Full year 2014 results – Jon Sopel and Mark Wilson interview - transcript

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JS = Jon Sopel, interviewer

MW = Mark Wilson, Group Chief Executive, Aviva plc

00:33

JS: Mark, let's start with the performance for 2014. You are a hard man to please, are you satisfied yet?

MW: Well hello, Jon. I think you already know the answer to that; of course I'm not satisfied. Have we made some tangible progress, sure we have. Is that progress a little bit ahead of where everyone thought it would be, yes perhaps it was. I think we've got further to go than the distance we've already come. But I think it's important to look at the numbers and take stock of where we are, and then move forward.

If you have a look at cash flow, the market focuses a lot on cash flow. Cash flow - the excess holding company cash flow at group – that's up 65 per cent. That's quite an acceptable sort of result. Our main measure of growth - value of new business - that's up to a record 1 billion pounds. Earnings per share is up 10 per cent. Expenses from our baseline at the end of 2011 are down [£]571 million. So all those numbers, all those key metrics, they're are going in the right direction and I accept that probably some of those numbers are a little bit ahead of where the market was anticipating they'd be.

01:43

JS: And, I'm sure a lot of shareholders will be asking, what about the dividend?

MW: Well the dividend, I think we've shown that, with these results, we started this year from, I guess, a position of some pretty good strength and when we announced the Friends transaction we put the dividend, that's the final dividend, we put it up 30 per cent. And we did that because we'd made progress on all those issues and I guess we were trying to repay some of the faith our shareholders had in us.

02:11

JS: You say you're not satisfied yet, and yet all you've given me so far is unalloyed good news. Are there any negatives there?

MW: You know, Jon, you know me I think well enough by now, I like to focus on the things we've got to fix, I try to focus the organisation on the problems we have. And there's a lot of things I'm really still quite unhappy about. I think our products per customer is entirely inadequate and for a composite insurer like us should be much higher. I think our expenses are still too high. I accept we have exceeded our targets that we put to the market, I accept that. Obviously when you have a look at the asset management side of the business, that's still inadequate when you consider the scale of that business and what earnings we should be getting out of there, over time. So good progress, but there's so many issues that we need to address in the business and that's what we are trying to focus on.

03:05

JS: So let's talk about profit growth, what is driving that?

MW: Well, the profit, as you know was up 6 per cent on the year and that was despite some head winds, we had currency going against us, we had quite major regulatory changes here in the UK. So we had some head winds and despite all that it went up. So what's driven that? Well we've been selling more profitable product, we've had some pretty good results out of the GI - and I'm sure we will come onto that later - out of the general insurance. So those are certainly going in the right direction.

We've been focusing on the back book in the life business and we've had some good .. profits out of that and we will continue to do that - we had signalled that to the market so I guess we have delivered what we said. But we've got, I guess, much more things going right, than going wrong and that's a reasonable place to be.

03:51

JS: There's also been a big increase in book value, now was that anticipated?

MW: I don't think the market would have anticipated that. It's a 26 per cent increase in book value, that's the IFRS NAV. That's been driven by a number of things. Obviously, profits going into there, and reduction expenses, and that's all helped. It also had quite a significant impact on the way that pension accounting is done. IES19 as we all know there are a lot of vagueness about that accounting system, and so that's had some quite big benefits, but I want to keep everyone's feet on the ground here, we don't want to get too far ahead of ourselves as you could lose some of that quite quickly as well. What it has done though is had quite a significant decrease in our debt leverage ratios, this was a factor that did concerned me and concerned the market and we've gone from our old basis of 48 per cent to 41 per cent, and on the S&P basis – which is the basis I prefer going forward, it's gone down to 28 per cent, which well within our target range and in fact within the double A range. And that's even before we take the benefits of the Friends Life delivering. So yes, I accept its positive news, I don't want us to get too ahead of ourselves and I want us all to understand the dynamics behind that.

05.14

JS: On the UK Life businesses, you alluded to it a minute ago, that you have faced some regulatory head winds, how difficult have they been?

MW: Well, they have been difficult - but just to be clear, I agreed with the regulatory changes, particularly in the pensions, I think that's good for customers. And if it's good for customers, it's going to be good for us in the end. Now, the benefit of a company like Aviva is we're a diversified insurance group and insurance is about diversity, it's about taking the risk off one and putting it onto many. At Aviva we have so many levers we can pull and so many products that we can change our focus on to make up shortfalls in terms of cells' profitability. The annuities were down a bit, to be expected, but other parts of the business fill in those gaps - and that's what makes us different. We've got a systemic competitive advantage and I think you've probably seen that in the results.

06.09

JS: And the combined operating ratio - I think I'm right in saying is a measure of your general insurance - now as a group it has been performing well, but what about in the rest of those businesses?

MW: So, our overall result at 95.7 (per cent) is the best for some time and I think that was a highly satisfactory performance. Underlying that though, it hides what's really going on, so what we saw within that was a quite outstanding result from the UK general insurance. Now that's despite - I mean the last time we spoke, we were talking about the floods at the beginning of last year - so despite those floods we had an excellent result. And that is because of what we've done with predictive analytics and the data we have.

Now Canada, conversely, wasn't as good as the year before. Still a good return on capital, still good results when you compare it with the market, but with a high incidence of small claims in Canada and so that pulled the results back a bit. But again it comes back to that diversity question: when you have multiple geographies and multiple products what you can get is some good results, and so one country or one bad set of results doesn't pull the overall group down too much.

07.23

JS: Probably the big news of the last 12 months has been Friends Life. Are you still as convinced it is as good a deal as when it first emerged?

MW: Well, when were able to go to the market and actually announce it, I was convinced it was it was … I think the words I actually used were “compelling”. But what it fundamentally does, Jon, is de-risk our turnaround story. You know, Jon when I come into a business it’s very easy to see what you need to do. You can look at an insurance company and see what you need to do. The hard part is getting people to actually execute it. And you need a catalyst to help you do that. In the last couple of years, we had the catalyst [of] the results, and the balance sheet and all of the things we just had to do. And this transaction, I believe, can be the catalyst for the next phase of turnaround at Aviva. And certainly people internally, in the organisation, are seeing it that way.

08.14

JS: It will give you a lot of cash and benefits, but a lot of commentators are raising the question – do you have to do this deal?

MW: I think there’s a very simple answer for that. Look at 2014 numbers. I think that probably stops any debate. We’re doing it very much from a position of strength. We’ve made a bit more progress than even we had anticipated we would make. Because of that we were able to put the final dividend up 30 per cent, so we are doing this from a position of strength.

08.45

JS: Well let’s talk about international business, because in the past you have sometimes said ‘well, haven’t been going as well as it could have been’. How have they performed this year?

MW: Well, again I think it’s been mixed. There’s been some highlights. I think one of our problem children was Italy. Dare I say it; I’m almost tempted to take them out of the turnaround status because their results have been very good indeed. We’ve had some very good results and growth out of China – that’s 100 per cent growth last year on top of 100 per cent growth the year before … I think that’s entirely satisfactory too.

But let’s be really clear what we’re talking about when you have a look at all these markets going round the world, no-one internally is under any illusion about how we’re performing. Yes, it’s progress, but progress doesn’t mean you’re anywhere near where you should be.

09.34

JS: Let’s talk about the asset management business, because you have recently faced a pretty hefty fine - it’s been all over the press - and you’ve found yourself on the wrong side of the regulators.

MW: Jon, I wouldn’t characterise it as being on the wrong side of the regulators at all, in fact I think their fine on us was entirely appropriate. The facts are that there was a conflict of interests issue, that went on for a number of years, and it was entirely unacceptable - entirely unacceptable. And the regulator worked with us - in fact I think the regulator described our co-operation as being “exceptional” in their press release. But let’s be clear there was an issue and what we did is we put it right, we’ve made sure no clients suffered any detriment whatsoever, we’ve put a lot of time, and money and resources into fixing the risk controls around that business, so now we know they’re very robust. Now I know some people have said ‘well, the management … there’s new management at Aviva since that issue happened’ because it finished at the end of 2012 - and also it’s an entirely new senior team at Aviva Investors as well – but, you know what? It’s up to us to take responsibility. It’s up to us to say ‘here’s an issue; we’re accountable; we’ll take responsibility’. Our job is to fix it and that’s what we have done.

10.51

JS: We are starting to talk about the future now and for what’s ahead in 2015. It’s not all going to plain sailing - there are going to be big job losses?

MW: There are going to be job losses and an unfortunate part of when you do a good-sized acquisition like the Friends Life … when you put those two businesses together there will be job losses. And we’ve said those job losses will be 1500. That’s something that is tough on our people and I recognise that and I think our people have been exemplary through this whole process. We need to keep on consulting with them, we need to take them through it. My commitment is I want to get certainty to our people as fast as we possibly can. We want to take the pain, take it very quickly and get over it and move on - and that’s what our people want as well.

11.41

JS: What are the priorities for 2015?

MW: Well, there’s a number isn’t there? We’ve spoken about the Friends deal. One of the priorities are certainly executing that deal - making sure that we can put these businesses together; getting the right outcome for our customers, and our people and shareholders out of that. So that’s certainly a priority. Delivering on our strategy of the true customer composite and the digital first strategy. Continuing to focus on expenses. Reallocating our capital to the segments and the product lines, and the businesses and the markets that can get higher returns on capital - that’s a priority as well. And a priority is not getting too far ahead of ourselves.

I mean, if you go back to two years - if you step back and look at two years ago - there were a lot of people in the market [who] thought that Aviva was unfixable. And I can understand why. It was like being in a huge boat with a whole lot of leaks and you don’t know which leak to put your hand over first. But as we’ve stopped those leaks and strengthened the boat all of a sudden we’ve found that the boat’s starting to go a whole lot faster. So we’ve got to just keep clear about what we’re doing, be realistic about our focus and keep improving the business.

12:58

JS: I want to ask you a final question - and it’s a personal question. You’ve been now CEO for two years. How are you doing?

MW: How am I doing? I don’t think that’s up to me to judge actually, Jon – I think that’s up to the market and the shareholders …

JS: Yes, but you judge yourself harshly. I want to know how you think you're doing - what's gone well? Room for improvement?

MW: Well, I think how I'm doing is I really enjoy what we are doing. There's nothing more satisfying than taking a business that has issues and a business that's a brand and has the history and legacy of this - and moving it forward. But you see … and I'm not being evasive on the question … but I don't see performance over the last two years. I accept we've made some progress and I accept it's more than people were expecting - I get that. But you don't create a legacy over two years. I think the right time to ask *that* question is years in the future and say "how did you do and how did you judge your performance" - and I think at *that* time I'll be able to answer it.

JS: Maybe you'll invite me back to ask that question. Mark Wilson, thank you very much indeed.

MW: Thank you, Jon