Just Retirement
Q3 Interim Management Statement for the quarter ending 31 March 2014
Analyst Call Transcript

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

Rodney Cook: Good morning, Rodney Cook here, Chief Executive of Just Retirement and a special welcome to all of you for this conference call to discuss our IMS for the nine months ending the 31st of March 2014. We do appreciate your interest and this morning, I'm joined by Simon Thomas, our CFO, Shayne Deighton, our group chief actuary; and David Cooper our group director for marketing and distribution.

Of course, the call was originally scheduled to discuss our third quarter trading but clearly we understand that your focus might also be on the chancellor's budget and what it will mean for our outlook and so I will cover both of these areas and then we will have plenty of time for questions.

So, first today we're reporting broadly flat total annuity sales over the nine months with mortgage sales up 75 percent and therefore total sales, including both mortgages and all annuity products, up 13 percent.

The flat nine-month annuity sales figure incorporates discrete Q3 sales, which are up 47 percent you'll see from the figures. That number is flattered by the relatively weak comparator for that quarter in early 2013 when the market was adjusting after the impact of the retail distribution review and gender neutral pricing at the end of calendar 2012.

And that did mean that a relatively large amount of business had been pulled forward into the final two quarters of calendar 2012. So the point is that the second half of our financial year was actually shaping up quite well for us of course up until the 19th of March when Mr. Osborne made his budget speech.

The three months to March 2014 saw total annuity sales down just 4 percent compared to the immediately preceding quarter and the chancellor's surprise announcement of course only affecting the latter part of March.

If you include our Q3 sales, including mortgages, we're actually up on the Q2 by 7 percent, which confirms some of the resilience of our diversified product offering.

Our sales figures have been helped in a couple of ways which, up until now, would not have been obvious to you.

Firstly, you'll see £37 million of defined benefit de-risking business written in Q3 and this excludes the shipping industry scheme for coincidentally a similar amount, £36.5 million which was actually transacted in April and therefore will fall in our Q4 results.

We therefore remain comfortable with our guidance we gave at that point with respect to DB de-risking but we would expect to write at least £80 million for the full year to the 30th of June given that we've almost achieved that once you include the shipping deal in April and at the current time most of the schemes in our growing pipeline are smaller in size.

Our DB scheme team has done very well since we hired them just two years ago and they have laid the foundation for a very successful new product for us. Clearly, as you all know this is lumpy business but we're very pleased with the progress our director Tim Coulson and his team have been making.

Secondly our mortgage sales were also helped by Just Retirement issuing £60 million of lifetime mortgages in a single deal in conjunction with Grainger PLC. Even without this mortgages would have been a healthy 43 percent up during the quarter.

Mortgages have been unaffected by the budget and as a result we would expect to write a little bit more than the normal 25 percent of the annuity level for a while longer. Although we are very pleased with both of these items, we do want to make sure that you understand that they're not necessarily recurring amounts which can be repeated each and every quarter.

Now moving on to the post-budget world. Clearly, I need to give you a health warning. The chancellor's speech was on the 19th of March. As of today, we've only had 34 trading days in the new environment. The transitional rules, of course, came into effect not on the 19th of March but on the 27th of March.

And given our business, even though we're one of the fastest completers of annuities in the market, it still takes us typically 20 to 21 days to process.

So taking those two factors into account, business that has generally been written and completed in the new environment is quite small. And in addition to that of course the rules will change again in April 2015.

However, given those important caveats activity levels appear to be stabilizing at modestly above half of the pre-budget level for individually underwritten annuities, certainly not good, but not nearly as bad as the forecasts of the death of the annuity market, which we read about in March.

We remain optimistic also that if properly implemented, the Government's guidance regime could actually increase the percentage of the annuity market, which would be accessible to Just Retirement and this could at least partially offset the current market contraction when that guidance regime is up and running in 2015.

I should point out that this of course critically excludes new distribution initiatives. The defined benefit team and our growing focus on that part of the market and of course future product launches as we adapt to the new environment.

You'll also see today that we are announcing a reorganization to deliver to our shareholders a £14 million annual cost saving to apply from July 2014, which of course is our new financial year.

This will include regrettably some redundancies, but we have a responsibility to both policyholders and shareholders to ensure that we manage the business within acceptable unit costs. This reorganization will result in a one-off charge of £5 million, which we will take in this current financial year before the 30th of June '14.

We're also clearly going to respond to the Chancellor's request and challenge that we provide increased flexibility and new innovative product propositions to the market and to that end we have added £5 million to our existing development budget, that's approximately a 50 percent increase for the next financial year starting July 2014 in order to ensure that we have those new products and customer propositions ready to come into force from next April.

That brings the formal part of my comments to a close and with that I'd like to ask the operator now to call for questions. Thank you.

Operator: And your first question comes from the line of Barrie Cornes, from Panmure Gordon. Please ask your question.

Barrie Cornes: Good morning, everybody. I have three questions for me. First of all, the 14 million in cost saving, I just wondered if that's off the current year cost base or 2015's? Second question I have is in terms of some of the negative publicity over the weekend concerning the fixed annuity, the one year contract, just wondered if you could comment on that.

And, also, the last one was the – you raised 280 million pound net on the IPO on the basis of a significantly growing book. Now, that things have changed slightly do you think some of that money is surplus and if so will you look to return it to shareholders, please?

Rodney Cook: I will ask Simon to comment on the £14 million in one moment, but if I can put to bed what we regard as somewhat inappropriate commentary in at least one newspaper.

So, firstly, we would prefer commentators in the press to have gained some facts before they comment, which of course would be helpful. So we sell our fixed-term annuity through advisors. So therefore we do not pay commission.

Secondly, it is incorrect to say that everybody can just leave their money in the proposition they're with. The most critical thing to say of course is that customers should rely on the proper regulated financial advice, which of course is backed up with liability insurance that they would get from qualified advisors and not from unqualified commentary in some press because clearly the relationship should be between those parties.

Naturally, I don't believe that the commentator in this case was offering to compensate any customers who in a year's time do not have a larger account because of market movements.

So we have no problem with the fact that professionally-qualified advisors would seek in the correct circumstance to recommend this product, which of course provides absolute certainty of both income and the maturity in a year's time.

Simon, the £14 million is against which year?

Simon Thomas: Yes, Barrie, the £14 million is looking forward to our 2014-'15 year. So the life company management expenses for this year will be of the order of about £74 million. But of course because we've taken people on in the year, you've got a full run rate effect coming through into next year, which is worth probably about another £5 million.

So you're probably looking at say £79 million pound management expense base of the life of the management company and we're taking £14 million out of that for the next financial year.

Barrie Cornes: Thank you.

Rodney Cook: And Shayne, our current capital position and preparations for next year.

Shayne Deighton: Well, first point to make is that the changes have made no difference to the strong capital position that we had immediately following the IPO.

In terms of looking forward, I think it's really just too early days at the moment. It's going to be very difficult to, at this point, to be exactly certain how volumes will shape up and therefore I don't think we want to make any premature calls on capital at the moment.

Barrie Cornes: OK, thanks very much.

Operator: Thank you very much. Your next question comes from the line of Greig Paterson from KBW. Please ask your question.

Greig Paterson: Good morning, gentlemen. Can you hear me?

Rodney Cook: Yes, Greig.

Greig Paterson: I'll do the customary three questions. I have more, but I'll do the three questions.

Rodney Cook: Give someone else a chance.

Greig Paterson: Exactly. New distribution initiatives that you said could -- were not in your 50 percent activity reduction. Wonder if you could elaborate on what those might be. Your new product development direction, there was some comment about you're going to help (IFAs) in a drawdown environment, protecting their customers from living too long.

Does that mean you're moving down the longevity swap attached to a drawdown route and would you be white-labeling that or would you start your own drawdown product? And then the third question was in terms of the margins for this financial year, are you going to be allocating more than 25 percent for the lifetime stock for the full year or are you going to keep the 25 and put the rest in the [inaudible]?

Rodney Cook: Right, thank you Greig. So I will do a quick comment on product development and David Cooper, our marketing and distribution director will

cover your points on distribution and then Simon if you can comment on expectations with respect to margins and what these cost changes will mean.

So the critical point we would want to make Greig is although the actual product developments we've got in mind the clearly commercially sensitive, what we absolutely wish to bring to bear in the market is our combination of skills, which is underwriting people individually to ensure that they get the right level of income appropriate for their lifestyle and medical conditions and of course that clearly passes through to the cost that they should be charged to ensure that they never run out of money in retirement.

The second one is of course both our capital and our unique combination of yield-enhancing mortgages which we bring to bear to create a more competitive and fairer return for those customers combined with their individual underwriting.

What I think we want to take advantage of is the Chancellor's promise that he's going to alter the rules so that we can offer very flexible income streams. When we talk to customers and to advisors, most customers in their 60s and 70s tell us that they do not want to run out of income later in life and become a burden on their children. They are wary of the share market and being completely exposed there.

And very clearly they've got good reason too because some of them have lived through the period 2008 and 2010 when they've been consuming capital after the market has gone done. As you know, the U.K. market is still not up to the level it was in 2007.

So I can very clearly understand that. What they do say of course is hey we would have liked a bigger income early in life because we're healthy enough to travel and enjoy ourselves and then perhaps we could take a lower income but also we suspect that later in life we'd like our incomes to go back up in order to afford some in-home care or other such needs without becoming a burden on the children.

So without saying whether we would white label our skills, clearly we believe that we can bring those particular factors to make some very attractive customer propositions. And just for the avoidance of doubt, our fixed term annuity, not just the fixed term annuity for one-year but the one for all of the other periods is actually a draw down product. So, Greig we already have got draw-down products.

So, David, distribution.

David Cooper: Yes, thanks, Rodney. Hi, Greig. I think our distribution will dovetail pretty much neatly with Rodney's answer on the product propositions. I can't say too much right now for three reasons. One is it is early days. Two, obviously some of the distribution discussions are commercially sensitive.

But what I can say is that from the distribution conversations we've had, and if you remember from our distribution overview that we've provided before, we got significant distribution with around 20 groups, which includes financial intermediaries and non-intermediaries. Virtually without exception all of them want to adapt their distribution capabilities to enable them to help more customers post-April '15.

And I think the common theme is that none of them, including the life companies that we have partnerships with want to see customers walking away with cash without that being the right thing for them to do. So, we're working very closely with them to enable them to address the needs of more their customers whether that's from a fully-advised basis or non-advised basis.

Greig Paterson: All right, thanks. And then just the percentage of lifetime mortgages allocated to new business?

Simon Thomas: Yes, Greig, generally on margins obviously and earnings we're not giving guidance at this point because this a new business results we're talking about. But we fully expect that analysts will factor in the consequences of the low sales coming through for the new business profitability and indeed I think I've seen some of you guys have already done that.

In terms of margins, obviously we need to eliminate the excess capacity and we're taking the steps to do that. And it will be very interesting to see whether or not there will be a change in -- whether the change in volumes will affect competitor behavior. Haven't seen much of that yet but that clearly could happen.

On the 25 percent point, you've seen that we've written a substantial amount of mortgages with a discount in the bulk case, but I would suggest that for this year it might be slightly higher than 25 percent that we take into the new business profitability, particularly because of course we've been writing some DB schemes and the bigger DB schemes actually match particularly well with the cash flows and (anything) from the mortgages themselves, so that's quite helpful.

But in terms of absolute margin, Greig, I don't think we can give you much clarity on that at the moment because the picture simply isn't very clear.

Greig Paterson: Is it – and I put another way. What is your excess stock of lifetime mortgages that you currently sitting in your – parking in your shareholders' funds that could be allocated? Is it low or would you have substantial or?

Shayne Deighton: Greig, I'll try that. It's Shayne. The reality is that we don't divide according to individual mortgages. We look at individual mortgage cash flows. So we work out the most efficient allocation or cash flows between bonds and mortgages against the in force liabilities from the annuities and DB.

So each mortgage is partly in and partly out, that makes it difficult to give a precise answer to that question.

Greig Paterson: I'm just trying to figure out, can you carry on writing at 45 percent of sales without distorting the income investment return on the…

Simon Thomas: Ah, so that's two important things. You should park the group deal, the £60 million completely. Because that has more of a bond profile rather than a mortgage profile. Just to explain, the average age of those customers is 10 years higher than our typical mortgage customer who would be age 70.

These are on average age 80, so the mortgage cash flows we're expecting there are completely different and more like maturing bond portfolios so much shorter. Shayne, is it about £19 million on the balance for the quarter that --

Shayne Deighton: Yes

Simon Thomas: So, Greig about, if you use the 25 percent, it's a mere £19 million of extra mortgages of the 25 percent so no that's effectively trivial in the scheme of seven -- we have over £7 billion of liabilities so we don't see £19 million as being neither here nor there.

Greig Paterson: OK, perfect. Thank you.

Rodney Cook: Thank you, operator.

Operator: And your next question comes from the line of Oliver Steele from DB. Please ask your question.

Oliver Steele: Morning everyone. Two questions actually to start with. The first is I wonder if you could actually break down the 50 percent fall in sales individual annuity sales that you've seen in admitted [inaudible] over a very short period.

But I guess what I'm trying to understand is to what extent this might be seen as a continuing number while there's some distributors who've basically just cease selling all together and who might never come back in. And is there any sense you've got perhaps of what the mainstream distributors are actually doing within that 50 percent? That's the first question.

The second question is, as I understand it, the £14 million of cost savings that you're aiming to achieve would -- all other things being equal return your margin back to the 4 percent or slightly above 4 percent level? Am I right in understanding that and if not, why what?

Rodney Cook: OK, so if I could just make a short comment. On the 19th of March, we had a pipeline of around 78 million and two important factors. Firstly, we were better placed than the large insurers who have, if you like, a direct

correspondence relationship with their customers via you know the pension packs because all of our business had an intermediary of one form or another.

So what we were able to do on the 19th of March was suspend processing of all business immediately and require the intermediary to talk to their customer. And the good news is that the vast majority of those customers, when fully informed by someone, either face to face or on the telephone, of their options, more than 70 percent of the business completed. In other words, people did not choose to take the cash.

The other -- and that's in terms of premiums. A good 10 percent canceled immediately and they were all connected to minimum income guarantee. So, in other words, these were customers who were seeking to satisfy the £20,000 income requirements under [inaudible] drawdown and quite naturally since that that was changing on the 27th of March to £12,000, it was the right advice for all of those customers to cease that contract and perhaps later on reestablish it at the £12,000 level.

So what we read from that is that the 50 percent fall off that we're observing in actual business is largely driven by not a change in decision-making overtaking guaranteed incomes, but because of deferral.

So there's very significant amounts of deferral for customers who cannot afford to defer but what we also clearly read from that and from further discussions with intermediaries is that when a customer is properly briefed, a large proportion of them and certainly more than 50 percent of them are interested in taking a guaranteed income for life.

So that's why we're keen to develop new propositions that will meet that significant need.

Oliver, you're absolutely right. Different intermediaries have reacted completely differently. David, we've had some that have suspended their services completely waiting to develop the new guidance. Can you comment on that?

David Cooper: Yes, I can. Hi Oliver. Three – I think it's three areas that I'd just like to quickly draw your attention to in this.

Out of the primary financial intermediary landscape that we work with, the bulk of the nationals and specialists, i.e., the ones geared up for material volume either annuity on its own or with other products in some cases, have suffered the least.

So that would suggested that their compliance teams and marketing teams in fact were mobilized quickly and where an annuity was always appropriate it still is for those distribution channels. So they have fallen by much less than 50 percent.

There are one or two exceptions that Rodney just mentioned, which were sizable firms in our top 20, which have temporarily stopped transacting annuity business. Both of those have confirmed to us that they intend to return once they have decided the most appropriate way of reengineering their proposition.

And then the third bucket is the mass market of small advise, referring to intermediaries that are commonly under the umbrellas of networks and marketing groups. Here we see a very mixed picture with some IFAs almost ambivalent to the change and are working through it. If it's right for a customer before 19th of March, it still is, through to I'm really not sure what to do until I get clarity and maybe some help because I only write five annuities a year.

I would suggest to those people that they defer. We're working with them as far as we possibly can - remember there are thousands of individuals in that segment - to get the right messages to them. So they understand when taking and annuity is the right thing to do and when deferring or even in cashing under £30,000 is the right thing to do.

So it's a mixed bag, but you're correct. We see modest upside in working with the current status quo to bring on those closed or get the smaller ones that were uncertain more comfortable.

Rodney Cook: Margins?

Simon Thomas: Yes, Oliver. In relation to the £14 million and how we calculated the cost-reduction, you're right it was targeted effectively to take out an amount broadly equivalent to the lost allowances caused by the changes in our new business going forward or expected changes.

So it was taken in light of the combination of the expected fall in the annuity business, the individual annuity business, offset partially by the expectations from our lifetime mortgage business where things are frankly going very, very strongly and also offset by the expectations of growth in our DB, our book business, which again, as you've seen in the results, is coming through quite nicely.

So, overall, the idea was to protect the new business margins effectively going forward by taking out an equivalent amount of allowances.

Rodney Cook: Oliver, our intention is to monitor our cost base into the new year very closely. And we will seek to take action where appropriate.

Oliver Steele: Thank you very much.

Operator: Your next question comes from the line of Greig Paterson. Please ask your question.

Greig Paterson: Just a clarification on the margin point. Did you say that you have seen either more aggressive competition in terms of pricing or less aggressive competition in terms of pricing? With the former, is that people chasing budgets and bonus levels so that they're more aggressive, in the latter that some people giving up and leaving you, you're saying that basically we haven't seen any movement in the competitive environment yet.

Simon Thomas: Yes, Hi Greig. Remarkably, little change actually in pricing over the last few weeks. I'm not sure whether this reflects a bit of a period of reflection on the structural changes that we're seeing or the view from people, the current margins and pricing are appropriate.

There's been a little bit of movement that appears to be driven by yield changes but nothing significant, frankly. One thing I will say is that in terms of our lifetime mortgages, we've taken action to slow the volume of business coming through and – you know to manage our volumes back to the 25 percent level and clearly that has had a beneficial and will have a beneficial impact on our margins on that product. But on the annuity market, I'd say remarkably little change.

Greig Paterson: I wonder if you can update us on where you think the debate is or the consultation process or where the free – the right to free guidance is going to end up? Resolution made some comments about that they thought there would be a light touch independent guidance but then they would get their hands on the clients and they would give their own version of the guidance in a more detail. I mean, can you just tell us where we are in terms of what the government is thinking or the debates going on internally within the Government and the industry?

Rodney Cook: An excellent question and I think in my opening remarks I hinted at how critical it is, especially for the Government's reputation and that of the Chancellor not to allow any chance for mis-selling but also a future scandal.

All analysts will remember the previous conservative government allowing everyone the freedoms to transfer out of corporate pension schemes into personal pension schemes only for the regulator to unwind all of that within a decade at great cost to the industry and to the financial advisory community.

And clearly here the Chancellor is seeking to protect himself from a similar scandal by saying at the point of retirement, everybody's entitled to and should receive some sort of appropriate guidance. I think it's absolutely critical to remind ourselves that he has actually made the retirement decision process much more complex.

We now having timing issues to consider and also we have tax issues. So very clearly if you started an income, any time during an income year, your monthly payments would have had very little impact on your taxable income, but any customer taking the £30,000 trivial amount and adding it onto their

income from employment in the year that they retire is going to find that they're going to lose somewhere between 20 and 40 percent of all of their life savings through pension, so I think it's right for the Chancellor to establish a regime.

Now, importantly the regime is being established by the FCA, which is an independent body reportable to Parliament. And they will be seeking, and we are working with them along with the ABI.

Interestingly, Greig, some of the big insurers say they don't want to be involved in the provision of the guidance because anything that goes wrong it will be on their heads. But also at the same time some of the big insurers say well these are our pension customers and we want to look after them.

I hope it's not a surprise that we at Just Retirement believe that the words unbiased or impartial or independent are fairly critical.

We would find it difficult to see how the current pension provider can provide that but clearly the Government also want to have sufficient access to the services and there are after all 400,000 plus people requiring it every year. So it needs to be sufficiently available, otherwise, the whole process will fall down.

Unfortunately the FCA has made it abundantly clear that our industry has to reform because the public FCA document said that people who did not shop around and that was more than six out of ten suffered financial detriment in a very large proportion of cases by staying with their current provider.

So, I think Greig, it's more important that you ask those questions of the large insurers who are effectively the subject of that FCA comment as to whether or not the service they provide can be seen as unbiased and independent.

Greig Paterson: So it's all up in the air? Nothing has been decided, it's for debate.

Rodney Cook: That's right and the regulator has until April to design the service. But as I said, there will have to be a number of participants in the market. Because

how else are you going to make available to 400,000 or 500,000 people a service of any type.

I believe, as my comment said, if we can trust the Chancellor to deliver on his promise, which after all he made in writing and in the Parliament, that this service would be available, then we at Just Retirement believe that that might mean a larger proportion of retirement customers would be accessible to us or they would have a chance to hear about our products and propositions and not just hear about the offering from their current pension provider.

It's also good to remember that this is not just an insurance industry point, because the Chancellor is seeking for this to apply in the corporate arena in trust-based employment schemes, not just personal pensions.

So that's another area where today, the offerings that we might have in the market wouldn't be well known to those retiring customers.

Greig Paterson: Thanks. So tell me your one year -- last question – one your term product was launched, what, two weeks ago. How has the sales been in that? Has it been good? It's a good launch, bad launch?

Rodney Cook: Definitely good interest. David?

David Cooper: Greig, yes, we've had a fair amount of interest from intermediaries, it's all advisors as Rodney said earlier. We've had a reasonable level of quotes and I think at level of conversion we are happy with - it's not going to really change the game but it's definitely helping some IFAs help some of their customers.

Greig Paterson: And you said that's got a drawndown capacity. Let's assume that you wanted to provide an equity-based drawn down product to some longevity overlay. Can you just switch the asset allocation to equities? Has the IT got that functionality?

David Cooper: No, not at the moment. But what we have got is the fundamental ability to write drawdown contracts from a legal and compliance perspective. We would need to do some work on systems to adding in an equity component but that is clearly something that we would be looking at.

Rodney Cook: So my subtle point there, Greig, was that all of our fixed-term annuities are written under the drawndown legislation, not under the annuity rules and legislation currently. And that is why at the end of the period of any of the fixed term annuities we offer the customer the open market option again where if it was a lifetime annuity, then you don't have to offer that.

One just before the next question. I think everyone should be mindful that our Government and a number of other bodies have referred to Australia as a real shining model of freedom in retirement.

I think you'll all be interested to know that Australian government and the superannuation industry there has now launched an inquiry into the fundamental failure of the industry in Australia to provide protection against longevity and to provide proper income streams of certainty.

So, David Murray, a previous Chief Executive of the Commonwealth Bank, at that time, the largest bank in Australia, has been appointed by the government to work with the industry to formulate a whole new range of products which will protect Australian retirees from outliving their money and to deal with the substantial volatility that they've suffered where under a non-income regime, people have consumed their capital in market downturns.

It's very enlightening to see that shining model seeking to build the very products and propositions that we will clearly want to have still in the U.K. And I'm still minded by the comment by the Treasury that they only expected the long-term annuity business to go down 30 percent so even Treasury's assumptions are somewhat different than some of the initial quotes of 90 percent falls and so on back in March.

Greig Paterson: Thanks very much.

Operator: Your next question comes from the line of Oliver Steele from DB. Please ask your question.

Oliver Steele: One more question, which is you're obviously looking to maintain the distribution of long-term mortgages.

But without the same degree of annuity flows coming in, I'm wondering why some of your distribution partners those mortgages wouldn't just go somewhere else. Is that a reasonable fear to have and what percentage of your mortgages are effectively sourced through other parties?

Rodney Cook: Well, David will give you the split. Clearly, we have a distribution division within our company called Just Retirement Solutions, which acts as the distributor for a panel including ourselves for very large partners under their brand.

The important point to make analysts aware of is that the securitization markets and the alternative funding markets are starting to finally reopen..

And the governor of the bank of England has indicated a very strong desire to work with European colleagues to enable securitization of appropriate financial instruments to very quickly return as part of the financial landscape in the U.K.

Now we believe as a major writer of these mortgages that we can partner with other investors and fund managers to have additional sources of money for lending into this critical part of the market which is actually growing, Oliver. It's a bit peculiar indeed. We see the future of this as being very attractive.

Let's take a scenario that the Chancellor's freedoms enables more people perhaps to cash in and consume their pension assets earlier in life, then very clearly later in their 70s and early 80s their only remaining asset that they can create an income from will be their properties. And so we see future demand here as being very attractive and growing.

Therefore, our intention is over the next 12 months to work with alternate partners and joint venture to have a continuing income stream to fund these mortgages.

David, our distributive partners?

David Cooper: Yes, our partnerships with major brands that we run through Just Retirement Solutions generate around 25 percent of the business. [inaudible] another 25 percent is represented by further advances for existing customers and then the remaining 50 percent is through financial intermediaries.

Oliver Steele: Thank you.

Operator: Thank you very much. There are no further questions at this time. Please continue.

Rodney Cook: Just to clarify another point on that for Oliver, I'm not sure where else those distribution people will go to to get their mortgages provided for them because the bank business model of borrowing short and lending long was proven to be unattractive, and clearly the patient capital that is available from the secure income market which we currently refer to as annuities is clearly a very good match to the liability structure of the lifetime mortgages.

Operator, are there any other questions?

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

Rodney Cook: So just if I can wrap up and then I'll check again if there are any further questions. Clearly, we would have liked to have been sharing with you today a very solid set of Q3 results for us.

Admittedly our Q3 a year ago was low for the reason we shared with you back then, but also you'll see some very attractive nine-month performance and of course the comparator from the previous year included our record quarters in the second half of 2012.

The fact that we've achieved a corresponding level of total sales and significant increase in lifetime mortgages and of course the growing new entry into defined benefit de-risking which we will apply a lot more effort to.

We have picked up the senior pricing actually from Aviva after they closed their defined benefit de-risking team last year and so that wasn't connected

with the budget announcement but we were seeking to continue and we will continue to grow that team.

And we see that market as quite attractive. As we said in our prospectus we expect that to be in the order of £1 billion to £1.5 billion a year of schemes that are around an attractive size for us that's £100 million or around the £100 million mark and less and we will put more effort into that space.

Clearly the events of the 19th of March have been significant for all of us. My critical points were that the drop-off to 50 percent is not based solely on customers' decision making but clearly also on very substantial deferral.

Indeed, although David didn't mention it, he might be able to give you some sense of the fact that we're still writing a reasonable volume of annuities under £30,000. So I appreciate some people thought OK well that means every single person with £30,000 is going to take it in cash and blow it.

Clearly when they replies that the tax consequences, they realize that they don't want the Chancellor to trouser 30 percent of their savings. So we still see guaranteed incomes as appropriate even for amounts within that 0 to 30,000 range.

Clearly, the very large accounts had the financial wherewithal to defer and what we want to do is to be in a position to offer them attractive alternate and flexible propositions from next April. And the other critical thing to point out is that in the past we haven't had to market the concept of guaranteed incomes against the drawdown concept because the regulatory environment and the way people did things in the U.K. aligned to create a ready market.

What we will be doing with financial advisors is to point out how attractive a guaranteed income linked to your longevity becomes around your middle 70s.

So at the very time when you're less confident about investing in the markets, an annuity will be a very attractive proposition and probably can outperform most drawdown funds at that age. So we might a new – a completely new customer base to deal with.

So before I sign off the call, operator, are there any last questions?

Operator: You have no last questions at this time, sir. Please continue.

Rodney Cook: OK, well thank you very much everybody. And we look forward to speaking again.

Operator: Ladies and gentlemen, that does conclude our conference call. Thank you all for your participation. You may now disconnect. Speakers, please standby

END