher for the PRT business than it was in 22, depending how you do the calculation, whether nine and a half or ten point something, depending how you look to the calculation. Retail annuities were good. US was good. We did say that UK protection was a tougher market.

You can see that was down in the Solvency II new business value and the same happened from the CSM on that. But otherwise, there was no big variation period and we can talk you through the PRT one if you like, because we just need to make sure we pick up the right numbers.

Sir Nigel Wilson, Group CEO, Legal & General

On the breakdown of LGC. We tried to do a lot of that when we did the Capital Markets event last year, and at some point we'll just give an update on the capital markets and how we're tracking against the plan. So far, we've never broken down all the constituent parts, otherwise it would be a horrendously long report to go through all the different assets that Laura and the team have in their business.

I think this is the last question. If anybody hasn't asked a question or wants to ask another question, could they please put their hands up? I'm assuming not. You've got the privilege of the last question.

Dom O'Mahony, BNP Paribas Exane

I feel very privileged, just two questions if that's alright and they're probably follow-ups really. The first is just to clarify the comment you made, Jeff, about liquidity. I get that the cash position is great. Just trying to understand whether there are any circumstances under liquidity that would ever be a constraint, really. In my understanding, because of the simple corporate structure, it's quite easy to move cash up and down. So, I wouldn't have thought that liquidity would ever really be a material constraint, but I'd be interested in your comments on that.

The second is just on new business strain. Nigel, when you said 'our models have too much strain in them', I wonder if you were thinking of my model because I've got 3% strain in mine. Is two the new three? Or is one and a half the new...?

Sir Nigel Wilson, Group CEO, Legal & General

I think many of the models were at 4 actually. So, it was just to try and get over that there is a difference. And we were seeing that lots of people had different variations of the model and we wanted to kind of treat everyone the same and therefore give the disclosure via this route as opposed to any other route.

So, that's the second one. The first one, Jeff.

Jeff Davies, Group CFO, Legal & General

You're right, liquidity is not a problem for us. There's a couple of different forms of liquidity. There's the cash movement through the business which we can easily move up from the insurance business. We tend to move up what we need, as we've said, and what needs to sit in Treasury.

And so, we have no issues with that. And it's thrown off from the various businesses and we move that up. So, liquidity not an issue there at all. And the other form of liquidity is more around the annuity business and derivatives, which is the main thing we stress test for.

We obviously saw after the mini budget, we withstood that very well. We had plenty of headroom still on that, even with the rates movement. So, we can withstand big, big up-rate shocks, which is the big thing that we hold liquidity for within the annuity business separately. That's very different to the cash passing through and cash I was talking about, which is not an issue at all.

Sir Nigel Wilson, Group CEO, Legal & General

Thank you everyone for their questions and their support for Legal & General. And I probably won't see many of you again or some of you again. This will be my last set of Results. And I'd just like to thank you for all the support you've given me over the last 14 years. Thank you. Bye.