Standard Life

2013 Q1 Trading Results and Interim Management Statement

Wednesday, 24th April 2013

Jackie Hunt – Chief Financial Officer

Morning everyone, and thank you for joining us to discuss our Q1 Interim Management Statement. I'm joined today as usual by Paul Matthews, Chief Executive of our UK and Europe business. I'll briefly take you through the highlights of today's announcement, and after that we'll be happy to take your questions.

We've had a strong start to the year, significantly increasing long-term savings, sales and net flows. Inflows across our business and positive market movements have increased Group assets under administration to record levels, with Standard Life Investments having a particularly strong start to the year.

In our Investment business third party net flows were up over 160%, which together with positive market movements helped to drive third party assets under management to record levels.

In the UK, sales benefited from the implementation of auto enrolment for a number of existing clients and while the industry continues to see disruption as a result of the introduction of RDR, we are seeing encouraging signs from both our customers and their advisers.

In Canada our fee business continues to grow. We've also continued to see growth across our wholly owned and joint venture businesses in Asia and we recently announced plans to transition further shared services to Hong Kong, bringing our people closer to our customers in the region.

We remain confident that we have a business that's positioned to capitalise on the opportunities in our markets, and will continue to drive ongoing improvements and value for customers and shareholders.

So, turning to assets, flows and sales: Group assets under administration at the end of March reached over £233 billion. Long-term savings net flows were up 26% to £1.4 billion; while new business sales were £6.3 billion, that's an increase of 24% over the same period last year.

Standard Life Investments had a very strong first quarter with third party net inflows of 3 billion, compared to 1.1 billion in the first quarter of 2012.

In the UK Retail and Corporate fee business, assets under administration have grown to over £90 billion during the quarter. Our UK Retail business has had a good start to the year against a backdrop of customers and their advisers adapting to the new RDR environment, and ongoing subdued consumer sentiment. We made a smooth transition to operate under RDR, and we remain in a good position to benefit in the months and the years ahead.

Our UK Corporate business successfully auto enrolled eight existing schemes, with over 300 auto enrolment implementations scheduled this year. 42,000 new employees joined our schemes in the first quarter. And we expect auto enrolment to increase levels of employee participation in our existing schemes, resulting in a potential 300,000 additional savers by 2014.

We are already seeing encouraging signs from the participation and contribution rates of the members being auto enrolled. We're receiving a higher number of enquiries from corporates, and have secured a strong and growing pipeline of new business, which will drive further growth in 2013 and beyond.

During the quarter we announced the acquisition of Newton Private Client, which we expect to complete in September 2013. In addition our investment proposition for RBS Group Private Banking Customers is now live, with an online capability to be added during the year.

Standard Life Investments has delivered a very strong result, benefiting both from strong institutional flows and high demand for retail products in the quarter, with third party assets reaching a record level. Assets under management have grown to over £179 billion. We've continued to diversify both by asset class and geographic reach, with 43% of third party net inflows coming from outside the UK.

Our business in Canada continues to build momentum, increasing assets in our fee business by 10% to £17.5 billion, with net flows up 135% to £188 million. This has been driven by an increase in Group savings and retirement net flows, continued growth in our retail segregated funds business and positive market movements.

We've continued to grow assets across our Retail, Savings and Investments business within Asia and emerging markets, and in our joint ventures. We've now begun to write business in Singapore and Dubai, and assets under administration across our wholly owned businesses increased by 20%.

Finally, before we take questions a quick word on the outlook. In the UK growth that's in our newer style propositions is gathering momentum, with ongoing demand for investment solutions from customers, their advisers and employers. The pipeline of new corporate business secured but not yet transitioned continues to grow, and further benefits are expected from auto enrolment implementations for our existing corporate pension clients.

Standard Life Investments remains focused on expanding its investment capabilities and geographic reach, and its pipeline of institutional business remains strong. In Canada we continue to build on momentum in our fee based propositions; while our Asian emerging markets business is well-positioned for growth in the attractive international markets in which it operates.

Overall, whilst market remains competitive, our business model propositions, distribution capability and strong balance sheet mean we are confident that we can deliver ongoing improvements in value for customers and shareholders.

Now, before I hand back to the operator for Paul and I to take your questions, I'll just add that we also have the facility to take questions that are submitted via the webcast today. We will either pick these up on the call or we will respond directly to you afterwards.

<u>Question 1</u>

Gordon Aitken – RBC

A question on GARS, it's obviously been hugely successful; I'm just wondering what proportion of the asset management gross flows, and what proportion of the insurance gross flows are going into GARS. Speaking to fund managers who are marketing your stock too , I mean they're all just I suppose quite envious of the performance of GARS; and they're wondering how you do it; and they're also wondering what happens in a scenario where GARS goes through a period of poor performance.

Answer: Jackie Hunt

In terms of the percentage of GARS, I only have that on an asset management basis. Of the gross flows GARS in this quarter was around 55%. We don't have it for the insurance business. We'll look at whether we can provide it in the future; it's not something we've been monitoring in that sort of way.

In terms of actual performance, obviously this is a fund that is well established. While it's been growing in popularity probably over the last three or four years particularly, it was set up in its original inception – and keep in mind there are a number of sub funds effectively – it is an asset class more than an individual fund. But it's been around since probably about ten years odd now. And as you well know, it was set up to manage our pensions fund in the first instance.

If you look at its performance it's been strong over an extended period. In terms of what it aims to deliver is obviously a lower volatility sort of return. And I think that's how it's sold. So, it's sold as not being exceptional performance; it's really the LIBOR plus 500 over three years. And our experience to date has been that customers actually understand what it is they're buying: they realise that in bull markets you're not going to see 25% return – neither should you; but equally in bear markets it does give that sort of lower volatility and that more protected return.

So, we're not complacent; we do think it's a fund that's set up not to give outlying results. And then it's communicated and the management skills, the way in which those relationships are managed has really kept our clients along with us throughout. We don't see outflows from this fund.

In terms of the broader picture though, and this is something I certainly feel very strongly about, I think we can't lose sight of the fact that SLI is actually a whole lot more than just GARS. GARS is an important product, it's done well; but actually if you look at SLI's growth, if you look at the very strong growth in third party assets it's now over 90 billion, over 50% of our book is now third party business, that's across a lot of asset classes. And we do provide the split out of equities, fixed income and some other alternatives as well. And performance across the vast majority of those asset classes has also been very strong. In terms of equities we're seeing good performance over the first quarter. If you look at things like our fixed income business I think again it's well regarded; we've seen strong performance. So, the vast majority of funds are above their benchmarks over most timeframes really. So I think it is a more resilient business model than perhaps it's actually given credit for.

<u>Question 2</u>

Andy Hughes – Exane BNP Paribas

A couple of quick questions, if I could: first one obviously on GARS because obviously you can see very strong inflows. It looks like the GARS inflows are kind of accelerating at the moment; is that the way to think about it is actually you're getting more and more inflows into GARS in the current investment markets with low interest rates and narrower corporate bond spreads?

The second question was about the corporate pensions business in the UK. Obviously one thing I tend to look at is the renewal flows, which I kind of measure by looking at the gross inflows less single premiums. And they were a bit weaker Q1 this year on Q1 last year.

Obviously it's a bit of a surprise. I think you were highlighting the fact that you've seen some schemes continue to move in Q1 this year as a result of pre-RDR commission based switches. Is that finished in Q2? So, when we're looking at Q2 should we expect the kind of outflows of corporate pensions should start to improve dramatically or is it later on in the year. Thank you.

Answer: Jackie Hunt

Morning, Andy. I'll talk first to the GARS question; and maybe ask Paul to talk a little bit about corporate pensions.

In terms of is the sales profile accelerating: certainly if you look at more than just a quarter – and it's always risky looking at a quarter; it's a very short timeframe to look at underlying trends – clearly GARS accelerated in terms of both its suitability and its broader recognition in the markets. It's won all these awards, Rookie Fund of the Year award in the US. And I think all of that is raising the profile. Certainly if you look at things like the CalPERS sort of fund allocation, which was announced publicly probably a couple of weeks ago now, it's that sort of level of institutional recognition that we think is growing some of the momentum in GARS.

It is a fund that is very much suited for volatile markets, as I said earlier. As long as we see ongoing volatility, as long as we see this ongoing sort of trend for DC and DB schemes to say how do we deliver the sort of performance we might have expected from a balanced fund but we never got in practice from a balanced fund – and they tend to look at GARS in that sort of light – I think we'll see a continued attractiveness to the GARS proposition.

But obviously, as I said, the risk on trades continues and gains further momentum equally you would expect to see more money start of flow into riskier assets.

On corporate pensions, Paul, do you want to pick that up?

Answer: Paul Matthews

We do see quite a lot of activity with the commission providers pushing hard in the end of Q3 and Q4. So, we saw about £200 million I think go out in Q1. We expect a bit more in Q2 because theoretically people are signing people up on a sort of six month agenda.

But it's worth also, on the back of that, just reiterating we're eight down on auto enrolment, with 300 odd to go, and our usual pipeline on top of that as well. So, I wouldn't read too much into seeing some slippage on some of the existing schemes. It's appearing because the company would prefer to take the commission option rather than the fee option. But that should fizzle out by the end of the half year.

Further question

In terms of the new schemes you've won this quarter, obviously you've won quite a few new schemes in the corporate pension book can you say anything about those?

Answer: Paul Matthews

Typically the large schemes take some time to transition. So, what you'll see over the year is the largest companies in the UK will all be auto enrolling. Over the year you'll see over 300 companies just auto enrol, plus other companies that are doing other actions. And then there are over 3,000 next year. So, I think the story will unfold each quarter by quarter. But what we have said consistently is this is a market we've been focusing on for three to four years, we haven't been offering commission, and our primary focus was to get ourselves in a place to take a lot of business over the next three to four years in this corporate space.

Question 3

Ashik Mussadi – JP Morgan

A couple of questions; one is on the pension business. Now, can you give us some colour on the pipeline from number one existing business, existing schemes, and second, from the new schemes, how does it look like? Because if I read it correctly you mentioned that the pipeline is growing, is it the first time you mentioned that or is it normal? So, some colour on that.

Second, around individual pensions. You also mentioned that the RDR impact is coming in; basically you are in discussion with the advisers to whom you have never spoken over the last few years. So, how is that moving? What would be the conversion ratio that you would think that if you are speaking to 200 more advisers how many of them will be using your platform in your view, going forward let's say one-year timeframe or something?

So, if you could give some colour on these two that would be great, thanks.

Answer: Paul Matthews

Let me pick those two points up. We've quoted 300 auto enrolled schemes, those 300 are schemes that are currently with us. We have 22,000 employers we look after in the UK; around 34,000 schemes we look after. So, we're just doing 300 of those this year and we'll do just over 3,000 next year. On top of that there will be a number of schemes that we compete for on a business as usual. So, if you looked at the last two to three years we've averaged I think around 400 new schemes a year. We're not giving any figures as to how many new schemes we're winning at the moment we'll give a bit more update at the half year. But business as usual is we'll be attracting new schemes to the company and we'll be auto enrolling existing companies.

Secondly on the RDR side, it's still very early days. We've reported that just over 200 IFAs are now doing business with us that haven't done business with us for a number of years. It's difficult to forecast at the moment. We'll be better placed in August to give you the half-yearly figures. But one thing I would say is we've consistently said that in a fee charging world the efficiency and the service of a company becomes critical, as well as the product, because every minute of time that you spend you have to charge to your customer. And Standard Life has always prided itself on its quality of its service. And the second thing we've invested in very heavily over the last five years is technology. Technology reduces time and cost. So, I would hope over the next few years we would see many of the advisers that have been using the commission option because that's what the customer wanted, looking to the most efficient and the best technology proposition. And I think we're very well placed to do well out of that.

Further question

Thanks. Just a follow up on that: so the current increase to 1,168 advisers, of which, if I remember correctly, was around 800, 900 a year or two back, is this just from the market that in the UK is a non-commission market? Or are you getting part of the commission market already in your adviser base?

Answer: Paul Matthews

For new advisers we typically take on around five a week. That's because when we're working with an adviser on moving them on to the Wrap platform it takes time to train them. So, whether they were commission or non-commission, if they wanted to use our platform we normally have a queue of advisers that want to come on it, and we normally take on around five a week. So, some of the advisers we're talking about here are just using our retail products; but time will tell over the next three months how many of them start to use the Wraps. Again, we'll give more statistics at the half year. But typically what we're seeing is people are just starting to use our products at the moment but a number of them will want to use the Wraps, the question will be then is when we can fix them in the queue to be trained to be using the Wrap.

Question 4

Andy Hughes – Exane BNP Paribas

Could we talk a bit about costs as well please if possible? I'm just obviously aware that AUA is growing significantly and could you remind us about kind of cost guidance and where we are on operational leverage in the context of these numbers? I think you said the UK cost base was going to be lower this year on the operating side, is that correct? And maybe we could touch on the kind of below the line costs in terms of the kind of non-operating costs as well, we see they were quite high last year because of the pre-RDR investment etc. Presumably they've all dropped off and things like Solvency 2 significantly declined as well? Thanks.

Answer: Jackie Hunt

Andy, I'll pick those up. I mean in terms of the release itself, as you know it's a trading update so it's really only sales flows and AUA, so we're not giving any particular revised guidance around costs. I think it's fair to say that we've indicated that the business model, both in the UK and in SLI are operationally leverageable and we hold to that view. Obviously you saw over the course of the last, I guess, sort of year or so, even going back three years, that as we add assets to the top line and we start earning a return on those assets we're simply not having to reinvest at anything like the same sort of rate. So in terms of the outlook, we remain confident that the cost profile and operational leverage will continue to come through in those parts of our business in particular, and we talked in the past about the fact that we do reinvest, for example in our Asian business which is growing.

In terms of below the line costs, again there's no real detail here, I mean if you think at year end the big components of that were as you say, Solvency 2 costs, there was some redundancy expenditure, so restructuring type costs, and there would have been a bit of the sort of RDR costs. In terms of Solvency 2, despite the delay to Solvency 2 we are considering to finish off with the programme, that programme was always scheduled to complete at the end of 2013, so you should expect to see more expenditure on Solvency 2 with that then finishing at the end of this year and probably a similar sort of order of magnitude, I think it's fair to say.

RDR is obviously broadly complete, I think there may be some investment required around CP12/12 and those sorts of things, but again we can give more colour on that at the half year. In terms of restructuring, we continue to focus on taking costs out of the business and reshape it. And there have been some announcements around consultations in part of our business in the first quarter of this year, so again you should expect to see some costs being incurred in that line, but clearly those expenditures are being incurred in anticipation of driving greater cost efficiency and a more fit for purpose business model going forward. So we expect those two to have a payback associated with them.

<u>Question 5</u>

James Pearce – UBS

Morning everybody. Just a quick question on auto enrolment. You comment that you had better than expected experience of opting out, one of your competitors said that they only had 10% opt out I think it was, are you experiencing something similar? And can you comment on whether this is just something that is going to be sustainable or not sustainable? Are more people opting in because you've got more people to talk to until the other new schemes come in, or is this a good indication of the ongoing rate?

Answer: Paul Matthews

James, let me pick that one up. So, we've only done eight to date so we'll talk about that experience. So what we've seen is, I think we've always quoted our existing scheme's had a contribution rate of around 55%, I think is what we've historically said, and we were forecasting to get up to around 85%. From the schemes we've done to date there's nothing to suggest that that's not going to become the norm. So on the opt out at the moment we've had obviously eight, we think we're now getting around or about the 85% mark now of the total schemes, employees are now in the scheme.

I think we've also said it's fair to say that the contributions, the minimum the companies are required to put in at the start is about 3% and then move up to 8%, but what we have seen is people joining the scheme so the companies that have offered auto enrol have offered it at the normal contribution rate. So it's well above the 3% minimum that companies are mandated to do as a minimum at the start.

<u>Question 6</u>

Blair Stewart – Bank of America Merrill Lynch

Two questions, one is just on the auto enrolment again and the corporate pensions uplift that you've seen in Q1, I think it's £400 million higher premium volume. I'm just trying to get a feeling, I know you only did eight schemes in Q1, it's probably a negligible impact, but you're talking about 300 for the year, and I think you said 3,000 for next year if I'm not wrong. Just thinking, how shall we think about that in terms of premium volumes and additional assets? I don't know if you can provide any colour on that.

And then secondly, on the institutional pensions business, again an area where the volumes are significantly higher year on year, I'm just wondering what proportion of those mandates are being won via GARS? Thanks.

Answer: Paul Matthews

Blair, let me just pick up the points. So it's very difficult at the moment just to give any firm commitment on some of these figures. Definitely what we're seeing is the largest companies are going first and that will be followed down obviously in size. So there's the top 5,000 employers at the moment that have to auto enrol in 2013, we're going to see the next 38,000, this is UK figures, of companies that are required to do it in the second year. So I think it's too early, we might give a bit more flavour at the half year of actually sort of average contribution rates. What we've said is it's above contribution rates we expect, but I think we'd rather wait until we get the half year views to give you some of those figures.

Answer: Jackie Hunt

And Blair, we weren't certain we quite caught your second question, but if it was the percentage of GARS from institutional pensions sort of flows, the closest we've got is the 55% of gross flows. I mean you should expect in institutional pensions a large proportion is going into GARS.

<u>Question 7</u>

Andy Hughes – Exane BNP Paribas

Hi guys, a couple of follow up questions as well. On the Transact change their charges they announced last week where they were dropping their platform charge, I mean is this something you could see yourself doing for kind of non-SIPP related assets as well, and do you see that moving down? And the other bit would be talking about obviously the proposals for automatic transfers, where are you on this and what do you think the impact's going to be? Thank you.

Answer: Paul Matthews

Okay, so I mean to be fair we've had questions now for the last 12 months probably on reducing the fee, a number of the companies have reduced the cost of their platforms. Our view would be we will be towards the end of the year becoming far more transparent with CP12/12s. So CP12/12 is going to unbundle every proposition that we offer on the pricing for both investment management and the administration, so that's going to happen.

I think we're seeing good enquiries still coming through, to be honest we're not seeing any price pressure at the moment, now there's always people asking whether we can get the price cheaper, but I would honestly say at the moment we see no need to reduce our prices. Towards the end of the year when we come into CP12/12 with the unbundling everything will be transparent of what we charge, both the administration fee and the benefits actually that a number of advisers and customers will get from the volumes of trade we do with these fund managers, the prices we get from these fund managers. There's a lot of discussion about who are the winners and who aren't the winners. By the very nature of the volumes we do we do get attractive pricing and that will become very transparent towards the end of the year.

So, I'm never going to say we're not going to drop price, but I don't see any reason at the moment why we would want to drop price. The other part that's worth mentioning is some of these platforms are purely transactional platforms, and what you get with the Standard Life Wrap is much, much more. So many advisers choose the stronger functionality and also the stronger service proposition that they get with us. So for some if it's just a sign on, log in and a bit of technology then I can see price will come under pressure, if it's more then there's value there.

Answer: Jackie Hunt

And, Andy, if I can just sort of take that back I think to the previous question about sort of the cost outlook and just remind you that we've already said internally we've planned for a much more price sensitive environment, so we believe customers will over time want better value for money. Clearly we have no external cost savings targets, but these sorts of factors around what might happen, while we're not seeing any pressure. And you can see the 72 basis points flat period on period in the UK business itself, so we're not seeing pressure. We are making sure that our business is ready for any pressure, should it come. And of course we'll benefit if we manage to hold price. Automatic transfers, did you want to pick that up?

Paul Matthews

So automatic transfers, so there were a number of issues with some of the platforms' functionality I think on automatic transfer, but I think that's been sorted out, a number of companies I think have been probably more high profile than others about being able to handle automatic transfers. To my knowledge we're okay, we can handle automatic transfers both in and out, but I know some platforms are having some issues here with RDR capability and are unable to actually provide the technology. But the couple that we've been in touch with, they are getting better and I'd expect that to be sorted out in the next few months or so.

Further question

Can I just clarify then, Paul, sorry, I meant the £10,000 pot follows member type thing that's being introduced at the moment, rather than the kind of reiteration sort of stuff. Obviously the proposal's that if you've got less than £10,000 in your fund and you move employer then your fund automatically transfers.

Paul Matthews

Yes. Well I haven't seen a huge amount of discussion and debate internally about that, I mean I'll perhaps come back to that one. To be honest it's not something we've spent an awful lot of time on or have had raised at the moment but I will perhaps pick up and come back to you.

Andy Hughes

Right no problem, thank you very much.

<u>Question 8</u>

Andrew Crean – Autonomous Research

Good morning all. Three questions. Firstly, could you say how many of the 42,000 new people on your corporate pensions actually came from existing schemes, because I think these eight 300, and 3,000 schemes is not really representative of how many people. I think you're planning on 300,000 people auto enrolling by the end of 2014; so I'd be interested to know how many of the 42 in the first quarter actually were from existing schemes, and what is the average annual contribution that you expect?

Secondly, I'm not sure I saw it in the pack, but could you give us the actual AUAs in GARS at the end of the first quarter?

And then thirdly, could you talk a little bit about the number of adviser firms using your platform? I think there's about 10,000 adviser firms in the market, how many adviser firms do you deal with currently? And of the 1,168 using your platform, how many of those are using your platform alone or where you are the primary platform as opposed to being just one amongst many?

Answer: Jackie Hunt

Morning, Andrew. Of the 42,000 we think roughly about half are coming from new new schemes. Paul, do you want to come back to this adviser…?

Paul Matthews

Yes, adviser firms, so we've had 1,100 on the Wraps, we probably deal with about three and a half thousand firms, and I'll check up the exact details. The issue will be, as always, how many deal with you regularly and how many deal with the odd policy, how many have got an agency that just ticks stuff over? So 1,100 we will deal with regularly, probably about three and a half thousand, I'll check up on that for you exactly, but one of the problems we have is we'll have a lot of people who have agencies with us historically that just tick over in many ways. The question will be for those ones that have just been ticking over because they've been using commission, how many of those now are going to be active, and I think what we've just said is 200 of them, these aren't brand new agencies many of them, they're people that haven't been doing business with us since we stopped commission in 2004 and have now started. So again, probably the half year we'll be able to give you much more information of those exact numbers.

Jackie Hunt

And in terms of the last bit, Andrew, I think you were asking about the GARS AUA, the overall sort of multi-asset class of which GARS is the substantial, the main fund is the substantial proportion, is now over £25 billion.

Further question

Just following up on a couple of quick…

Paul Matthews

The average premium I think you asked we're not giving any figures at the moment on average premiums, so again in the half year we'll be able to give you a better figure, because I think a couple of people have asked that already so what we've said is we're getting stronger contributions than we anticipated, it's definitely more than the 3% minimum, but it's probably fairer to wait and see, we'll have done quite a few more schemes by the half year and then we can give you perhaps a bit more indicative number.

Andrew Crean

But it would be right to say that you've auto enrolled 21,000 of your expected 300,000 existing, so 14%?

Paul Matthews

Around that, yes.

<u>Question 9</u>

Andrew Sinclair – Bank of America Merrill Lynch

Hi guys, just one quick question for you. The annuity sales seem to have dropped off slightly in Q1 2013; I just wanted to check, is this just a gender directive hangover or are you seeing more people using their open market option, or is there anything else going on here?

Answer: Jackie Hunt

It's the gender directive, we're not seeing any signal of more open market option or anything like that impacting on the numbers, we expected that fall.

<u>Question 10</u>

Gordon Aitken – RBC

Hi. Just can you give an update on the bundled to unbundled opportunity? I mean this is where the large employers had DC schemes and if they did the model was always to have separate asset management and the admin was done by the EBCs. So first of all, what's the current size of that opportunity? I mean a few years ago you talked about it being about 250 billion, and second, how much of that comes across and over what time period? And finally, what share of these transfers are you currently getting?

Answer: Paul Matthews

Okay, so let me answer that. So the estimation is around 250 billion still, on DB/DC. The absolute priority for companies at the moment is to sort auto enrolment out. So at the moment all the schemes that we are working with, they've just said let's get auto enrolment sorted and as we said, we'll do over 300 this year and over 3,000 next year. The second thing that they will be looking at is where they have a final salary, most of the final salary schemes in the UK are closed to new employees, but many of them are still open to existing employees, and this is what we've said consistently now for a number of years is, we expect the majority of those over the next three, four, five years to close to existing members and the contributions that were going to DB unbundled and some of those bundled to go into DC. We've not had any across in the figures so far that you've seen, but you should expect over the next three or four years as those companies unbundle they'll do them with the company they've chosen to auto enrol with.

Concluding Comments – Jackie Hunt

That's great, thanks. I don't think we've got anything on the webcast, I'm just having a quick look at it. So thank you all once again for joining us today. Just to recap Standard Life has made a strong start to the year, the outlook for our business is positive and as I've said, we remain confident that we can drive ongoing improvement in value for customers and shareholders.

Thank you all for your time, and I look forward to speaking to you again soon.