Just Retirement
Q1 Interim Management Statement for the quarter ending 30 September 2014
Analyst Call Transcript

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9:30 a.m.

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Shayne Deighton, Group Chief Actuary
David Cooper, Group Director for Marketing and Distribution

Simon Thomas: Thank you operator, I'm Simon Thomas, CFO of Just Retirement, and I'd like to welcome you all to this conference call to discuss our IMS for the 3 months ended 30th September 2014.

We really do appreciate your interest. I'm joined on the line by Shayne Deighton, our chief actuary, and David Cooper, our Director of marketing and distribution.

I'll talk briefly about our first quarter trading statement and then we'll have some time for your questions. Please do remember that we have a June year end, so the first quarter of our 2014/15 financial year, which is under discussion now, represents the third quarter of the calendar year.

So, first, we are today reporting a 42% fall in total sales, driven by a 48% fall in total annuity sales and a 23% fall in lifetime mortgages. Total sales would have been only 25% lower if they had included the £75m DB scheme we told you about a couple of weeks ago. This was signed in September and closed in October, making it a Q2 event.

The 48% fall in total annuity volumes reflects the net effect of the very different conditions experienced by our individual business compared to our DB de-risking business.

DB continued to grow strongly. Sales were up roughly sevenfold compared to the equivalent prior year quarter to £24.8m, obviously excluding the £75m sale announced in October. If that scheme had been written a week earlier, then we would have written more DB business in Q1 than in the whole of the previous year.

We are also pleased to be able to announce that we have signed contracts on another large DB scheme for £76m, which is due to complete later this week.

Base effects mean DB growth rates will start to look more normal as the year progresses, but the business remains inherently lumpy and will continue to be volatile in shape. Trustees meet infrequently, and the business is made up of a small number of relatively large transactions, so this lumpiness won’t go away. But out of the total £1.8trn of DB scheme liabilities in the market there are over £600bn of pensions in payment for us to target.

Even if only a small percentage can benefit from our medical underwriting each year, this provides strong growth potential. Many years of ALM work has reduced the volatility of the capital position of most DB schemes. This has improved the consistency of Trustee demand, but not to the point where it will grow in a nice straight line.

The IUA picture is more challenging, as we continue to come to terms with the Budget’s aftermath. IUA sales were 59% lower than in the equivalent quarter of our previous financial year. They fell by 55% if we compare them with the first calendar quarter of this year, which was the last to be unaffected by the Budget. So it’s difficult to portray this as anything other than a tough quarter for IUA volumes, albeit not as bad as the 90% drops some predicted. We believe that for customers with less than £100,000 to work with, guaranteed lifetime income will continue to be a key part of their post-retirement financial planning, and our medical underwriting skills mean we can offer many of them a better income.

We managed mortgage volumes down by 23% in the quarter, against a tide of good market growth. Including the large October DB sale which ended up being booked in Q2, the fall in LTM sales was broadly in line with the drop in annuity sales. The mortgages continue to offer a great match to our liabilities, especially DB, which tends to bring longer duration cash flows.

As of today, trading conditions for IUA’s have continued in the current quarter in line with our Q1 run rate, but as we've flagged in several places, there is a risk of further volatility ahead of the new rules in April. So even though DB volumes have exceeded our expectations so far, we are limiting ourselves to saying that we remain confident to achieving our overall full year sales expectations, rather than talking prospects up. Obviously we'll update you as the year progresses, but I think you can understand the huge uncertainties we face in the current sales environment.

Now, before we move on to Q&A, I want to pre-empt the inevitable questions about the new products we'll be launching once the rules change in April. In addition to the core retirement income proposition, we'll also offer a product allowing customers to leave some of their assets invested whilst converting most of their retirement funds into a guaranteed income for life.

It's key to remember that our average case size is around £60,000, which often means our mass market customers really do need the additional income which a guaranteed income solution offers, rather than relying on the State Pension. At this level, few financial advisors consider it prudent or economic to do the work required to put them into drawdown, given the relatively small sums involved by drawdown standards. Please don't forget this when you write about it.

For our individual customers, inheritance tax, and often even income tax are simply not an issue once they retire, but enhancing the State Pension with the best value guaranteed income solution they can get in order to pay their bills is. That's why we remain confident that our individual retirement income offering will remain relevant in the future. Our medical underwriting skills place us uniquely to provide value for money, secure income benefits. We'll update you further on the new products early next year. With that, I'd like to turn it over to questions.

Operator: The first question comes from the line of Andrew Sinclair from Merrill Lynch. Please ask your question.

Andrew Sinclair: Morning everyone. Just two questions if that's okay. Firstly, I just wonder if you could tell us a bit about the competitive environment at the moment, for individual annuities and for bulks, and secondly who you're coming up against in the bulk annuity market. Thirdly, again on bulks, could tell us anything about the margins in the bulk deals that have been done over the last few months, and if they're similar to what we've seen elsewhere on your book previously. Thanks.

ST: Okay Andrew. I'll ask David to talk about the competitive environment and who we're coming up against, and I'll cover the margin point if that's okay, David?

David Cooper: Hi Andrew. In two parts, in the individual underwritten annuity market, the competition is broadly the same as it has always been, even pre-budget. So we're coming up against the usual suspects in other specialist writers such as Partnership, MGM and LV, and then also we're still seeing the likes of Aviva and L&G reasonably competitive in the standard and lower end of the enhanced market. On DB, we are seeing most of the DB writers in the market, in the segment of the market that we're operating in. So we've come up against the likes of PIC, Aviva, L&G and Partnership.

ST: When we were talking back in September at the prelims, I indicated that the IUA margins were lower due to the competition in the marketplace that we'd seen and highlighted then that we thought that DB margins were slightly higher and slightly better than the IUA margins. That pattern has continued and so therefore I'm not really saying anything new, in terms of the shape of margin that we've seen. One thing I would flag is that in terms of our IUA market share, it's actually fallen we think, in the quarter to June, so that's relevant as well.

AS: That's good, thank you very much.

Operator: Thank you, the next question comes from the line of Greig Patterson from KBW, please ask your question.

Greig Patterson: Morning lads. Just on that guidance and I'm talking calendar quarters now, on the fourth quarter being similar to the third quarter. Is that taking into account that December is a slow month so it is actually down in nominal terms, or are you saying it's going to be flat in nominal terms? The second question is, I wonder if you'd just update us on lifetime mortgages, the structures that you [would use] when potentially moving some of the stuff off balance sheet. I thought it was quite surprising that you're still writing lifetime mortgages well ahead. That doesn't actually surprise me, but then your comment that economic capital remains unchanged, I thought if you're writing at that rate it puts some pressure on economic capital, I just want to chat about that.

ST: Okay Greig. Well, perhaps I'll ask David to talk about the fourth quarter’s progression and I'll come back and talk about the lifetime mortgages and the volume, and then Shane to talk about the economic capital side.

DC: Hi Greg. Remember, our quarter to the quarter four that you're referring to doesn't tend to be depressed because of seasonality. We turn the business around sufficiently fast that our previous quarter fours have been broadly in line with quarter three. It's quarter one, in your terminology, where we see a seasonal drop, because of the lack of front end activity from financial intermediaries over the Christmas period.

GP: Alright, cool, so you're basically just saying that it's flat in nominal terms, quarter on quarter?

DC: Yes.

ST: Okay Greig, on the lifetime mortgages, again, I think we talked about this a few weeks ago, but clearly we have three levers to try and change the mix of the lifetime mortgages. The first is to write more annuities, which is clearly the favoured route, as we capture most value that way. The second is to actually write fewer lifetime mortgages by becoming less competitive and putting the brake on, and as a by-product obviously increasing the yield on the asset. Then thirdly, as you mentioned, is to look to try and pass some mortgages onto a third party. It's fair to say we're progressing on all three, and you can see the success we've had on DB, particularly with the latest two announcements of the £75 million and the £76 million schemes, has been helpful and that's obviously the one that we want to go for. We do continue to talk to third parties if we feel the need to pass mortgages off the balance sheet. I'd describe that really as a bit of a slow burner and frankly, certainly my least preferred option. Shane, economic capital?

Shane Deighton: Yes, good morning Greg. You're absolutely right, writing at more than the 25% we normally does have some impact on economic capital. I would say that the amount we write in any one quarter, when you only consider the excess over 25%, isn't really enough to make a noticeable difference. What I'll add to that is the fact we are writing mortgages at the moment at very good margins. Plus the fact that to the extent we usually get with DB in addition to the IUAs means that we're able to make very good use of that additional yield from a capital point of view. So the position isn't, maybe, as bad in that respect as you're suggesting.

GP: Right. Just one point, you said market share, was that in calendar quarter two, because you said until June? What was your market share change in the third quarter. I know there's industry stat?

DC: Yes, we haven't got industry stats for the quarter we're reporting on now, so no, the comment was in relation to quarter two.

GP: Do you have any view on whether you're gaining share or not, relative to your pricing, conversion rate, stuff like that?

DC: Probably no change to perhaps a little down, but that's a guess.

GP: Alright, no problem, thank you.

Operator: Thank you, next question comes from the line of Barry Cornes from Panmure Gordon. Please ask your question.

Barry Cornes: Just three questions if I may. First of all, I obviously appreciate you're managing down lifetime mortgage volumes, but do you see any increase in level of demand overall for LTMs as a result of the change in death taxes, in respect of pension pots? Second question, I wondered when the new longevity savings product you mentioned, Simon, is going to come on stream in April next year? Last question, I wondered if you had some colour on the process for customers getting advice post April 2015 on their pots.

ST: Okay Barry, I'm going to hand over to David.

DC: Hi Barry. The lifetime mortgage markets, has been growing in successive quarters, I think for the last seven or eight quarters, so demand is up regardless of what's actually happened in the budget. I mean, for all the well-rehearsed reasons about the income poor asset rich. You're correct that could be another consequence of the Budget changes, that we'll see greater demand for lifetime mortgages, but that's probably in the medium term. That won't be a rapid change after April. In terms of the products, yes, we are still targeting April, and as Simon said, we hope to be able to share in more detail what we're doing in the New Year. On the process, can you just ask that question again, the last piece?

BC: Yes, just wondered about what the process is, what colour you've got, and visibility, on how a customer will access advice and where the advice is coming from. Will it be a first port of call then onto an IFA or straight to an IFA? How's it going to be done?

DC: There'll be two routes, effectively. There will be people that seek out the guidance, which we've yet to see in its full glory, but those people will go through a guidance process, and probably then onto some form of advice. Then there will be a significant number of people that go straight to an advice business. I think what we will see is a broader offering of advice, which may well include simplified advice operating alongside or instead of full advice and possibly replacing non-advice, if that makes sense.

Operator: There are no further questions at this time, please continue.

ST: Okay, if there are no further questions I'd just like to thank you for your interest, and we look forward to speaking to you all again at the end of February for our intros. Thank you very much.