AIA Group Limited 2020 Annual Results

Analyst Briefing Presentation – Transcript

12 March 2021

Lee Yuan Siong, Group Chief Executive and President:

Good morning everyone and welcome to AIA's 2020 annual results presentation. Let me start by saying that we hope that you and your families are safe and well. I am immensely proud of our outstanding employees who have worked tirelessly to provide continuous support for all of our stakeholders. Thanks to their efforts we have delivered a strong performance in unprecedented conditions. Let me begin with the key financial highlights.

While VONB was affected by the pandemic, we saw a strong recovery in new business sales as restrictions eased and we delivered growth in all our other key financial metrics. Operating profit after tax and underlying free surplus generation were up supported by our high-quality, recurring sources of earnings. We reached record highs in both EV Equity and shareholders' allocated equity and the Board has recommended an increase of 7.5 per cent in the final dividend. These results demonstrate the strength of our operating model the quality and resilience of our people and our disciplined financial management.

As I said, we achieved very strong VONB momentum as pandemic restrictions eased across our markets. Mainland China was the first to enter lockdown in February and lockdowns generally peaked in the second quarter for the rest of the Group. Border restrictions effectively stopped sales to Mainland Chinese visitors in Hong Kong from early February. As you can see, we have delivered very strong VONB momentum across the Group as restrictions were eased and our business in Mainland China became the largest contributor to VONB in 2020. This broad-based momentum has continued into 2021 with very strong VONB growth from AIA China and 15 per cent VONB growth for the Group in the first two months of the year.

Our rapid adoption of new online capabilities helped maintain business activity even during the strictest of lockdowns. We introduced remote sales completion for all distribution channels, across all markets and launched streamlined online services for customers. The use of remote sales has tracked lockdown severity and 95 per cent of all new business in 2020 was submitted digitally. We moved our agency recruitment, onboarding and training online holding more than 20,000 virtual recruitment seminars and new recruits grew by more than 20 per cent. Automation and digitalisation have significantly enhanced customer experience and straight through processing is now used for close to half of all our buy, service and claim journeys well above global industry peers. For our customers, we extended free COVID-related cover to more than 25 million policies and provided 1 billion dollars of premium support across 12 markets. Over the year we paid more than 16 billion dollars in benefits and claims, providing essential financial protection when it is needed the most.

While 2020 was an unprecedented year, it has made me even more optimistic about the prospects for the life and health industry in Asia and the future of AIA. The growing need for our products, services and high-quality advice has never been more evident than it is today. Nowhere is this more apparent than in Mainland China where AIA has a unique opportunity with enormous potential for growth. Our customers make up less than 2 per cent of the middle-class population in our existing geographies and as we expand into additional provinces our potential market quadruples. 2020 was a landmark year as AIA became the first foreign company with a wholly owned life insurance subsidiary in Mainland China. We are making excellent progress in Tianjin and Shijiazhuang and significantly expanded our Premier Agency through quality recruitment driving strong VONB growth. We have received approval from the CBIRC to prepare our newest branch in Sichuan the sixth largest province by GDP and we are at a very advanced stage. Our 100 per cent ownership and differentiated Premier Agency strategy delivers strong and sustainable results allowing AIA to fully capture the extraordinary opportunities available to us in Mainland China.

AIA has many significant advantages across the region that distinguish us from our competitors. We have an unparalleled platform in Asia, built over many decades with 100 per cent ownership in almost all of our markets singularly focused on the world's most attractive region for life insurance. For more than a century, AIA has made a positive, lasting impression on the lives of our customers. As a lifelong partner, we are committed to our role in the transition to a better, more sustainable future. The pandemic has further highlighted the significance of ESG issues. AIA ranks second globally in our industry for ESG yet we know that there is more we can do in this important area for our communities. Our people are the Group's key competitive advantage and the foundation of AIA's success. I am extremely proud of how they have responded in a rapidly changing operating environment, helping our customers navigate uncertainty, while accelerating our strategic plans. In 2020, AIA has delivered another strong performance with VONB momentum continuing into the beginning of 2021.

I will now hand over to Garth to take you through the details of our financial performance.

Garth Jones, Group Chief Financial Officer:

Thanks Yuan Siong, and good morning everyone. Yuan Siong covered the headline figures that summarise our strong financial performance in 2020 against the backdrop of an unprecedented environment. This reflects the diversified nature and quality of our business, with a focus on long term sustainable growth, progressive profit emergence from a continuously expanding in-force book, and prudent financial management.

Let me now take you through AIA's 2020 Financial Results in more detail covering the usual areas of Growth, Earnings and Capital and Dividends.

AIA benefits from our diversified regional presence and our long-established, market-leading positions. Taken together with the quality of our multi-channel distribution and our comprehensive product range, this strong platform gives us great confidence for our future growth. Mainland China became the largest contributor to VONB for the first time and accounted for close to 32 per cent of the Group. Following the introduction of strict travel restrictions on mainland Chinese Visitors, Hong Kong now accounts for 18 per cent. Our other four segments – predominantly covering South East Asian markets – made up 50 per cent of the Group's VONB in 2020.

We continue to focus on high-quality traditional protection and long-term savings products, which in aggregate made up over 90 per cent of our VONB and the vast majority of our new business sales are in the form of regular premiums. These add significant further layers of revenue to our growing in-force renewal book of more than 30 billion dollars. When combined with our high persistency of more than 95 per cent, the compounding of regular premiums drives the scale and resilience of our earnings and cash flows over time.

Looking at our markets in more detail, these charts show the pattern of how VONB momentum has progressed from the beginning of last year. We had a strong start to 2020 with positive year on year growth in five of our six segments before the onset of Covid-19. In February, Mainland China and Hong Kong were the first of our markets to have movement restrictions imposed, followed by the rest of the region. As our businesses adapted and restrictions were gradually eased, we saw very strong sales momentum return. Mainland China recovered quickly and resumed its normal sales pattern in the second half in our existing geographies while also growing rapidly in our new regions. Our Hong Kong Domestic business saw a recovery in the second part of the year, despite ongoing restrictions. However, with strict border controls still in place, Mainland Chinese visitors remain absent, with a resulting impact on sales and the local economy generally. Our South East Asian businesses bounced back from strict lockdown measures, building progressively into the later part of the year and growing VONB to move above 2019 levels.

The Group's strong momentum has continued into the first quarter of 2021 with 15 per cent VONB growth in the first two months of the year. This includes very strong growth for AIA China and has been achieved despite minimal sales to Mainland Chinese visitors in Hong Kong. VONB for the Total Group is shown after fully deducting the present value of unallocated Head Office expenses and for consolidated reserving and capital requirements. These amounted to 264 million dollars in 2020. It also includes the 5 per cent withholding tax that has applied to AIA China since July last year.

EV operating profit was 7.2 billion dollars, supported by continued positive operating variances of 549 million dollars. Operating profit more than offset both negative investment return variances and the reductions in our long-term economic assumptions to reflect lower interest rates, while exchange rate movements over the year were favourable. As a result, EV Equity increased by 6 per cent to a record 69.2 billion dollars, before the payment of shareholder dividends.

AIA's strong track record of positive operating experience reflects the prudence in our embedded value assumptions and the quality of our in-force business. Mortality and morbidity claims experience remained positive, supported by a lower incidence of non-critical medical claims during the pandemic. In aggregate expense variances were positive, with acquisition expense overruns arising from reduced volumes included in our reported VONB. Acquisition expense overruns reduced the VONB margin for the Group by 2.5 percentage points compared with 2019, mostly from Hong Kong where these lowered the VONB margin by 5 percentage points. Persistency and Other Variances were positive, despite the pandemic. Overall, operating variances have added more than 3.2 billion dollars to EV since our IPO.

AIA's EV sensitivities to both interest rates and equity market movements remain small. Our EV methodology uses spot market yields and trends over time to our long-term assumptions. The interest rate sensitivity shown here applies a 50-basis points movement from current spot government bond yields and our long-term assumptions including equity returns and risk discount rates. Our long-term assumptions aim to smooth out short-term volatility in markets. We updated our assumptions as usual at the end of 2019 and, following a significant reduction in interest rates early in the year, we further updated our long-term assumptions at the interim results. Market rates at the end of the year are in line with our assumptions, and interest rates have increased further since then.

EV Equity of 67.2 billion dollars is now 2.7 times the level at IPO, demonstrating our track record of shareholder value creation. The main driver of EV Equity growth is EV operating profit. We have generated more than 54 billion dollars of EV operating profit through the addition of profitable new business and proactive management of our in-force portfolio. Net cumulative economic and operating variances from all sources are immaterial, clearly demonstrating the appropriateness of all our EV assumptions and our methodology over time.

Now moving to earnings and our IFRS results.

The Group's operating profit after tax increased by 5 per cent to over 5.9 billion dollars, driven by our growing in-force portfolio. Operating margin was stable at 16.9 per cent, underpinned by our high-quality and recurring sources of earnings and proactive in-force management. AIA Hong Kong delivered 10 per cent growth in OPAT to more than 2 billion dollars reflecting an increase in renewal premiums of 11 per cent and favourable claims experience which more than offset lower bond yields. AIA China continued to deliver very strong growth of 14 per cent.reflecting our high-quality earnings and increased scale, while OPAT growth for Singapore of 8 per cent was supported by improved operating experience. Although lapse experience improved in the second half for our Thailand business a lower equity market during the year combined with a reduced long-term equity return assumption more than offset positive operating experience and underlying business growth. In Australia, OPAT was affected primarily by a decrease in profitability from disability insurance policies, which impacted the overall result for Other Markets. Finally, Malaysia, where, excluding the impact of the one-off industry-wide initiative highlighted in our interim results, there was growth in OPAT of 8 per cent.

Shareholders' allocated equity increased by 16 per cent to 50 billion dollars, before the payment of dividends. The increase in allocated equity reflects our solid growth in operating profit, and positive foreign exchange movements. Mark-to-market movements in equities and other non-operating items were immaterial. After the payment of 2 billion dollars of dividends to shareholders, allocated equity increased to 48 billion dollars.

Operating profit after tax of 5.9 billion dollars was 3.1 times the figure in 2010, reflecting the increasing size of our in-force book, driven by significant new business growth. The resilience of our portfolio is the result of the steady accumulation of quality business over many years Consistently, 99 per cent of our total weighted premium income has been recurring and these premiums have been invested on a prudent basis in high-quality well-diversified assets. The average credit quality of our bonds has remained stable during the year at A- and we experienced no impairments. Our focus on quality and long-term sustainability forms the foundation of our resilient sources of earnings, demonstrated by continued growth in 2020.

Operating profit after tax has added more than 40 billion dollars to shareholders' allocated equity since our IPO. While movements in the market value of equities causes short-term volatility in Net Profit, these fluctuations have averaged out over time to just 0.3 billion dollars. After shareholder dividend payments of more than 10 billion, shareholders' allocated equity of 48 billion dollars at the end of 2020 was 2.7 times the level at IPO.

Finally, capital and dividends. Our solvency position remains very strong. The Group LCSM Cover Ratio takes a fully consolidated view of regulatory capital adequacy for the Group based on minimum requirements. In future we will disclose this as the principal measure of the Group's regulatory solvency position. Our Group LCSM Cover Ratio has remained resilient during the stressed capital markets of 2020 and ended the year at 374 per cent. There are further details in the accompanying results pack, including sensitivities to equity markets and interest rates which are small In addition to our strong solvency position, our total leverage remains relatively low at 11.9 per cent, demonstrating our resilient capital structure and financial flexibility.

Underlying free surplus generation increased by 7 per cent to 5.8 billion dollars, supported by continued growth of our in-force portfolio. New business investment of 1.4 billion dollars was 2 per cent less than the previous year, as reduced new business volumes were offset by acquisition expense overruns and a product mix shift away from Hong Kong participating products. Free surplus increased by 4.1 billion dollars before investment variances and dividend payments. Investment variances reduced free surplus by 3.5 billion dollars, primarily from the movement in regulatory reserves caused by sharply lower government bond yields impacting our businesses in Hong Kong and Thailand. After the payment of 2 billion for shareholder dividends, closing free surplus remained strong at 13.5 billion dollars.

Since IPO, our cumulative underlying free surplus generation has now exceeded 40 billion dollars. Our primary goal is to grow new business organically and we have reinvested over 14 billion to generate close to 25 billion dollars of VONB. We have paid dividends to our shareholders of 10.8 billion dollars and we have selectively taken advantage of inorganic opportunities. Including the events of 2020, which created an extreme example of capital market stress, investment variances have accumulated to a small net impact of 0.6 billion dollars. Our stock of free surplus has increased by 8.5 billion since IPO to 13.5 billion dollars, aligned with the growth in our balance sheet.

The analysis of holding company financial resources is a new disclosure that provides further insight into the financial resources directly available for the payment of shareholder dividends and interest, as well as providing financial support and investment into our businesses. We have included a reconciliation between holding company financial resources and working capital in the results pack. In 2020, net flows from subsidiaries to the holding company amounted to 2.4 billion dollars. With the addition of 2.8 billion dollars of proceeds from new borrowings and after dividend payments of 2 billion, we ended 2020 with 12.4 billion dollars of financial resources at the holding company.

The Board has recommended a 7.5 per cent increase in the final dividend to 100.3 Hong Kong cents per share. This increase reflects our continuing strong business performance and our healthy financial position. The Board continues to follow AIA's established prudent, sustainable and progressive dividend policy, allowing for future growth opportunities and the financial flexibility of the Group.

In conclusion, the Group has delivered a strong financial performance through the unprecedented business and macroeconomic conditions resulting from the global pandemic. We have seen VONB recover as our businesses adapted and containment measures eased, with momentum continuing into 2021. The quality of our growing in-force book helped drive further increases in both operating profit after tax and underlying free surplus generation. EV Equity increased to a record 67.2 billion dollars and shareholders' allocated equity grew by 16 per cent before the payment of dividends. Our financial position is very strong and we have further increased the final dividend by 7.5 per cent. These results reflect the quality and resilience of our businesses, our proven execution capabilities and our disciplined financial management as we continue to build sustainable value for our shareholders.

I will now hand back to Yuan Siong who will provide an update on the Group's Strategic Priorities.

Lee Yuan Siong, Group Chief Executive:

Thank you, Garth.

As you will remember from August, we have a clear and ambitious strategy that will achieve our Purpose of helping millions of people live Healthier, Longer, Better Lives while delivering profitable growth and shareholder value well into the future. We will build on our significant competitive advantages ensure that we fully leverage the powerful structural drivers of growth in Asia and capture the immense opportunities available to us. I see enormous potential to transform AIA and that is why we have a step change in technology, digital and analytics at the heart of our new strategy. Let me now show you how we are already delivering significant results across the Group.

Our vision is best-in-class connectivity for our agents, customers, and partners allowing for rapid and seamless interactions. We know that providing a simplified service with faster turn-around-times leads to better outcomes, including improved retention and profitability. In the Philippines, our customers enjoy a totally new end-to-end purchasing experience that is simpler and dramatically faster. We have redesigned, fully digitalised and automated the customer onboarding process. Predictive underwriting delivers better outcomes including frictionless sales and increased conversion rates. Our proprietary AI-powered underwriting engine uses data analytics to deliver a huge increase in capacity and has supported straight through processing of more than 75 per cent. Customer onboarding now takes just 20 minutes and plans to launch our new underwriting engine in the rest of the Group are underway, driving enhanced scalability and efficiency.

Our goal for a leading customer experience is to always exceed expectations and this includes our promise to look for every reason to pay a claim. AIA Thailand handles more than 2.5 million medical claims a year. Our new automated process delivers a seamless, paperless and cashless customer experience for outpatient claims at more than 500 hospitals and clinics. AI-powered claims adjudication has supported straight through processing rates above 70 per cent, 4 times higher than at the start of the year. Outstanding customer experience achieves a range of business benefits, including unlocking new business growth, driving higher quality sales, improving persistency, and generating more products per customer.

Turning to our Unrivalled Distribution and Premier Agency. Full adoption of powerful digital tools across the entire value chain delivers material improvements in productivity, increased agent retention and ensures that our agents achieve highly attractive incomes. I am pleased to say that online recruitment, onboarding and training has supported growth of our agency even during the strictest lockdowns. In Mainland China, AIA has the highest quality and most productive agents in the market. At the onset of the pandemic, we rapidly shifted recruitment fully online with an end-to-end digital process. Analytics support training and development through our proprietary smart learning and coaching. Our online role player simulates customer interactions using AI and helps our agents practice and enhance their sales skills expanding the capacity of our agency leaders to focus on recruitment and management. This delivered over 30 per cent increase in new recruits in Mainland China and our online capabilities supported growth in new recruits of more than 20 per cent for the Group.

We are driving a step change in the number of active agents in our developing and emerging markets. And I am clear that we do this while continuing to raise quality through the use of technology. In Malaysia, our agency is 100 per cent digitally enabled across the entire Premier Agency value chain. Advanced data analytics and social media integration provide new customer insights and gamification reinforces professional sales techniques. Our Next-gen Leaders have real-time activity data at their fingertips, enabling more effective team management. Adoption of these digital tools has supported an increase of more than 20 per cent in active agents and more than 15 per cent in productivity levels.

We have long-term and leading bancassurance partnerships across Asia providing access to many millions of potential customers. As banking preferences evolve, we offer customers more choice of how to purchase from fully online to in-person advice. In India, Tata AIA Life has pioneered our use of digital and analytics tools to transform our approach to bancassurance and we are industrialising these across the Group. Our propensity models use customer data from banking transactions, demographics and digital footprints. We then adopted a data driven, highly digitalised approach across the entire sales process including 2-click offer acceptances and pre-filled applications resulting in an end-to-end customer journey of just 18 minutes. We grew new business sales from our domestic bank partners in India by more than 30 per cent during the most severe lockdown across our markets with over 60 per cent of new policies purchased digitally.

Digital platforms bring new models and new growth. We are connected to an expanding network of the best partners, with hundreds of millions of highly engaged and active users. AIA's significant competitive advantages and deep experience in Asia make us a highly attractive partner. Importantly, the strength of our multi-channel distribution offers customers more choice of how to purchase from fully online to face-to-face advice and increases conversion rates to maximise value creation. We build our partnerships on shared value principles developing innovative propositions that are relevant and personalised. An agile approach enables faster iteration cycles when delivering compelling solutions as we test and learn, before industrialising across other markets. For example, in South Korea, we brought together SK, Samsung and AIA Vitality to launch a new joint proposition targeting a combined customer base of 40 million. In December, we announced a new regional digital technology partnership with ZA Tech enabling seamless connection to new and existing digital partners. We have already launched our first products with Shopee in Malaysia. In India, we are the exclusive life insurance provider to Practo's 175 million users. Our partnership also provides customers with preferred access to Practo's leading digital healthcare platform, adding new capabilities to our Health and Wellness ecosystem.

Our protection strategy is focused on next-generation life and health products fully integrated with our Health and Wellness Ecosystem which is anchored on four fundamental components. Through AIA Vitality, we deliver shared value for our communities, lower costs of insurance and improved health outcomes. Our highly-engaged customers generate impressive health improvements as they average more than 800 thousand workouts a day and we achieve significantly higher persistency and repeat sales. AIA Vitality is fully embedded in our insurance products and we have generated more than 1.2 billion dollars of VONB from integrated sales in the last 3 years. Our wellness programmes are in 11 markets and, in 2020, we significantly enhanced services including support for mental well-being, nutrition and maintaining physical activity levels. We have ambitious targets for expanding AIA Vitality coverage and further increasing member engagement. The pandemic has driven a surge in telemedicine usage with online doctor consultations through Practo growing by more than 10 times between April and November 2020. We plan to expand our Telemedicine services from 6 to 12 markets in 2021. As a pan-Asian health insurer, we have a vast regional healthcare provider network. AIA's Regional Health Passport brings customers choice of treatment across our network of leading international hospitals. Our personal case management services in 8 markets ensures AIA customers have access to the best diagnostic and treatment consultation.

We have launched innovative propositions integrated with AIA's Health and Wellness Ecosystem across several markets. In Hong Kong, our next-generation product completely re-imagines critical illness cover removing the need for complex medical definitions and making it easy for customers to understand. Instead of a fixed sum assured, benefits are based on disease severity and treatment, giving customers peace of mind. Our new modular protection product in Mainland China leads the market and allows customers to tailor coverage to their specific needs. Premier Agents guide customers to their ideal product from thousands of possible coverage combinations, supported by powerful data analytics and in-depth customer research. In addition to better meeting customer needs this further differentiates our Premier Agency model in the market. We will continue to integrate our ecosystem of best-in-class providers into our propositions across our markets, making them increasingly difficult to replicate.

Our financial discipline remains a core priority and the foundation of AIA's strong and consistent delivery. The execution of our new strategy will extend our track record of superior profitable growth driving strong earnings, free surplus generation and prudent, sustainable and progressive dividends. We continue to see significant opportunities to reinvest capital and deliver organic growth at attractive returns for shareholders.

In summary, AIA operates in the most attractive markets in the world for life and health insurance. We remain 100 per cent focused on Asia with substantial growth opportunities in all of our markets. In Mainland China, our new potential target market is four times our current footprint and we have a proven track record of expansion. Our strategy is clear and ambitious with a step change in technology, digital and analytics at the heart of our transformation. We have delivered another strong performance in 2020 with VONB momentum continuing into 2021. We are confident that we will continue to deliver significant growth and shape a more sustainable future for our communities while delivering long-term shareholder value.

Thank you very much for listening.