

Chesnara
Full Year Results 2023
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Transcript



Chesnara

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Steve Murray:

Welcome to the Chesnara Full Year 2023 results presentation. I'm Steve Murray, Group Chief Executive, and with me today is Dave Rimmington, our Group Finance Director. Dave and I are hosting the presentation from RBC's offices in London today, and as well as those of you in the room with us here, I know we have a great number of people dialing in from across the world; including Chesnara colleagues from Sweden, the Netherlands, and the United Kingdom.

Thank you for joining. So what will we cover this morning? Well, I'll start by looking at how we've been continuing to deliver against our strategy and also our headline financial results. Dave will then cover those results in more detail and I'll finish looking at our current views on the M&A market and our future areas of focus.

We'll have plenty of time for questions at the end of our presentation. Those of you watching online, you can send us questions during the presentation. And for those of you in the room, we'll hand a microphone round at the end. Now, the four key areas set out on this slide are at the heart of what we do at Chesnara every day, and these remain unchanged.

Firstly, we have strong line of sight across a variety of sources of value growth and long-term cash generation, which in turn supports our longstanding progressive dividend policy, and 2023 has seen a return to economic value growth and continued strong cash generation. Our Solvency II balance sheet remains strong and continues to be highly resilient to market volatility, and our solvency ratio has further increased this year.

Thirdly, with a great track record of delivering acquisitions, and this provides our investors with a further opportunity for growth. And we've got continued momentum here with two deals secured in the year, and we're also seeing a positive acquisition pipeline in 2024. And finally, we have a Management Team and Board that are highly focused on creating sustainable shareholder value, and we've strengthened the management team again this year over the course of 2023.

So let's look at some of the highlights from 2023. The acquisition of an insurance portfolio from Conservatrix in the Netherlands was completed on the 1st of January. And in May we announced a UK acquisition, a protection portfolio from Canada Life with a reinsurance agreement supporting that deal implemented in H1.

And as a reminder, together these deals have added £28 million of economic value to the group. We've seen strong commercial cash generation in the period of £53 million providing ample coverage of the dividend. And in contrast to 2022, our economic value grew with acquisitions and equity market growth being the material drivers here.

Our solvency ratio has strengthened to 205%, and this is substantially above our normal operating range of 140% to 160%, and that provides significant headroom to support future acquisitions. We also delivered improved commercial new business profits of £10 million, including a contribution from the UK for the first time.

And finally off the back of the strong performance this year, we have yet again announced a 3% increase in our full year dividend, and that continues our 19 year track record of dividend growth. And we know our shareholders continue to value the stability and consistency of our dividend policy. It's also been a highly productive year on operational delivery.

The transition and integration activity that we're undertaking in the UK continues at pace with a Part VII transfer of Sanlam Life and Pensions policies completed in December, and adding positively to our financial results. And the integration of the Conservatrix portfolio in the Netherlands was also completed earlier in the year.

In May, we announced a long-term strategic partnership in the UK for policy administration with SS&C Technologies, which give us access to a more modern platform, wider capability and capacity from this large global technology player. And access to this modern platform and wider capability along with a commercial construct that encourages both parties to bring in further scale will be a positive enabler for our UK M&A strategy.

Our teams across Chesnara have been working very hard to implement IFRS 17 reporting, with the results that Dave will show you shortly the cumulation of five years of work. On consumer duty, we remain on track for the July deadline for UK closed books, having already successfully met the earlier deadline for open books. And as well as our established consumer duty programme, there's been regular product reviews and fair value assessments for a great many years here at Chesnara. And we don't foresee there being any material commercial impact on the group when the July implementation date is reached.

We've also undertaken further management actions in the period including implementing a new reinsurance agreement for part of the UK book to protect against a mass lapse scenario. And we rolled forward and slightly broadened the FX hedge that we introduced last year.

We've also been busy on the people side where we've transitioned leadership across Scildon, the UK and Movestic. Pauline Derkman joined us as Scildon CEO with extensive insurance experience from companies including Aegon, ASR and PWC.

Jackie Ronson joined as our UK CEO with 25 years of experience across a range of financial services and other industries. And in December, we announced that Sarah Lindberg was being appointed as CEO of Movestic, having impressively

stepped into the interim CEO role in August. We also announced in December that Dave Rimmington had agreed with the Chesnara board that he would not be seeking re-election as a director at the AGM in May, and would be stepping down as group finance director after 10 years in the role.

And at the same time, we announced that Tom Howard will be joining from Aviva as our group CFO and executive director of the company, subject to regulatory approval. Tom's a highly experienced CFO with over 25 years of industry experience across asset management and insurance, as well as having great experience in M&A as well.

Tom starts with us in the 15th of April and will join us for our investor roadshow. And finally, on sustainability, we've now set out our initial interim reduction targets on our investments, commonly known as financed emissions, as well as publishing our second annual sustainability report, which you can find on our website. So, with that, I'll hand over to Dave, he'll take you through the results in more detail. Over to you, Dave.

David Rimmington:

Morning, all. Thanks Steve. As Steve says, this will be my last time presenting the results and I'm pleased to be going out with some of what we believe are very strong numbers. So starting with a bit of background as I tend to do just a reminder of the economic conditions during the period which impact our results.

So looking at these in turn, equity markets across our territories were generally positive, recovering a good proportion of the losses we saw in 2022. In particular, you can see the Swedish OMX Index, which you might not be so familiar with, doing very well. Interest rates have been relatively volatile during the year, but from start to finish we've seen a relatively modest reduction in yields in all territories.

Somehow Sterling managed to strengthen against both the Euro and the SEK and credit spreads widened in Europe and narrowed in the UK with a pretty much a net neutral position. So if I move on to what did that do in terms of the impact on our results, so taking equities, you can see that's a relatively sizable positive impact on economic value, £21 million.

And it's also if we look through the symmetric adjustment, which is a feature of solvency II, which requires us to hold more capital in growing equity markets, it tends to be a temporary feature, but looking through the symmetric adjustment, that equity growth has also had a positive impact on cash generation of about £7 million.

The reducing yield environment's been positive for both cash and economic value, about £10 million a piece, credit spreads because as I said, they were offsetting a relatively modest and almost insignificant impact. And then you move to FX, the FX movements, the strengthening of the pound has had a £11

million negative impact on the value of the company, but a much less marked impact on cash generation, which was helped in part by the FX hedge we put in place at the back end of 2022.

And then finally, inflation. We all know inflation remained relatively high for the year, which is coming down, and because we'd already baked that profile into our opening valuation, we've had very little exposure to inflation over the year. So then the macro impacts. So what's that done to our financial highlights? So I'll just highlight at this point some of the main features of the scorecard and then take you through each one in turn. So I note firstly, a strong commercial cash result of £53 million, which is 150% coverage of our annual dividend.

Really pleased to report a growth in post dividend economic value from £511m to £525m. Strong closing solvency position, in fact, at an all-time record high. And moving to IFRS because I will come onto the IFRS results at some point, because that's the first year of IFRS 17, we are really pleased to report an increase in the IFRS capital base and a relatively sharp reduction in our leverage ratio, but a really strong set of financial highlights.

So moving through to cash generation. Quick recap here. How do we define cash? Our base cash generation result is in essence a movement in solvency II surplus, and what that means is it is impacted by some of the more technical components of solvency II. So we create a secondary measure called commercial cash, which quite simply backs out some of those more technical features, not least the symmetric adjustment.

So focusing on commercial cash. You can see the divisions have generated about £73 million of cash, almost twice the annual dividend. And after adjusting for central items that remains £53m. And encouragingly all divisions, all sectors have got positive cash results. The results did benefit from two management actions. We have taken out some mass lapse reinsurance in the UK, and we benefited by about £13 million from the change in the solvency II rules as part of the PRA solvency II reforms.

So moving on to a slightly more simplistic view of cash, the cash in the bank, we started the year with £108 million and reassuringly ended with £124 million, which is helpful. How did that happen? Well, the dividend receipts from the divisions of £71m were larger than the parent company outflows, which are in the form of dividend payments, debt funding, and working capital. So really great to see that central bank account getting healthier.

We expect £50 million of dividends to flow through to the parent company at some point during Q2 based on the 2023 proposed dividends, which we expect to cover the general outflows during 2024. So we would expect everything else being equal that that bank balance remain relatively stable over time.

And just a point to note, there's a fair amount of surplus retained in our overseas divisions. So although we're getting the dividend flow up, most of our overseas divisions are still slightly over capitalised, so there's potential there for further. So cash looks good.

This slide takes a kind of forward-looking view on cash and what it highlights, broadly to scale apart from the acquisitions block, and what it's highlighting is that we have three relatively predictable and secure sources of future cash, and that's what the purple blocks are showing.

We get runoff in SCR, we get real world returns, which might not happen every period, but over time you would expect them. And then we take management actions. And what this illustrates is those three sources of future cash are larger than the expected outflows in the form of dividend payments and tier 2 debt financing.

Now, of course, acquisitions is difficult to draw the scale on that because it depends on what acquisitions we would do, but from illustrative point of view, what this is saying that as we do deals, we should add cash generation potential to the business as has been the case for the deals we've done in the year. So the cash outlook looks strong. Moving on to solvency.

I think a key feature of solvency for the 12 years I've been at Chesnara is a huge level of stability in that headline solvency ratio. And this is illustrated, if you look at this waterfall and you take the central five components on the waterfall, they net to zero. So basically the BAU items, yet again, are creating a huge amount of solvency stability. You've then got two exceptional items.

The deals in the year had a small negative impact on the solvency ratio. This is quite normal. We tend to expect deals, especially those which are non-equity funded, do create a temporary solvency strain. In actual fact, that 8% impact was better than we expected when we did the deal benefit assessment.

And there's a slightly technical positive of 16% where we changed how we account for the tier 2 debt. Last year we were accounting it on a book value and now we're accounting for a fair value, which we think is a more technically appropriate approach, and that's had a positive impact on the solvency ratio. So all in all, as I said earlier, great closing solvency position at all-time high, and just a quick reminder, we don't have any transitional benefits baked into that.

So looking at growth, slightly an under reported metric sometimes, but really great to see that we've delivered economic value growth post dividend, strong earnings in the year of £59 million, as Steve mentioned, largely from M&A, but also positive real world returns. So looking at a slightly different view of growth.

You might recall a few years ago we introduced a concept called the Chesnara fan, which was really to illustrate where we see future growth potential, and I

don't know what colour it is actually, the turquoise blocks on this are the areas where we see growth potential. And what you can see in the top right is in the year, all of them have been materially positive. So the Chesnara fan is alive and kicking. I should note that in the opposite direction we've had some operating variances in the period and we do, of course, have outgoing costs in terms of the debt servicing.

Overall, the net impact of the fund has been a 12% growth in economic value, pre-FX and dividend. We remain confident about long-term growth.

New business: modest increase, slight reduction in the overseas territories. Conditions have remained relatively difficult, but we're comfortable with these levels of profits in the overseas divisions. We'd like them to kind of tick up a little bit, but we're comfortable at this level. There's been a really welcome contribution from the UK. We've not moved into new business in the UK, for the avoidance of doubt, but when we bought Sanlam, they were selling an onshore bond through a third party model and there's a bit of profit in it so we've kept that open. There might be a little bit more in that space. It's a welcome uplift, but we're not moving big time into new business in the UK, but good new business results.

Then, finally, last but not least, our friend IFRS. This is the first year of IFRS 17 results. Personally, I'm pleased by the lack of drama we've had because it's been like a 20 year in the making and it's kept me awake for a fair few of those 20 years.

Just a bit of background on IFRS 17 or IFRS, before we move on to the results. A reminder that only 42% of our portfolio is actually classified as insurance, so IFRS 17 has only affected less than half of our business. This is important because when you've got the CSM, which is the future profit store, which IFRS 17 has generated, and we've got about £127m post-tax, that's the future profit of only a proportion of our business. We've got future profit potential from investment contracts of a similar amount.

It's also important just to remind people that IFRS 17 has done nothing to change the underlying real fundamentals of the business. It's not changed solvency, it's not changed cash flow, it's not changed long-term value and therefore it's had no impact on our views on dividend potential.

Moving on to the results themselves, we've created a KPI called IFRS capital base, which is basically the sum of the IFRS equity and the CSM. We think it's important that they're looked at in conjunction. This waterfall is showing that that IFRS capital base has increased from £469m to £487m, post-dividend.

What are the moving parts? The moving parts are, firstly, the movement in the CSM. The deals in the year have added a significant amount, £57 million, so that's more future profit we've brought into the group. It's really good to see

that the new business operations are adding CSM, which confirms that that new business profitability we refer to is being recognised on the IFRS balance sheet as well.

Then you've got the actual comprehensive income during the year of £10.3 million. That's a profit after tax of £18.7m. Then moving in the opposite direction is a small FX hit, but a positive overall comprehensive income in the period. Then, finally, you've got the outflow of the dividend of £35m. We're pleased that we've managed to grow the IFRS capital base.

I don't normally do a recap, but seeing as this is going to be my last time, I would just like to summarise the results in a way. How I see it, all life companies have five key financial building blocks; there's long-term value, IFRS capital base, cash generation, solvency and leverage. I'm really pleased to go out with a clean sweep of positives on all of those metrics. We've increased the economic value, post-dividend, we've increased the IFRS capital base, we've covered the dividend from cash gen by 150%. We've got a record level of solvency and our leverage ratio has reduced below 30%, when last year-end it was 37%.

I can't think of many periods I've been here when we've had a clean sweep on all five and I think it's a relatively unique situation. So mic drop.

Steve Murray:

Thanks, Dave.

A nice segue then into our future areas of focus. On this slide we've set out the three things that we do here at Chesnara. Firstly, we maximise the value from our enforced books of business. We now look after around 1 million customers across Europe and the UK who rely on us to provide their life cover, pensions and savings and other products.

As Dave highlighted the books of business we have continued to deliver significant amounts of cash and we see plenty of opportunities to deliver further synergies and take further management actions in the future such as the UK Mass Lapse reinsurance and the widened FX hedge that I mentioned earlier.

Secondly, we seek to deliver value-adding acquisitions of portfolios and businesses. Our activity over the last two years demonstrates that the M&A part of our strategy is working, with two acquisitions delivered in 2023. In the UK our new partnership with SS&C should provide a positive enabler for the UK leg of our M&A strategy. We start 2024 with a positive acquisition pipeline, and we have the financing options to execute opportunities across a wide range of deal sizes. Importantly, we see no material barriers to us doing further M&A in the future.

Finally, we write focused new business where we have a good level of confidence that we can make a profit. We've seen an increase in commercial new business this year, including a contribution from the UK for the first time.

Let's now turn to M&A. As well as our own transactions, we've seen good levels of activity continuing across the UK and European insurance M&A market. You can see some examples of the deals announced recently on the right-hand side of this slide.

We're continuing to proactively engage with potential vendors and advisors across the UK and Netherlands, and we're actively assessing the Swedish market as well. We're seeing some larger potential transactions in our 2024 pipeline, as well as some of a similar size to the ones that we delivered in 2023. Over the course of 2023, as well as the deals that we did deliver, we actively engaged with vendors on several additional potential transactions. Those included some in the £150 to £300 million consideration range.

On the left-hand side of the slide, we've set out what we continue to see as the main drivers for insurers reshaping their books. These are; firstly, the simplification of product sets, operational and technology platforms, including legacy outsourcing arrangements. Secondly, a desire to release capital from disposal of non-core products to reinvest elsewhere. And thirdly, people refocusing on specific geographies. The majority of deals in our markets have continued to be portfolio transactions where there are a smaller number of counterparties competing for these opportunities, as an existing operating platform and regulatory license are required. This is an area where we have great experience and we will, of course, continue our disciplined approach in assessing future M&A.

When it comes to M&A, Chesnara's key strengths remain unchanged. We strongly believe that these strengths will continue to enable us to compete successfully for acquisitions. As you can see here, we have the flexibility and available financing options to deliver a wide range of deals in terms of their product set, structure and size. We'll continue to ensure that any deals result in us operating within, or above, a solvency ratio range of 140 to 160%, maintaining our investment grade rating with Fitch and lastly, also ensuring we maintain appropriate levels of cash reserves including consideration of capacity for further M&A. Overall, we see a positive 2024 pipeline and we remain highly confident in our ability to deliver value adding transactions.

Looking now at sustainability, we previously committed to our first set of sustainability targets, which we show on this slide along with some of the activity we've undertaken over the last year or so. As promised, we've also set out an initial interim target to reduce our scope 1 and scope 2 financed emissions of our listed equity and corporate debt investments by 50% by 2030. To be clear, that's for those assets that we're able to exercise control or influence over, and that represents the majority of assets that we hold here Chesnara. Looking forward, we expect to publish our more detailed transition plans next year.

As Dave and I have shown, Chesnara has continued to deliver operationally and financially. We've seen strong cash generation, a return to ECV growth and our group solvency ratio has also increased. We further strengthened the senior leadership team during the year, as well as entering a strategic partnership with SS&C, which will further support our UK M&A strategy. We start 2024 with a positive M&A pipeline and remain optimistic about the prospect of delivering value-adding acquisitions in the future, following the additional two acquisitions that we've implemented in the period.

It's fitting that as we approach our 20th anniversary as a listed company in May, that we've yet again increased our full-year dividend for the 19th consecutive year in line with our long-standing progressive dividend policy. Now, the strong delivery this year would not have been possible without the tremendous efforts of colleagues across Chesnara. Thank you for everything that you've done to ensure we've delivered for our customers and wider stakeholders.

Now, Dave mentioned earlier this will be the last time that Dave and I'll be presenting our results together. Dave's a hugely popular figure both inside and outside of Chesnara, and over his 12 years at Chesnara has played a key role delivering the changes required for IFRS 17 and solvency II, raising our tier 2 debt and of course supporting the group's successful acquisition strategy.

I wanted to thank Dave for everything he's done at Chesnara and we wish him the very best in the future. He's leaving the business in a strong position with some exciting opportunities. Following another year of strong delivery, cash generation and further M&A, I continue to believe there's a lot to look forward to here at Chesnara.

Thank you for listening. What we'll now do is open up for questions. As always, I suggest we start in the room here in London. That allows those of you online to type your questions. I think Mandeep, given that you are hosting today, I'll let the guests go first if that's okay. I'll start with Abid.

Roddy is on microphone. He's got a promotion today as a microphone hander-outer.

Abid Hussain:

Morning, all. It's Abid Hussain from Panmure Gordon. Congratulations on a good set of results there and particularly given it's your last set, Dave, as well. I've got a few questions, but I'll limit myself to three and perhaps come back if there's time.

The first one is on management actions. I think it's slide 14 where you've highlighted the different sources of cash generation. It looks like around a third of the future cash generation, over the next five years, will come from management actions. So just wondered if you could give us any more colour on those sources and what gives you confidence that you can indeed secure those management actions.

Then I've got two on M&A. The first one on M&A is I think, again, thank you for the slide on 25 where you've shown the various activity across the market, but I'm just wondering which of those deals or indeed any other deals did you participate in, choose to walk away? What was the competition in the market, sort of backwards looking.

Then the second question on M&A is more forward-looking. I think you said there in your presentation that you are willing to go up the scale in terms of what you've previously said in terms of deal size. Just wondering what's changed, what's driving that? Is it possibly that a larger peer is now focusing on organic new business growth and so less competition, is it because private equity backed players are facing a higher regulatory hurdle? Just any more colour on that, please.

Steve Murray: Yeah. Do you want to start with management actions?

David Rimmington: Yeah. So two things. What actions are in that bucket? The reality is, despite having done a little bit more reinsurance over the last few years, we're still not very heavily reinsured. So there's always more reinsurance we can take out.

Actually it's proved when we've been looking at the mass lapse reinsurance, as an example, there's still more we could do in that area, but other forms of reinsurance would be in there, including slightly more radical things like reinsuring some of the VIF, particularly in Sweden. The type of things we're looking at.

Also the FX hedge was probably the first time we've moved into hedging territory. I don't think we envisaged going hugely into becoming a fully hedged business, but there's definitely more we can do on the hedging front to just de-risk somewhat and, therefore, release capital and create a bit of cash.

I think, to some extent, when the company chooses to do those management actions will depend on how well the other two blocks have performed. We are not necessarily committing to do management actions every year, as a matter of course, we do them when we think it's appropriate and required.

Steve Murray: Dave and I use this slide when we present the business plan to the group board as well, to give people a level of confidence in that underlying cash generation. Part of the reason for continuing to put this in the presentation is to give people a strong feel for where that cash can come from. Having that basket of management actions, and the interesting thing about those is they can change over time, particularly if you do M&A, that creates some different opportunities, as well to accelerate cash generation and do other things. Generating synergies clearly also creates some cash generation as well, so we feel good about that.

On M&A, I'll deal with maybe the backwards question first, then the forward-looking one. I think when you participate in M&A, you sign up to NDAs and all

that sort of stuff, so it's difficult for us to talk about exactly what we've participated in. Hopefully, you can sense a positive tone from us this morning about our belief in doing future M&A, and I think that is in part because of not just the deals we've secured, but how competitive we were on other processes during the year.

In terms of the reasons that we didn't win opportunities, it probably sits in two or three buckets. So firstly, there were a couple that people paid more money than us, and that happens. We want to maintain our discipline, make sure we're generating the right returns for shareholders. And you can see from that cash model that we've just talked about, that while we want to do M&A, we don't have to do M&A to sustain the dividend and the cash generation.

Secondly, you can find things during due diligence, which alter your view on value and potentially you can't bridge that result with a vendor, and we had some situations in that sort of space.

And then thirdly, you can find some things in diligence either operationally or actuarially that actually just proved to be red lines, and no matter what you speak to the vendor about, you ultimately won't do the deal on that basis. And we've seen some deals in all of those three categories. But there's nothing that we're seeing, Abid, in the model that we're saying, "You know what? We don't think we can compete for these things." We think actually we are a great counterparty for people, partly because we don't tend to compete with them particularly strongly on the new business side in certain markets, and we've been pleased with the sort of conversations that we've been having over 2023.

In terms of upscaling, I think we've been trying to say to people that we've got a range of ambition and that people shouldn't just be thinking that we'll do smaller deals. I know predominantly that's where we've been active. So we've been looking at that for a while. And I suppose what we're probably seeing coming into 2024 is, as big insurers have been looking at other parts of their portfolios, potentially some of those books are just a bit larger than we've seen historically, I wouldn't say it's a particular reaction to what other people are doing, but if others are a little less focused on M&A in that larger space, that could ultimately be helpful for our prospects. But I think we'll wait and see whether that becomes true or not, so thanks. Barry.

Barrie Cornes:

Thanks. It's Barrie Cornes at Panmure Gordon. I'd echo Abid's comments about a good set of figures, well done on that. Just one question from me. Going back to slide 14, you have a bar in there which talks about the amount of a five-year dividend and servicing debt costs. And if I strip out what I think will be your debt costs going forward, am I right in thinking that it implies the equivalent of about a 3% increase in dividend? Now, I'm not looking for you to give a forecast, but in terms of the maths, is that roughly correct?

That was my question. And really, whilst I've got the mic, if I could echo Steve's comments too about Dave and thank you for the help you've given the analyst community over the last 12 years. That's really appreciated. Thank you.

Steve Murray: Thanks. Yeah, so the maths is right. We've been very careful to say the board will look at the dividend every year and look both backwards at the performance, what they're seeing in terms of performance of the business, things that might be coming down the track, but we thought it was helpful. You've seen the rate at which we've increased the dividend over the last 19 years or so. We've talked about the answer not always being 3%, but we thought that was a good basis to do the calculation and give people a strong degree of comfort that when you look over that five-year period, which mirrors the business plan period, we've got ample sources of cash generation that more than covers dividend debt costs, and that's before acquisitions and that's before the value of new business that comes through as well. Thank you.

Barrie Cornes: Thanks.

Steve Murray: I think Mandeep's been patiently waiting.

Mandeep Jagpal: Hey, morning everyone. Mandeep Jagpal, RBC Capital Markets. Thank you for taking my questions. Before I start, I echo previous comments. Thank you, David, for your support over the last few years and good luck for the future.

David Rimmington: Thank you.

Mandeep Jagpal: Three questions from me, please. First one is another one on M&A. Based on what you're seeing in your pipeline, which parts of the market do you expect Chesnara to be most active in going forward? Thinking here of the split between UK versus Continental Europe, capital light versus capital heavy, open versus closed.

Second one is on leverage. Solvency to leverage ratio was 29% at the end of the year, which is in line with industry peers. How do you think about leverage ratio moving in the context of further M&A and if you have to raise additional capital? And the final one is on ECV development. There was a negative operating variance in the second half, which includes assumption changes. Any colour on what those specific changes were?

Steve Murray: Yeah. Shall I start with M&A? We might do a combined effort on solvency. Maybe you can start, Dave, and then ECV, Dave I'm sure will cover. So when we look at pipeline, I think the vast majority of what we're looking at is in our current home territories, so we're seeing good opportunities across both the UK and the Netherlands. We have been sending Sam, as you know, who's our head of strategic development and investor relations, out to Stockholm a little bit more, not just to enjoy the restaurants, but to try and establish whether there might be broader portfolio opportunities and things in that market. I think it's

early days, but we've got a good operating platform in that market. And putting scale on that would make a lot of sense, but it's a less active market than the UK and the Netherlands. Probably seeing activity in the UK a little bit heavier than the Netherlands at the moment.

But one feature that we've seen in the Netherlands recently is a number of the larger insurers settling these historic mis-selling claims relating to woekerpolis, and I think that will be a stimulation for the M&A market. I think a number of these pension investment books probably haven't been moving around until there has been a little bit more certainty around that, and you've now seen most of the big players deal with those liabilities.

In terms of capital light and capital heavy, looking at the books, there's a mixture of things, probably a similar mixture to the sort of deals that we've done over the last two years. So we're certainly seeing some unit-linked opportunities. In the Netherlands, there are certainly funeral plan businesses that we think will come available as well.

I think we've said this before. We probably tend not to divide things as much into capital light and capital heavy. We'll look at the synergies that we can generate, our ability to manage those assets, and the return that we can make. And actually, those returns can be just as good if not better from what some people would describe as capital heavy products as they can be from capital light. But overall, we think it's a positive M&A outlook and we genuinely feel we're in a good place to be able to compete positively in that space. So solvency ratio. Do you want to take that, Dave?

David Rimmington: In terms of leverage?

Steve Murray: Yeah.

David Rimmington: Yeah. So look, we are pleased we've dipped below 30%, and to some extent 30% seems to be the long-term benchmark people are comfortable with. I think we were very confident that if on the back of an acquisition that leverage ratio crept up both internally and I think we believe with Fitch as well, as long as that deal was adding value and there was prospect for the ratio to come back down, that would be fine. I don't think the company would want to have a structural long-term leverage ratio at the top end of the thirties. It feels like 30% is the right number. And of course the impact of deals on that ratio is very much dependent on the financing model for the deal. So if you're bringing in equity, you've probably got quite a lot of capacity for further debt without putting too much strain on the leverage ratio. So yeah, hope that answers your question.

Steve Murray: Yeah. Hopefully you noticed on the one of the M&A slides, we tried to set out a little bit of that framework that we consider in terms of some of the pieces that we're managing. And I very much agree with Dave. Look, we're committed to having that investment grade rating, but we have a lot of flexibility around how

that moves in the short term depending on what sorts of books of business and things that we bring in. And I think if you look across the range of metrics, you can look at it on an IFRS basis, a Solvency II basis, an ECV basis, there's a lot of consistency in those metrics, so we're not having to take any action to get the leverage down at a different place. Again, that's helpful support for the M&A strategy.

David Rimmington: Then the last one was about operating losses in the economic value, and in particular the profile between H1 and H2. Two things were at play there. So operating experience losses tend to accrue relatively evenly through the year.

So if you are spending a little bit more than your long-term assumption, that can be relatively equal, H1, H2. But the reality is, our process of setting the long-term future assumptions tends to fall into H2, and therefore you can get that asymmetry. And what's happened this year is when we've been through that assumption setting process, a few of the long-term assumptions, be they expenses, lapses, transfers, we've strengthened them slightly when we've gone through that process, and that capital impact has been not huge, but has been notable and has driven some of those operating losses in the year.

Mandeep Jagpal: Okay, thanks.

Abid Hussain: It's Abid again. Sorry, it's a geeky question, that's why I saved it towards the end. It is slightly hypothetical, it's on the CSM. I know it doesn't drive your business and it doesn't drive the way that you think about the business, but I just wondered, given that only about 42% of the business falls under the insurance in terms of insurance, and so the CSM is not capturing the entire business, have you done a back-of-the-envelope calculation to look at what a rough CSM might look like for the unit linked or for the other non-insurance business? Rough and ready, does your CSM double? So is your IFRS capital base much higher?

David Rimmington: Yeah, and I think we've quoted actually somewhere that we believe there's over a £100 million of equivalent future profits sitting within the non-insurance portfolio. And actually, where you see those future profits for all businesses is in the economic value.

Abid Hussain: Can I just follow up? Is that mainly around the unit linked pensions business?

David Rimmington: Yeah.

Abid Hussain: And then if I may, how long do you assume that business stays in the books? Because I think that's probably the key assumption. Just rough. You don't have to answer it now, but just if you've got it.

David Rimmington: Well, it's very different by different portfolio, but pension business tends to have a longer tail than some of the insurance business. So I've been here 12 years and that endpoint just seems to be always 20 years away, which is great.

Steve Murray: Yeah. You're certainly talking 10, 20 years. That's what you would be expecting. And I think if you take the UK, what you saw when some of the tax relief changes came in, not the recent ones, but previously, is people starting to understand that it's a very good vehicle for tax planning. You can hand that on through inheritance as well. So Dave's right. I think you've kind of seen some legacy pension books that you might have expected to run off a little bit more quickly staying for a little bit longer as financial advisors give advice to customers about which pockets that they should draw down from. People who tend to take out their ISA first before they'll touch their pension.

Mandeep Jagpal: Just a follow-up question on the balance sheet metrics. Post-Solvency II reform, ECV and unrestricted tier one own funds are more similar. Is there an opportunity to simplify your reporting and think about just being more in line with peers and only reporting Solvency II going forward?

Steve Murray: Yeah, we've discussed this, haven't we? And I think part of the reason that we introduced the fan, I think people had thought that the ECV represented all of the potential value that was within the company and it clearly doesn't, and that's why we introduced that fan. But you're right. ECV's moved closer to own funds, particularly after the UK risk margin reforms, so it was something we'd been chatting about already, wasn't it?

David Rimmington: I think we think long-term value is an important dynamic of a business. Cash generation is one thing, but we want long-term value. In the detail, whether we call it economic value or own funds, and now they're so close, whether we could just move to an own funds model. And actually, interestingly, we've probably missed a bit of a trick here because our own funds has grown by more than the economic value in the year, so that's just an example about we're sometimes not quite as showbizzy as some others.

Steve Murray: Gordon?

Gordon Aitken: Thanks.

Steve Murray: Great to see you.

Gordon Aitken: Yeah, thanks. Old habits die hard. Yeah, Gordon Aitken. So you talk about potentially reinsuring more in future years, and this is a strategy that a company like yours can do, and it's a great strategy from a shareholder point of view because what you do is you reinsure, you can release the capital that's backing that business. But essentially, and you're splitting the future profits with someone else, with the reinsurer, but what you present to shareholders is a chunk, a lump of cash capital. What sort of proportion do you expect to give up in terms of future profits?

Steve Murray: I don't know is the honest answer, Gordon. I suppose if you look at what we've done so far, what we've tried to do is take opportunities to take particularly

some of the tail risk out of some of the risks that we get less reward around. So last year, we talked about the FX hedge that we put in place, and if you looked at our results, we are quite exposed to FX. And we put a hedge in not to take all of that risk out, but actually protect us from some of those more violent movements, which led to quite a big release. And then we share a little bit of the value of that with the banks. So we looked at the economics of that and just thought it was a very, very good return that you get in terms of the capital release versus the sharing.

So there's not a physical cost that we're paying for that contract. When you implement it, it's if you end up in or out of the money with the insurer. On mass lapse, it's a relatively cheap form of insurance that you can take, again, because of the part of that lapse scenario that you are insuring. So without getting too much into the detail but in terms of the standard formula, the mass lapse scenario that you run is quite acute compared to some people if they had an internal model.

So in effect, you have to hold capital against a 40% fall. So if you can re-insure a bit of that, it's relatively cheap to do that. And when I say that it's a few hundred thousands a year, and you can get a release in capital, but some real protection as well on the balance sheet. But one of the reasons historically that I think we've been a little bit more nervous to do some of this, exactly the point that you are alluding to, I think, which is if you're putting lots of things in place that have a real world cost and that builds up over time, that can erode your economic value quite significantly.

We are a long, long way from that space. So I think in terms of the things, when we look at the management actions that we're taking, we wouldn't see ourselves giving a large portion of that management value away anytime soon. But we haven't set a target or a limit on that kind of spread. In many ways, we're trying to look at the risk pricing on a regular basis, and if there's opportunities to offload risk at what we see as an attractive price, we will do that, particularly if we can deploy that capital onto things like M&A.

David Rimmington: And you'll note in the last couple of years the management actions we've done, which have had quite a big positive impact on cash, there's been no notable corresponding negative impact on the economic value. Just showing we've found the right ones in terms of that equation.

Steve Murray: Great question. Ben?

David Rimmington: Hello Ben.

Ben Cohen: Thanks very much. Excuse me, Ben Cohen. You've not really said very much about the regulatory environment in any of your markets. I know I did promise that I would ask an easy question, so I hope this isn't too hard. But could you just sort of set out where you see the greatest regulatory risks in each of the

three major markets, moving parts, and maybe also as part of that just kind of competitive pressures in terms of where you are still in open markets. Thank you.

Steve Murray:

Yeah, so I suppose I referenced what I think most of the regulatory development we're seeing is already in flight so people know about it. So you have the consumer duty regime, which is already in force, and then there's a further window coming in there. And I think we've seen a lot in the press about certain implications of that for other organisations. But that's been something that's been coming for a long time. And as I talked about, we've had a program in place for a while looking at that, and we aren't seeing a material impact on the group. We're not expecting one when that comes in July. But I think that is, that's clearly a material piece of regulation.

I should say as an aside, we like these things. So anything that is supporting good customer outcomes, people getting fair value, but creating high regulatory standards in the market, we like that, because ultimately we're trying to adhere to that standard.

So anything that strengthens that, makes it more consistent, we see as a good thing and creates a good competitive dynamic. And the other thing it does in terms of M&A is there's a strong focus on the vendor's requirements around consumer duty if they're handing those books over to other people as well.

So we like the fact that it was designed in a way that people couldn't just try and throw their problem at somebody else. There's a high hurdle if you want to sell books to demonstrate that it's compliant with that consumer duty regime.

Across Europe, I mean there's a huge amount of sustainability type regulation, a number of European insurers, you're having to work out things like double materiality, the impacts on your balance sheet and meeting some of those new standards. DORA, which relates to kind of IT security standards across Europe as well as a regime that's coming across Europe as well.

But these are all things I think that are known and in flight. And I think in most markets you're seeing a continued focus on the consumer. So the AFM in the Netherlands certainly is continuing to be strongly focused on customer outcomes, and you're seeing the Swedish regulator look at that as well, Ben. But there's probably nothing else material that we'd be pointing to say there's a big risk around that. And I think in many ways implementing against those standards is going to be plenty of work for people in terms of doing that. In terms of the competitive environment, it's probably slightly different if I can focus on Sweden and the Netherlands, so slightly different between the two.

So I think in Sweden we've continued to see the activity of brokers in that market quite focused on the back books of business. So we've continued to see

overall a higher rate of transfers between pension providers and insurance companies.

We've seen a positive start to trading in 2024, so we've seen good sales volumes coming into Movestic, but it has been a competitive environment. We've seen a little bit of pricing pressure coming through, but I think we're starting to see that market just about returning back to the volumes before COVID. And Sara and the team have done a super job in terms of signing up some additional partnerships to try and broaden the footprint of both distribution and products that we have.

In the Netherlands I suppose the part of the market that we are in to remind people is predominantly in that term insurance space through brokers. And it's quite heavily linked to the housing market still, and you haven't really seen the Dutch housing market return back to the sorts of turnover levels that you would've seen before COVID. So there's still a little bit of suppression there. We're still taking a good market share, staying disciplined on pricing, but I think if we see that housing market returning a little bit, we should see volumes coming back a little bit as well. So slightly different dynamics in those two markets.

Moderator: Thank you. You've got a few questions from the webcast.

Steve Murray: Yep.

Moderator: So first question is from Guy Thomas from Hazell Carr Edwards. You said that the SS&C deal incentivises both sides to bring extra scale. I can see how Chesnara could add extra scale, but how can SS&C do so?

Steve Murray: Yeah, so the way that it works, and obviously without divulging confidential details, is if we acquire further books of business, or if we transfer further books of business that add scale to that contract, we get a benefit through the rate card, but ultimately at the same time, SS&C make more money. So we want SS&C to make a lot more money at the same time as us delivering a lower unit cost for our customers. And it's pretty straightforward in that regard. And it was a big part of the early conversations with them as a partner that we talked about our aspirations, the sort of growth that we were looking for in the UK and talking about their ability to support that, but also their desire to participate in that and scale up as well. So when we look at M&A in the UK, they're sat right next to us, they'll be part of the diligence process very, very early to ensure we get the benefit from that relationship and that partnership.

So that's how the sharing works. And ultimately we want the partners that we work with to make a good return on the capital that they're deploying at the same time that we're making a good return on capital from what we're deploying as well.

Moderator: Further question from Guy. At the reliable 3% dividend increase is less attractive in a higher inflation environment. You have a strong capital position. How about a higher rate of increase going forward?

Steve Murray: So we've talked before about how we think about the dividend policy. I suppose what we're ultimately trying to do in the medium and long-term is have a dividend policy that beats that long-term rate of inflation. And I think if you look at that over the last 19 years, it's certainly done that. So I think the inflation rate would be about 75%. We've delivered 102% over that period, and when we look at the longer term inflation curve, it's pretty much back down to 2% again.

We think our shareholders have really valued the consistency and stability of the dividend. And I suppose what we are able to give them is a dividend that ultimately beats that longer term rate of inflation, and then upside potential from value growth, because we've got excess capital that we can deploy. And it's interesting, I think I maybe said this last year, but when I first came into Chesnara, there was a bit of a question mark about the ability to support the dividend, because I think we hadn't given quite as much guidance.

So I love it when shareholders and investors ask whether we can pay a bigger dividend, because I think that shows then that people have got a lot of confidence in the cash generation coming from Chesnara.

Moderator: Super. Ming Zhu has asked a question. First, congratulations on a strong set of numbers across all metrics, and all the best and farewell to Dave. Two questions please. What have you seen so far in the M&A landscape given the current inflation and interest environment? And the second question. Your share price has been lagging peers in recent years, despite the fact that the numbers are fine and strategy is working. What do you think the market is missing?

Steve Murray: Well, maybe start on what the market is missing. I mean, what we've tried to set out again today is the variety of value growth sources that we have available, our ability to continue to generate cash generation. And we do that in a whole wide variety of market conditions. We have this long-term progressive dividend policy, which we think has been really valuable for shareholders. And then within the results you've seen upside from M&A and we are very much signaling the potential for M&A in the future. So I think we just need to keep reminding people of that and showing the potential value.

I think the insurance sector overall is very cheap at the moment. If you look at the set of results that have been delivered, and the sort of yield that you're getting from insurance companies, I mean for me, I can't understand why people are valuing the businesses in the way that they are. They should certainly be at a higher valuation.

So I think ultimately we need to keep making clear to investors the benefits and the upsides and the potential that you get from Chesnara. And Ming, we've

talked about this historically as well, we need to keep telling that story and being very firm on that. In terms of the M&A landscape at the moment and the sorts of things that we're seeing, we talked about I suppose what we saw as the three main drivers that we're bringing portfolios to the market. And you probably noticed that we didn't talk quite as much about the macro.

So I think what we're tending to see is that whilst maybe higher inflation has put a little bit of pressure maybe on insurance companies that have got subscale books and things, the bigger drivers really have been those more strategic factors when people are trying to upgrade their operating systems, their technology, do some simplification, trying to recycle capital.

So in the UK there's clearly a lot of focus on the bulk purchase annuity space and the growth available there. It makes a lot of sense for people to try and recycle capital if they believe they can get mid-teen returns in that space. And then we've seen international players and some of the deals that we put up on-screen showing that they're trying to simplify the geographic footprint and simplify. So I think you'll then look at the macro perhaps particularly in our part of the market, that sub-billion-dollar sort of consideration part of the market. The macro tends to be slightly more second-order, whereas I think if you're looking at very large M&A, I think the prevailing rate of inflation, interest rates, equity markets tends to be a bigger factor in the overall valuation.

I think what everybody is seeing is hopefully more of a trending back to a normalised market environment, and I think that makes it easier again for people to contemplate M&A if you can see a stable interest rate, see stable inflation rates, equity markets that are growing nice and simply as well. And I think we're starting to see more of that now in 2024. I think Ming as well, you get the prize for the furthest distance dial in this morning, I suspect from China. So thanks for joining us.

Moderator: Super. We are just about out of time, so no further questions at the moment. Pass back to yourself, Steve for closing remarks.

Steve Murray: Yeah, so thank you again for joining us this morning. We believe this is a strong set of results, strong cash generation. You've seen further M&A in the group and economic value growth. And we believe there's a lot to look forward to here at Chesnara. So with that, we'll end the Full Year 2023 results presentation. Thank you again for joining.