AIA Group Limited 2021 Annual Results

Analyst Briefing Presentation – Transcript

11 March 2022

Lee Yuan Siong, Group Chief Executive and President:

Good morning from Hong Kong and welcome to our 2021 annual results presentation. I hope that you are staying safe and well. I am incredibly proud of how AIA's employees, agents and partners have responded with dedication and care for our customers during the ongoing pandemic while delivering strong financial results for our shareholders.

Today's announcement demonstrates AIA's unique ability to deliver VONB, earnings and cash. We have achieved growth in all of our key financial metrics. We increased our dividend for the year by 8 per cent. And we have demonstrated our ongoing commitment to shareholder value through a 10 billion US dollar buy-back. Let me now take you through the highlights.

VONB increased by 18 per cent to more than 3.3 billion dollars. Our large and growing in-force portfolio supported further growth in operating profit after tax and underlying free surplus generation with both exceeding 6.4 billion in 2021. Our financial position is very strong with Free Surplus of 24.8 billion dollars on a pro forma basis. EV Equity of 75 billion dollars and shareholders' allocated equity of 52.1 billion both reached record highs. The Board has recommended an 8 per cent increase in the final dividend, bringing the total dividend for 2021 to 146 Hong Kong cents per share. As a result of our very strong financial position, the Board has also approved a share buy-back of 10 billion dollars. This will enhance shareholder returns while retaining the financial flexibility to invest capital in the significant growth opportunities available to us.

Our track record of performance reflects the resilience of our operating model, the quality of our people and our commitment to shareholder value creation. In 2021, all of our reportable segments delivered VONB growth and VONB for the Group outside Hong Kong exceeded pre-pandemic levels. AIA China grew by 10 per cent reflecting the strength of our differentiated Premier Agency strategy and was once again the largest contributor to the Group's VONB. Strong demand from domestic customers drove an excellent result from AIA Hong Kong with 37 per cent growth. AIA Thailand achieved exceptional growth of 34 per cent with strong performances across all distribution channels. Our focus on scaling the capacity of our Premier Agency and close collaboration with Public Bank drove 26 per cent growth in Malaysia. AIA Singapore delivered 6 per cent growth while Other Markets saw strong first half growth offset by a return of temporary containment measures in the second half. A key highlight was India where we maintained our industry leading position in the pure retail protection market and achieved strong growth across distribution channels. We have achieved a very strong and broad-based performance across the Group, demonstrating our scale and diversified business portfolio across Asia.

At the heart of our ambitious growth strategy is a step change in the use of technology, digital and analytics. We are clearly outpacing the global financial services industry with more than 70 per cent of the Group's infrastructure now hosted in the cloud. Close to 60 per cent of all transactions across the Group are fully automated from end to end with no need for human intervention supporting greater efficiency, faster turnaround times and leading customer service.

In 2021, we have advanced our use of AI and analytics with more than one hundred major projects delivered across the Group, transforming processes throughout the organisation. Our customer-centric platforms are designed to deliver more personalised and consistent service while driving higher customer engagement and retention. Nearly all new policies are issued digitally with e-payments and, in 7 of our markets, we now pay 100 per cent of claims digitally. As you can see, our TDA transformation is achieving strong results for our customers, agents and partners.

The Group's strong VONB growth in 2021 was led by an excellent performance from our Premier Agency, up 20 per cent and contributing more than 80 per cent of total VONB. Our powerful digital agency platforms span the entire value chain from recruitment and training to lead generation, purchase and customer service. Integrating social media marketing into our digital tools has created new and compelling ways for agents to engage customers, generating over 2 million new leads and a material contribution to our sales. We have built our unparalleled agency platform over many years and its superior quality is clear. Productivity, MDRT members and agency leaders all increased significantly in 2021 and our cutting-edge digital tools support the provision of high-quality advice as we elevate our standards ever higher.

The strength of our differentiated Premier Agency model stands out in Mainland China, where we have delivered substantial productivity improvements and higher agent incomes in 2021. Universal adoption of our advanced digital platforms drives higher productivity and efficiency, enabling faster scaling of our new operations while ensuring our strict quality standards are maintained. Our successful model, focused on long-term professional careers, delivers attractive income levels for agents, drawing high-quality talent to AIA. While the market as a whole experienced headwinds in 2021, AIA China generated a significant increase in new recruits in the second half, successfully growing agent numbers.

Since our subsidiarisation in July 2020, our expansion into new geographies has been advancing at pace. We launched our Sichuan operation in March 2021 within just four months of receiving initial approval from the CBIRC and we have opened our newest branch in Hubei, the 8th largest province by GDP. I am also very pleased that the CBIRC has recently granted us approval to upgrade our operations in Tianjin and Shijiazhuang, enabling us to expand our presence through additional sales offices. We are making excellent progress as we replicate our highly successful expansion model, which delivered 74 percent growth across our new operations in 2021.

AIA has the scale, ambition and financial strength to invest in additional growth opportunities to accelerate our strategy. Last July we launched our 15-year exclusive partnership with The Bank of East Asia in Hong Kong and Mainland China, extending AIA's leading position in the Greater Bay Area. Our acquisition of Blue Cross advances our health and wellness strategy in Hong Kong and deepens our exclusive partnership with BEA by adding new AIA products. In January 2022, we completed the Group's investment in China Post Life, further increasing our exposure to the enormous growth opportunities in the Chinese life insurance market. Our team of experts is already in Beijing, helping to support CPL as they advance their strategic priorities and bring financial protection to the under-penetrated mass market in China. Separately, AIA China has signed a distribution agreement with Postal Savings Bank that covers our current geographical footprint which we will begin launching in the second quarter of this year. We also recently announced Amplify Health, our new digital Health InsurTech business.

This is the right time for AIA to play a leading role in transforming healthcare delivery across the region. Amplify Health accelerates AIA's Health & Wellness strategy and positions the Group to capture significant new opportunities from Asia's rapidly growing health market. Total health expenditure is expected to exceed 4 trillion dollars across our markets in 2030. The unprecedented combination of accelerated digital adoption, new advancements in HealthTech and significant unmet consumer demand underpin the tremendous strategic potential for Amplify Health.

This is the natural next step in AIA's journey from payor to partner. We are leveraging the powerful combination of AIA's strong brand, unrivalled distribution platform and execution capabilities with Discovery's proven technology, and more than three decades of health and wellness IP which Amplify Health will own across Asia. Our vision is to transform how individuals, corporates, payors, and providers experience health insurance and healthcare delivery, improving outcomes for patients and communities. I am confident that Amplify Health will provide yet another key competitive advantage for AIA, helping us to grow new business value and deliver financial benefits.

As the largest pan-Asian life and health insurer, we have a vital role to play in addressing material ESG issues to safeguard a better future for the societies in which we operate. The long-term nature of our products places sustainability at the forefront of what we do each and every day. We have committed to achieving net-zero greenhouse gas emissions by 2050, importantly we are working with the Science Based Targets initiative, to set ambitious emissions reduction targets using the latest climate science. Critical to this ambition is the sustainable deployment of our investment portfolio and I am proud that we have fully divested from coal, seven years ahead of schedule.

AIA's industry leadership and the progress we have made in a number of areas, including corporate governance, human capital and risk management, has earned us global recognition. As we support the transition to a better, more sustainable future, I am confident that there is much more we can do while helping millions more people live Healthier, Longer, Better Lives.

Garth will now take you through the details of our financial performance and our capital management plans.

Garth Jones, Group Chief Financial Officer:

Thanks Yuan Siong, and good morning everyone.

In 2021, AIA has delivered a very strong and broad-based financial performance with growth across all our key financial metrics demonstrating our financial discipline and the power of AIA's unique business model that enables us to capture the immense growth opportunities across Asia and deliver superior shareholder value. Let me now take you through the results in more detail.

In 2021 the Group delivered very strong VONB growth of 18 per cent to more than 3.3 billion dollars. AIA China grew by 10 per cent, reflecting the strength of our differentiated Premier Agency strategy, which supported an increase in agent activity, productivity and incomes. Traditional protection products accounted for the majority of AIA China's VONB, with a regulatory change that took effect in February accelerating demand and weighting VONB more heavily towards the first quarter.

AIA Hong Kong grew by 37 per cent. This impressive growth came from our domestic customer segment supported by a higher margin with very strong performances in both our market-leading agency and our bancassurance channels. AIA Thailand also delivered across all channels, producing exceptional growth of 34 per cent, supported by our proactive shift in product mix to protection focused unit-linked products that drove a substantial increase in VONB margin. In Singapore, restrictions on in-branch meetings and international travel affected the bancassurance channel. However the adoption of digital tools helped agency deliver double-digit growth in sales and 6 per cent VONB growth overall. AIA Malaysia delivered excellent growth of 26 per cent, supported by strong results from both agency and bancassurance. VONB for Other Markets increased in 2021 as double-digit growth in the first half was moderated due to strict pandemic containment measures in the latter part of the year.

All of our reportable segments grew on a comparable basis and VONB for the Group outside Hong Kong exceeded pre-pandemic levels. We actively assess product dynamics to deploy capital based on the ability to create value for shareholders over the long term.

Strong growth was supported by an increase in VONB margin of 6.7 percentage points to 59.3 per cent as a result of a positive shift in product mix, higher government bond yields and a reduction in acquisition expense overruns. Protection business accounted for 57 per cent of VONB while the share from unit-linked products increased to 14 per cent following the successful launch of new products in Thailand. PVNBP margin also increased to 10 per cent overall. These results demonstrate the high quality of our product portfolio, a key differentiator for AIA and a major factor in our confidence in the sustainability and resilience of the Group's future performance.

EV Equity increased by 16 per cent before shareholder dividends to a record high of 77.1 billion dollars. Very strong VONB growth and positive operating variances of 437 million dollars supported an increase in EV operating profit to 7.9 billion. Non-operating items added a further 2.0 billion in total, including 1.3 billion from positive capital market movements compared with our prudent basis. Closing EV Equity is shown after a further deduction of 4.4 billion dollars for additional capital and reserves and the present value of future unallocated Group Office expenses.

AIA's strong track record of positive operating experience demonstrates the prudence in our embedded value assumptions and the quality of our in-force business. We continued to benefit from favourable mortality and morbidity claims experience, which reverted to more normalised levels following unusually low medical claims in 2020 as a result of the pandemic. Expenses were broadly in line with assumptions while Persistency and Other Variances were positive. Overall, operating variances have added more than 3.6 billion dollars to EV since our IPO.

Our EV methodology uses spot market yields and trends over time to our long-term assumptions which aim to smooth out short-term volatility in markets. While AIA is not immune to capital market movements, you can see from the sensitivities that our financial results remain resilient against short-term market volatility. Higher yields have a positive impact on our earnings and cashflow while this is offset in the EV sensitivities shown by a corresponding increase in risk discount rates. We have a substantial allowance for risk in our discount rates including a risk premium of more than 500 basis points for the Group consistent with the levels used since IPO. You can see from the chart on the right that our assumptions have remained prudent over time.

Now moving to IFRS earnings.

The Group's operating profit after tax increased by 6 per cent to 6.4 billion dollars underpinned by our high-quality sources of earnings and proactive management of our growing in-force portfolio.

Underlying OPAT growth was 9 per cent adjusting for withholding tax in China and normalising for the exceptional claims experience during the pandemic.

AIA Hong Kong grew by 4 per cent and exceeded 2.1 billion dollars. AIA China also increased by 4 per cent as underlying business growth was offset by withholding tax and exceptional medical claims. Excluding these items, OPAT grew by 10 per cent. Singapore and Malaysia delivered very strong growth of 13 per cent and 17 per cent while Thailand was broadly stable. Other Markets increased by 10 per cent as growth from our in-force portfolio was partially offset by increased mortality claims. As with VONB, our OPAT is well diversified across markets, with the four segments mainly covering South East Asia producing 44 per cent of the Group total. Our earnings are also diversified by source with insurance and fee-based profits accounting for close to 60 per cent.

Shareholders' allocated equity provides a clearer reflection of the underlying drivers of the change in equity, before the IFRS accounting treatment of bonds. Since IPO, shareholders' allocated equity has increased by more than 10 per cent per annum compound to 52.1 billion dollars and this is after dividend payments of 13 billion to shareholders. As you can see, cumulative net profit over time is very close to operating profit which has added around 47 billion dollars to shareholders' equity demonstrating our focus on long term profitable growth.

As you are aware, we will adopt IFRS 17 in our Group financial statements from 1 January 2023. We will continue to report OPAT and shareholders allocated equity measures under IFRS 17. The change in accounting standards does not affect the underlying economics of our business and consequently we expect no material change to our embedded value, cashflow or solvency metrics. We are highly advanced in our preparations, including systems and operations and we will provide you with further details later this year.

Finally, capital and dividends.

Maintaining a strong and resilient solvency position is fundamental to any insurance business. The LCSM is the Group's principal regulatory solvency measure taking a fully consolidated view of local business requirements. Our Cover Ratio increased to a very strong 399 per cent at the end of 2021. As usual we provide a reconciliation between LCSM Surplus and Free Surplus in the Appendix. The sensitivity of our LCSM cover ratio to both equity and interest rate movements is small, reflecting the resilience of our balance sheet and high-quality risk management.

Free surplus after adjustment for acquisitions increased by more than 8 billion dollars in 2021, before the payment of shareholder dividends. Underlying free surplus generation increased by 8 per cent to 6.5 billion dollars. We reinvested a further 1.7 billion in growing our new business and also committed 2.4 billion to inorganic opportunities through our investments in China Post Life and the BEA partnership. Non-operating items increased free surplus by 4.0 billion, mainly from positive interest rate movements. Overall, free surplus increased to 17.0 billion dollars after the payment of shareholder dividends of 2.1 billion.

In 2021, we received clarity on three critical areas relating to regulatory capital. The first was the new Group-Wide Supervision framework. The second was the technical specifications for the new Risk-based Capital Basis that applies to our local Hong Kong business. While this is expected to take effect from 2024, AIA has applied for early adoption. And subject to regulatory approval, we expect to apply the new basis from the beginning of 2022. Finally, C-ROSS II in Mainland China became effective from the first quarter. AIA China remains financially very strong under the new regime with no material changes to either EV or VONB as a result.

Together, these developments mean that the regulatory solvency for our key businesses will now be risk-based and more closely aligned to the economics of how we manage our business while providing greater clarity on the Group's capital position.

On this slide, we show the pro forma effect of the move to Hong Kong RBC on the Group's financial metrics. Free Surplus increases by 7.8 billion as our liabilities are now calculated on a best estimate basis while our Required Capital increases by 2.8 billion dollars as we move to an explicit allowance for risk. The Group's Adjusted Net Worth increases by 10.6 billion dollars, being the sum of free surplus and required capital. Value of In-Force reduces by 7.4 billion as the reduction in liabilities accelerates future distributable earnings into free surplus. This means that underlying free surplus generation will reduce by around 500 million dollars in 2022 but lower new business strain in Hong Kong is expected to partly offset this. We do not expect a material change to the VONB because of the short payback periods in Hong Kong and the RBC regime has no impact on IFRS metrics. Overall, our embedded value increases by 3.3 billion dollars on a pro forma basis at 31 December 2021.

At the interim results, I said that we would come back and provide an update on our capital management plans. We follow a robust internal capital management framework. Backed by our financial discipline, our unwavering focus on profitable growth has delivered substantial free surplus generation. We look to return capital to shareholders that is surplus to our needs while retaining sufficient financial flexibility to capture our huge growth opportunities and pay prudent, sustainable and progressive dividends for shareholders. We believe that AIA's ability to deliver across growth, earnings and cash sets us apart from our competitors.

Our ongoing financial discipline has delivered growing in-force cash generation and a very strong balance sheet. On a pro forma basis, our LCSM Cover Ratio under the HK RBC regime is more than 400 per cent. We have a very strong financial strength rating with robust liquidity and diversified funding sources. A key measure for shareholders is Free Surplus, which represents shareholder capital that is available to absorb stresses and to fund future organic and inorganic growth. Over time, the increase in Free Surplus and Required Capital has broadly followed the growth in our balance sheet while our financial discipline has driven resilience providing AIA with significant financial flexibility. As you can see, AIA's financial position is very strong across all of our key measures.

With the highly attractive economics available to us, our main priority is to grow new business. Since IPO, we have delivered superior profitable growth with VONB increasing by over 5 times. Through the ongoing financial management of our business, we have steadily improved both the returns on capital and the capital efficiency of the business we are writing. Our new business investment as a percentage of VONB has reduced from 144 per cent to 51 per cent and we have consistently achieved IRRs of well over 20 per cent and with shorter payback periods. We have a high-quality and diversified product mix with virtually all of our VONB coming from traditional protection and long-term regular premium savings. And successive cohorts of profitable new business have consistently produced strong growth in earnings and cash generation over time.

We have increased the annual shareholder dividend by 4.4 times since our first dividend in 2011. And for 2021, the Board has recommended an increase of 8 per cent in the final dividend bringing the total dividend for the year to 146 Hong Kong cents per share, also up 8 per cent. The Board will continue to follow AIA's established prudent, sustainable and progressive dividend policy, allowing for future growth opportunities and the financial flexibility of the Group.

The consistent execution of our profitable growth model and our financial discipline have generated close to 55 billion of additional free surplus since IPO. While our focus continues to be on profitable organic growth, with 16 billion invested in new business, we have the financial capacity to take advantage of inorganic opportunities.

We maintain an active yet highly selective approach to identifying investments that accelerate our strategic priorities, strengthen our competitive advantages and provide us with access to new and adjacent value pools. Since IPO, over 6 billion dollars of strategic investments and partnerships helped accelerate our growth and strengthen our market-leading position. This includes 2.4 billion dollars invested in 2021, including our investment in China Post Life and our strategic bancassurance partnership with BEA. Our unique business model and financial discipline have enabled us to do all of this and pay 13.0 billion of dividends while growing Free Surplus to 24.8 billion on a pro forma basis.

The Board has approved a return of capital to shareholders of up to 10 billion over three years through a share buy-back programme. This represents accumulated capital that is surplus to our needs while retaining the financial strength and flexibility that allows AIA to continue investing in the significant opportunities available to us. We expect to commence the programme as soon as practical following this announcement. We will periodically assess the Group's ongoing capital needs as we aim to deliver sustainable and optimal returns to our shareholders.

In conclusion, the Group has produced another very strong set of results in 2021 delivering growth, earnings and cash. VONB was up by 18 per cent with growth in all of our reportable segments. We increased our dividend for the year by 8 per cent. And we have reinforced our ongoing commitment to our shareholders through a 10 billion-dollar buy-back.

Our results once again demonstrate the unique qualities of AIA. I will now hand back to Yuan Siong.

Lee Yuan Siong, Group Chief Executive:

Thank you, Garth.

AIA's 100 per cent focus on Asia and our ownership structures allow us to capture the full economics of growth for our shareholders in the world's most attractive region for life insurance. Asia's long-term prospects remain strong and resilient driving unprecedented wealth creation.

AIA has leading and differentiated businesses across markets where the middle-class population is forecast to rise to 2.6 billion by 2030. The compounding of rapid economic growth, increasing affluence, growing healthcare spend, and ageing populations generates immense potential for life, health, wellness and retirement solutions.

The COVID-19 pandemic has accelerated many of these structural trends and brought financial protection, personal health and wellness top of mind. Consumers are increasingly using digital and online capabilities in their daily lives, helping drive strong demand and engagement with our Health & Wellness propositions, including AIA Vitality. Our strategy is fully aligned with the structural drivers of growth, enabling us to build on our strong track record and deliver sustainable shareholder value.

Let me take you through how we are capturing the opportunities available to AIA on a regional basis starting with ASEAN. We see enormous growth potential for our businesses across ASEAN. AIA has a long history in this part of Asia with significant scale in each of our markets. Thailand, Singapore and Malaysia together contribute one-third of the Group's VONB. Adding Vietnam, Indonesia and the Philippines, AIA ranks number one by total ANP.

We have built a multi-channel distribution platform that is able to leverage the tremendous potential of these markets. In 2021, our Premier Agency grew VONB by more than 20 per cent and we also achieved very strong growth from our network of leading local bank partners. Thanks to our significant TDA investments, we have a modern technology platform and powerful digital and AI tools that allow us to accelerate processes throughout our business and deliver very strong results. I am confident that AIA is in prime position to build on our strengths, seize the enormous opportunities of ASEAN and deliver superior profitable growth.

India is an exceptional long-term opportunity for AIA and our joint venture with Tata has a highly focused and differentiated multi-channel distribution strategy. By 2030, India's middle-class population will double in size to more than one billion. Rising wealth and healthcare costs are driving increased life insurance demand and coverage is still very low.

Tata-AIA is the industry leader in retail protection. With a focus on quality and a highly digitalised business model, we have delivered excellent VONB growth through the pandemic. We are making strong progress in scaling our high-quality Premier Agency model in India, leveraging technology to expand geographically and we established over 100 digitally-enabled agency offices in 2021.

Complementary to our leading agency, we have a diverse partnership business including leading banks, brokers and digital platforms. Leveraging TDA, we provide seamless connectivity and a best-in-class customer experience driving our growing success across our partnerships. Tata AIA is well-positioned to capture India's massive long-term potential through our high-quality, multi-channel distribution strategy.

AIA has unrivalled capabilities to meet the growing needs for life and health insurance in Hong Kong and the Greater Bay Area. AIA Hong Kong is the number one MDRT company in the world with 29 per cent of our agents MDRT members. In 2021, we delivered growth in the number of active agents, higher productivity and increased agent incomes. We also significantly grew the number of agency leaders, expanding our capacity for future agency growth and activity management.

In Macau, sales to Mainland Chinese visitors more than doubled as a result of increased travel. AIA ranks in the top three for agency new business in the GBA cities in Guangdong province and we are the clear leader in Hong Kong and Macau.

Our new partnership with The Bank of East Asia further strengthens AIA's position in the region, and our acquisition of Blue Cross expands our healthcare ecosystem, increasing customer engagement and providing new cross-selling opportunities. The GBA offers huge potential and we have a unique advantage with 100 per cent ownership of all our operations, enabling our shareholders to fully benefit from the growth prospects of this dynamic region.

Finally, in Mainland China we remain confident in the substantial growth drivers that make this one of the most attractive markets in the world for life and health insurance. We continue to see significant potential from the expansion of middle-class consumers and unprecedented wealth creation compounded by exceptionally low insurance coverage. But you need the right business model to capture this opportunity. And AIA has the right model and the right strategy to anticipate and respond as shifting consumer preferences and regulations drive increasing demand for high-quality products backed by professional advice.

With our Premier Agency at its core, our differentiated business delivers strong and sustainable results. More than 85 per cent of our recruits are college graduates or higher. Our agents are 5 times more productive than the industry and achieve significantly higher incomes than the working population. As I said earlier, we are accelerating our geographical expansion and as we enter new provinces and deepen our presence in existing geographies, our potential target market increases five times.

High levels of digitalisation drive enhanced productivity, efficiency and scalability ensuring that our strict quality standards and leading customer experience are maintained as we expand. Our recent approvals, including successful launches in Sichuan and Hubei provinces, add more than 100 million potential new customers to AIA China with 300 million more to come from future new provincial branches. In our established geographies we have a very strong track record but have only covered just 3 per cent of our target market, there is significant headroom for further growth for AIA in Mainland China.

To summarise, we have an unrivalled platform built up over many decades and hold leading positions in the vast majority of our markets. We operate in the most attractive region in the world for life and health insurance driven by strong fundamentals. Our strategy aligns our scale, position and significant competitive advantages with these powerful drivers of growth. And as a result, we have delivered a strong and superior financial performance. AIA is in a unique position. We have the strength and financial flexibility to achieve largescale and profitable growth, generating superior and sustainable value for our shareholders with confidence.

Thank you for listening.

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