AVIVA AGM 2013

Mark Wilson, Group Chief Executive Officer:

Thank you, John - and thank you all for coming.

It was exactly 12 months ago in this very room that you sent Aviva a clear message.

You were uncertain about the company's direction. Angry about its performance.

I had the chance to speak to you over coffee this morning. I know there is still a sense of impatience.

I don't blame you.

If patience is a virtue, I think Aviva shareholders are on their way to becoming saints.

So let me start by reassuring you that we have heard what you said.

We have heard you on transparency, on simplicity and on pay.

Above all, we have heard you on performance.

There is a great deal of work ahead to deliver what you want.

But there is also a great deal that is right about this business.

We have 34 million customers, gross written premiums of 23 billion pounds and 300 billion pounds in funds under management.

We are the number one insurer in the UK. In Canada, for example, we are the second largest general insurer.

I knew before I started four months ago that Aviva has a distinctive brand, talented people and a remarkable 300 year history.

It's supported people through floods, famines and fires, through wars and economic crisis.

It's been there in the good times and the bad times.

But I did not fully realise the truly world-class insurance expertise within the group - or what a fine job Aviva is doing for our customers.

We don't always get it right 100% of the time. We're working hard to ensure we do.

Our customer service is a wonderful focus of our business.

I have visited our call centres.

I have listened in to our staff talking with sensitivity and sympathy to someone who has suffered real and painful loss.

It made me incredibly proud to be leading this organisation.

And underlines the importance of what we do - as a company and an industry - for the societies in which we work and live.

But while we have been delivering for our customers, we have not been delivering for you, our shareholders.

We need to do both.

The truth is that our performance has consistently lagged behind the sector.

And as a personal investor, I agree with many of you that our company is substantially under-valued.

Over the last 12 months, we have taken important and necessary steps to put this right.

The work was begun by our Chairman, John McFarlane, who set about sharpening the Group's focus and building financial strength.

Thanks to these decisions, our capital position, which was definitely too low, has improved markedly.

The economic capital surplus has almost doubled from £3.6bn pounds to £7.1bn pounds.

This is well within our target range of 160 to 175 per cent of economic capital.

Our economic balance sheet is around one third less risky.

It is less sensitive to credit spread and interest rate movements while our risk exposure to the Eurozone has been reduced.

We are exiting businesses such as the United States where we did not have strong enough market positions, and simply was not giving the returns that was required.

They absorbed too much capital and delivered low returns.

The answer was clear.

These disposals were essential to put the business on a stronger footing for the future and give us focus.

We are now in 17 countries when two years ago we were in 30.

Selling businesses, however, has inevitably increased our debt ratios, as the NAV reduced.

It is also clear that cash flows from the businesses were too tight to sustain the historic levels of dividend and reduce debt at the same time.

Unless we took steps to tackle these problems, it would be like trying to walk up an escalator that is going down.

You can do it for a while but in the end the escalator will win.

This has, however, meant difficult decisions.

Difficult decisions on the dividend, which I know has been disappointing for you as our shareholders.

And difficult decisions on staffing levels, which has been unsettling for our people.

I can assure you that we explored every option before we decided to reduce the dividend.

Keeping the status quo would undoubtedly have been easier for today at this AGM.

But it would not have been in the best long-term interests of the business or for you our shareholders.

As your CEO, I am not prepared to choose the easy decision over the right one, to substitute short term expedience over long term outcomes.

I don’t think that’s what you want.

We need to bring debt levels down.

This is why we must - and will - meet our cost savings target of 400 million pounds this year.

This will require us, as we announced three weeks ago, to lose an additional 2,000 positions across the business. That’s about 6% of our global workforce.

I understand the uncertainty this has caused for our people.

I am determined that we get through this phase of our business transformation as quickly as possible.

I want to say something here on pay as well which, of course, was a major criticism at last year's AGM.

You sent us a clear message about pay for performance or more specifically pay for underperformance.

I have not only heard your message but I agree with it. And I personally certainly agree with that message.

So there has been no bonus at all for our executive directors and no pay rise for our top 400 senior managers.

We will continue to pay for excellent performance.

But our new pay structures put in place by the board will prevent people being rewarded for average or below par performance.

I cannot turn back the clock on pay - or rewrite past legal contracts.

But I hope that these actions give comfort to our shareholders that interests are now aligned on pay and performance.

And I am realistic enough to know that pay will continue to be an area of focus - and quite appropriately too - from shareholders and the media going forward.

I know, however, that what you most want to hear from me today is about how we are going to deliver performance in the future.

I want Aviva to be stronger and faster - more athletic, more agile, and better able to spot the gaps in the market.

We have been busy putting in place the right team to help us achieve this aim.

Achieving this goal also requires a clarity of strategy and execution which has not always been apparent in our company.

Our business, because of the way it has been built up over generations, has appeared too complicated and too unwieldy.

It's been hard for investors to understand what's going on - something you have told us we need to put right.

So fundamental to our plan for Aviva is to make it simpler to understand.

That's why I have set out a very clear, very simple investment thesis which outlines what you can expect as shareholders.

It is cash flow plus growth in that order.

It sets up the metrics we are going to measure and sets out how we run the business.

First cash flow.

Our problem has never been that our businesses don't generate enough profit. They do.

A diversified insurance business on the scale of Aviva is a profit-making machine.

The issue is that not enough of this profit was being turned into cash and passed up to the group where it could be paid out to investors as dividends.

This is because of inefficiencies, restructuring charges and unnecessary complexity - issues we are now addressing.

It is just like pipes carrying water.

There is plenty of water flowing in at the beginning.

But there are so many diversions and traps that not enough is getting through to the taps at the end.

This is where the focus on cash flow is so important.

Cash brings clarity.

Cash brings certainty. Cash flow is the lifeblood of a successful business.

It is performance without the small print.

It enables us to see where the blockages are and to remove them.

To identify where improvements are needed and deliver them.

If we can improve cash flow year on year, we can increase dividends.

If we can show clearly how the business is generating revenue and, importantly, reduce our debt levels, we will get the results you desire.

So the first part of our plan is a relentless focus on improving cash flow.

The second part is to drive growth. Where do I believe it will come from?

First, I expect to see growth in the UK through a focus on meeting customers' needs, new products and services.

The UK is our home base and is our strength.

Second, our businesses in Canada, for example and Europe, have the ability to generate increasing levels of cash.

Third, I see strong potential for growth in emerging markets only where we have a competitive advantage and the ability to get scale quickly.

I am not interested in simply planting flags on a map of the world. Aviva has tried that.

Where, however, we have or can build a leadership position we will continue to put in the energy and investment.

Poland and Turkey, for example, are both excellent markets where we have great partners, and they are exciting areas of growth for us.

There is great potential for us in parts of Asia, too.

For example, I suspect it would surprise a few people here to learn that we are one of the largest foreign insurers in China.

In fact last year, we were the leading UK insurer in China by sales.

Ladies and gentlemen, if we deliver on this strategy, Aviva will have a robust balance sheet with strong and predictable cash flows.

We will have diversified earnings with lower debt levels and solid options for future growth.

We will have a business out-performing the sector.

We will be in a position where dividends are both predictable and improving consistently.

This is, of course, a very big agenda.

But Aviva is a big business, an important part of the economy and society which is why so many people want us to succeed.

Last year we paid out 29 billion pounds in claims.

We dealt with five claims every minute of every day.

In the UK alone, we bought enough replacement wallpaper to run from here at the Barbican to the Eiffel Tower - and back.

We deal with people when they most need help which is why we have a responsibility to do it well.

It is a responsibility we take very seriously.

I know many of you will be seeing me for the first time today.

But I am certainly not new to this business.

I have spent my entire working life in insurance and funds management.

I guess it's in my blood.

I am, in fact, the third generation of my family to have made a career in this industry.

I have worked in nearly every aspect of this business, in both mature and emerging markets.

I like to think that I have left every business that I have led in much better shape than I found it.

I want to be judged on my progress in helping restore the fortunes of this iconic business.

Part of my job is to accept the feedback and criticism levelled at this firm.

But I am very aware that you will rightly judge me on the numbers and how we deliver on our turnaround.

And make no mistake.

Aviva is a turnaround story.

It is also a turnaround story starting to build momentum.

We are already in a much better position than we were this time last year.

The decisions we have made will ensure further progress the coming months, and quarters and years. We need consistent progress - and we need it quarter after quarter after quarter.

Ladies and gentlemen, as shareholders, you have been patient - far more patient than I would ever have been.

My job is to ensure your patience is rewarded.

Thank you very much.