Half Year 2015 with Mark Gregory

Joe Jeffrey: I'm joined by Mark Gregory, chief financial officer for Legal & General.

So Mark, another good set of figures. What are your highlights?

Mark Gregory: Yeah, I'm very, very pleased with the financials we delivered in the first half of this year. So, at group level, net cash generation up 11 per cent, at £629m; operating profit up to three quarters of a billion pounds in the first half – that's up 18 per cent year on year; our adjusted return on equity up by 15 per cent to 9.79 pence; our return on equity up to 19.1 per cent on an annualised basis; and all this meant the Board has confidence to increase the dividend at the half year by 19 per cent at 3.45 pence.

JJ: Let's dig a bit deeper into your dividend as, again, you've announced double-digit growth.

MG: Yeah, well we do see the ordinary dividends being the primary way we look to reward our shareholders, so therefore we're always looking to make sure that the dividend reflects the progress the business is making overall. We have an existing dividend policy which is, you know, should our Solvency II surplus be no lower than Solvency I, we will look to reduce our net cash coverage of dividend down towards 1.5 times by the end of 2015.

JJ: Turning to your business divisions, Legal & General Investment Management just keeps getting bigger and bigger…

MG: Yeah, LGIM has had a very very good first half of 2015, so total assets now at LGIM: £715bn. That's up 12 per cent year on year, and, within that, total external net inflows were £13.8bn – that's up 62 per cent year on year so, you know, great growth going on within LGIM. I would call out the international success of LGIM, so we now have total international assets of £115bn in total and within that we had over £5bn of net inflows in the first half of this year, so LGIM really is going from strength to strength.

JJ: The global pension de-risking market is a massive opportunity for Legal & General Retirement. How has it performed in H1?

MG: As you say, the pension de-risking market is simply huge, so we estimate it at about $10trn of liabilities in global defined benefit pension schemes out there, so it's a potentially very, very big market indeed. In terms of how L&G Retirement's performed, we had new business bulk premiums of £1.1bn in the first half of this year, total operating profit for L&G Retirement was up 49 per cent at £280m. Our total stock now of annuity assets stands at £43.4bn – so you know, a truly big business.

And really we should think about the latent demand out there for pension de-risking, we are accelerating the implementation of our capital-lite model in simply that the sheer size of the market is large. We're also having to be mindful of the implementation of Solvency II, which will mean, almost certainly, we will have to hold more capital under Solvency II for new bulk premiums than we did under Solvency I; so really a combination of the massive demand out there and Solvency II means we are now implementing our capital-lite model for annuities.

JJ: Now, you're a big player in the UK insurance market. How's that part of the business performed in the first half of the year?

MG: Well our insurance business is a very nice business. So, operating profit up seven per cent at £192m, so good progress there again. Our total gross premiums from our UK life protection business was £774m; you couple that with the general insurance premiums received, so in total we had £938m of gross premiums received into our insurance business in the UK. So, within our general insurance business, our combined operating ratio was very healthy 82 per cent, so, again, good profitability from that bit of the business as well. So it's a very big, core part of our organisation.

JJ: Looking forward, how do you see the group performing?

MG: Well, we see a lot of growth prospects. I mean we set our stall out, we think we've identified five key macro long-term trends and our strategy is very much designed to take advantage of those trends. So we are clearly seeing good growth as we speak now, but we foresee further growth in the future.

JJ: Are there any risks out there?

MG: Well there's always lots of risks. We're an insurance company, therefore we're always mindful of the risks. I guess, from an economic perspective, you know, we worry about things like whether there's a soft or a hard landing in terms of the Chinese growth; clearly the Eurozone hasn't fully played out yet; I guess, on a pure monetary perspective, at some point we're gonna see higher interest rates around the world, and again, the effect of lower liquidity/higher rates – that needs to be handled very carefully. Politically, we've got things like the Brexit referendum here in the UK, and from a regulatory point of view we need to make sure Solvency II lands in the way we expect it to. So, there are lots of risks out there, but again, we are very clear that we have a focused strategy, that we have a nicely diversified business, we know where the growth's going to come from and that's what we're all about – execution against our strategy.

JJ: Mark, thanks for your time.

MG: Thank you.