Institutional Retirement Deep Dive - 4th December 2024

Natalie Whitty Legal & General Group PLC - Group Corporate Affairs Director

Good morning and a very warm welcome to both those of you in the room and those joining online. My name is Natalie Whitty. I am the group corporate affairs director here at L&G. Just a few housekeeping points before I hand over to Antonio.

Firstly, to those of you in the room, please make sure you have turned any devices to silent. In the event that a fire alarm sounds, our colleagues will guide you towards the exits. We do not have a drill planned this morning.

The normal forward-looking statements apply our agenda for today is summarized behind me. Antonio will begin by updating you on the latest progress on our strategy before handing to Andrew Kail, who will provide more detail on our institutional retirement business and why we win. Jeff will conclude with a look at our financial metrics and outlook before we turn to Q&A. Over to you, Antonio.

Antonio Simoes Legal & General Group PLC - Group Chief Executive Officer

Thank you, Natalie. Welcome. It's great to see everybody here. Thank you for joining us this morning. So when I spoke to you at our Capital Markets Event six months ago back in June, I set out my vision using this slide for the future of Legal and General. A vision for L&G to be a growing, simpler, more synergistic and capital, light business with three core divisions, institutional retirement, asset management, and retail.

Today we're doing a deep dive into our biggest business, institutional retirement, where we've been the leader in the market for decades. This business is not only a major driver of our group's performance, but also it plays a key role in supporting the growth strategies for other two divisions, asset management and retail.

So to give you a bit of an example for clients that move from asset management to institutional retirement, so basically clients that do a PRT deal, we see a tripling in our fee revenues in asset management. Then at the same time, we then invest our own balance sheet to strengthen our private markets business to seed new strategies.

Between institutional retirement and retail we also generate attractive cost and capital synergies by managing our institutional and our retail annuity portfolios together. So today is about institutional retirement, but we plan to run two similar deep dive sessions for asset management and retail next year.

I'll hand over to Andrew shortly, but before I do that, I wanted to give you an update on the progress we are making on our overall strategy. So since June we've been busy. We've been busy executing our strategy with a series of announcements, you can see here on this page. We have made progress across the boards and some of that progress will have an immediate impact on our numbers. You will see that on our numbers. Whilst some of the actions that we're taking are about setting the foundations for our future growth.

We have sharpened our focus on the core businesses of L&G. As you see there, we have as you know, disposed of CALA, we have added new capabilities in US real estate through our acquisition of Taurus back in October. You can see there in blue, we have launched a series of private market funds that will add 20 billion pounds in assets by 2028.

I promised a more disciplined approach to capital allocation focusing on those businesses with the strongest strategic fit and financial performance. You can see that on the axis of this chart, and therefore we created the corporate investments units with all of our non-core strategic assets. As I said, we disposed of CALA, as you know, for 1.35 billion pounds. As a reminder, that disposal generates 100 million pounds in solvency capital.

Other smaller disposals, you can see the other little kind of gray dots here, are also in progress. All of the proceeds will be used either to reinvest in new business, which has to have a return above 14% return on cash or return on capital. You can see that there on the right-hand side of the slide or alternatively, they will be used for additional capital return to shareholders. By the way, you probably know that our 200 million pound share buyback program announced in June is now complete. I also announced changes to my leadership team. Jeff as an expanded remit now also responsible for the corporate investments units. Emma, on top of her HR role, is now also responsible for the transformation office. Earlier this week we welcomed Eric Adler to L&G, welcome, Eric, to lead our asset management business which is the merger as you know of LGIM, so Legal and General Investment Management and LGC, Legal and General Capital.

Laura Mason officially took on a new role as CEO of our retail business also earlier this week. It's been a big week for us. I look forward to Katie Worgan joining L&G as our new group COO in February. I'm confident that this is now the right team to deliver our strategy.

So a few words on our three businesses. I'm excited about the prospects for our asset management business. We are investing in the business to realize its potential. We are adding new capabilities whilst improving our operational efficiency. We are seeding new funds with our own balance sheet, but importantly, we're also attracting third party investors.

This year we have launched an affordable housing fund, a build to rent fund, and a private markets access fund for DC savers. Collectively, these funds will generate 20 billion pounds in assets by 2028, importantly at an average fee margin of 50 to 90 basis points. This is clearly accretive to our seven basis points average fee margin.

In retail we have seen good workplace flows in the year to date. We've launched a new L&G app for our 5.4 million workplace DC members. Our individual annuities business has actually had an exceptional year. You can see on the slide 1.7 billion at the end of Q3, but actually this week we have just surpassed 2 billion pounds in premiums. That's a record result year to date.

This business is highly complementary to institutional retirement and both benefit from our combined scaled with pooled resources and therefore lower costs for both businesses. In UK and US protection we continue to show good performance, growing our premiums and improving our margins.

Finally, in institutional retirement, this is the focus of this morning, so we'll be talking a lot about this. We see an opportunity for more than 1 trillion PRT, 1 trillion pounds of PRT over the next decade across the UK, the US, and Canada. We are the leading global player in this market, and as Andrew will share shortly, we have a track record of success that gives me confidence in delivering the metrics that we announced back in June.

This year has been a strong year with more than 10 billion PRT deals written or exclusive year to date globally with record performance in the US and in Canada. We have written attractive business in a capital efficient way, I'm sure we'll discuss this much later, which gives us scope to return more to shareholders. Jeff will share this later during his part of the presentation.

So in summary, we have a clear strategy. We are demonstrating strong momentum that will deliver sustainable growth. We have a sharper focus on the core businesses of L&G with a disciplined approach to pricing and capital allocation. We are on track to achieve and ideally beat our Capital Markets Event targets, delivering enhanced returns for shareholders. I would like now to invite Andrew to talk you through why we win and how we create value in our institutional retirement business. Over to you, Andrew.

Andrew Kail Legal & General Group PLC - Chief Executive Officer, Institutional Retirement

Thanks, Antonio. Good morning, everybody. It's great to have this opportunity to speak to you in some detail about our institutional retirement business. So in my section of the presentation, I'll cover three areas.

Firstly, why PRT is an attractive and growing market? You've heard some of that from Antonio already. The global market remains strong and PRT is the most attractive option for sponsors and trustees. Secondly, I'll cover why are we a well positioned to win through our scale, asset sourcing, and synergistic business model. Finally, our asset manufacturing, origination, and reinsurance capabilities, which mean we have a track record of delivering strong results in all the market conditions that we face. The outlook for the market is exceptionally strong. Over the next 10 years, we see 1 trillion pounds of global market opportunity for PRT that will continue to drive growth for the institutional retirement division, but importantly for the wider group for many, many years to come. Focusing on the three active markets as of today, only 12% of the 5.3 trillion pounds market is insured across the UK, the US, and Canada.

Over the next decade, we expect to see an acceleration in this percentage insured increasing to around a third of all schemes across these regions. The scale of this opportunity increases even further when considering other countries such as the Netherlands and Japan, which are both countries we continue to explore.

So turning to the UK market, we saw a clear shift last year with record volumes being transacted. This has continued into 2024 with between 45 and 50 billion pounds being written for the second year in succession. Now looking to the future, we see a prolonged opportunity with UK volumes at this elevated level, you can see from the chart forecast over the next decade and actually beyond.

At the market shares, we anticipate delivering. This gives us confidence that the 50 to 65 billion pounds of new business volumes guidance we gave at the Capital Markets Event over the next five years is definitely achievable. Of course, it's worth remembering this is a lumpy business and we will expect some variability in these volumes due to a number of factors, especially the timing of larger deals completing. This step change in PRT market volumes has been driven by the marked increase in the funding levels of the pension schemes. As you can see on the left-hand side of the chart, in aggregate funding levels now comfortably exceed the hundred percent and this healthy position increases affordability for PRT and drives these higher expected new business volumes.

We are seeing schemes working with our asset management teams to hedge and protect these strong funding positions. This gives us confidence that these new higher business volumes are here to stay. For those schemes that are not transacting currently, we have the opportunity to look at the funding levels and work with them closely with our asset management teams to prepare them for a future PRT transaction with us.

A really important point to remember is that PRT remains the most attractive end goal for pension schemes, either as a buy out or a long-term buy-in. So why is that? Well, sponsors, the companies are able to remove a non-core and legacy liability and focus on running their core business. For trustees, they can secure their members' benefits for the long term. This fulfills their fiduciary duty. Then for members, the pensioners, they benefit from our award-winning trusted brand in client service. So for these reasons, for the vast majority of schemes, PRT remains a question of when, not if.

So, it's clear there's a fantastic market opportunity for PRT, but why do I believe we are best placed to capture it? As Antonio said, we are the leading global player in PRT and we've actually provided a unique opportunity for public market investors to access this global market.

We've written in excess of 70 billion pounds of business in the UK, more than any of our peers at a market share of over 25% in the last decade. In fact, we've been a constant presence in this market for over 35 years making us the longest serving provider. Then we've taken our expertise internationally. We are the only direct writer of PRT across the UK and the US. We have a strong and growing business in the US writing over $12 billion of volumes putting us in the top 10 US PRT writers. Great news is we will deliver record volumes there this year in Canada, which is the third-largest active PRT market behind the UK and the US, we continue to scale up. We've written our largest ever deal there of 500 million Canadian dollars this year and are well-placed for continued growth and new deal landing just yesterday.

So why do our clients choose us? We see five areas which set us apart from our peers. We're competitive on pricing. We have a strong brand, track record, and purpose. We have long-standing relationships across the business with DB clients. We see the whole market and have differentiated offerings to serve all of the market segments. Finally, we have high quality service that delivers for members. Let me take you through each of those in turn starting with competitive pricing.

Pricing is critical in this business and ultimately is a deciding factor on which an insurer is chosen. Our history of strong volumes highlights our track record for consistently providing competitive pricing to schemes, but always with an eye to ensuring we're being disciplined around margin and capital. Put simply, we don't chase business volumes. For me, our ability to deliver competitive pricing really comes down to two things, the strength of our group-wide business model, and the benefits that come from that scale.

Firstly, our business model allows us to price more efficiently. Through our asset management business we're able to deliver differentiated asset manufacturing and origination. Through retail, we derive capital savings through diversification of risks across the business.

Secondly, our scale allows us to create strong expertise in longevity, reinsurance and portfolio management. It also means we have the operational capacity to deliver a large number of deals. Finally, our model and scale come together to drive cost efficiency by sharing resources across geographies and by managing our retail and institutional annuities as one book.

Our long- standing and trusted brand is difficult for competitors to replicate. We're a household name with a proud heritage and a strong reputation. As well as being a market leader in PRT, we also have a consistent track record of being an innovator in this sector. The transactions you see on the slide with Boots, British Airways, and British Steel are really great examples of us delivering innovative, non-standard solutions for those clients. Our purpose also sets us apart. Our investment approach is impactful, productive, and responsible. Being Britain's most admired company in each of the last two years shows this gets noticed and it gets recognized. These factors put together mean that we see trustees and their advisors, they want L&G to be bidding on their business.

I've mentioned that business model a number of times, and this is a really important slide that brings this to life. We are the largest asset manager in the UK and looking specifically at the defined benefit market, we have active relationships with around 1700 pension schemes. That's a significant part of the entire market.

As a result, we see the whole market across all market segments. We have a deep understanding of pension schemes needs, which means not only can we provide tailored PRT solutions, we've been very successful in capturing this opportunity. As you can see from the slide, 84% of our volumes coming from asset management clients.

This benefit goes both ways though. PRT is an important catalyst for the growth of our asset management business. It provides committed AUM and it increases allocations to higher margin private assets, which are in support of our 85 billion pound private markets AUM target we set out at the CME. As Antonio has mentioned, we therefore typically see a three-fold increase in asset management fees when schemes move from asset management to PRT. It also accelerates investment in our private markets origination capabilities, which further underpins our PRT success.

Given the advantages that our group-wide business model brings us, then we've positioned ourselves to write business in all segments of the PRT market. Roughly two-thirds of the deals we write are with smaller schemes, being those of less than a hundred million pounds in premium. Given the recent growth in this part of the market, we continue to invest in flow, our proprietary method for processing smaller schemes, drawing on our deep understanding of those clients' needs.

We can offer immediate transactable pricing to our clients. We've standardized the process to remove complexities and improve transaction efficiency. We've built end-to-end solution, which allows clients to minimize their cost of transacting.

Moving to the other side of the spectrum for the very largest PRT deals, we continue to hone our end-game solutions on things like investment strategy and illiquid assets and important, we see all deals in this part of the market. Then finally, our customer services proposition. In particular, our in-house based teams in Hove and Cardiff, they remain one of our most significant competitive advantages.

This is crucial at a time of accelerated market activity, the emergence of mega-scheme transactions and what we see in pension scheme benefit complexity. We continue to invest and embrace new technologies in this area to improve on what's already an award-winning service. We remain a clear choice for trustees who place high value on customer care for their members over the long term.

So we've covered why there's a significant market in PRT and why I feel we are best placed to win. Turning now to what it means from a profit generation perspective and how we create sustainable value in all market conditions.

The key driver of long-term value creation in our business is the ability to generate excess investment return on the liabilities we originate. Direct investments are a major contributor to this, and particularly the 14 billion pounds or so of assets that we have manufactured or structured in-house. These generate attractive risk-adjustive yields of 50 to 150 basis points over the same rated credit. We also source assets from the open market to meet some of the scale that we require generating a yield uplift of 30 to 50 basis points, again, over the same rated credit.

We've developed bespoke origination channels. You can see from the slide and strong structuring expertise to create real competitive advantage. This includes investments we've made in areas such as lifetime mortgages and city center regeneration. Looking to the future, we already have a strong pipeline of differentiated assets. Our 4 billion pound joint venture with Oxford University, our 2 billion pound pipeline in affordable homes, and bespoke credit solutions through Pemberton.

In addition to differentiated assets origination, we remain agile by tactically exploring opportunities that arise from market movements. This agility means we can continue to write market leading volumes at strain and margin levels that are attractive to us. So when interest rates fell, we created a lifetime mortgage business to source more attractive assets.

When credit spreads widened, we invested in more traded credit. When interest rates were flat, we increased our allocations to direct investments, particularly build to rent and private credit. Now in 2024, we've complemented our direct investment allocation with a move to more guilt based strategies. This has enabled a capital efficient acquisition of PRT liabilities at healthy margins, and Jeff will cover more on this shortly.

Everything we've talked about so far, the whole of market offering, agile investment strategy, and optionality to retain risk culminates in our ability to deliver commercial success in all of the markets we see. This can be seen in how strong and resilient our business volumes have been in all those market conditions.

The global reach of our business continues to provide exciting growth opportunities, which provide optionality and diversification to our new business volumes. These business volumes drive commercial success in all markets when combined with our pricing discipline and means we generate value consistently through the cycle. This is evident from our robust operating profit of over 1 billion pounds per annum as well as a strong and growing stock of future value from writing that new business.

I think it's worth highlighting what a great year we've had in institutional retirement in 2024 and how attractive the pipeline is for 2025. In 2024, PRT volumes will exceed 10 billion pounds with over 8 billion pounds of that in the UK. We've completed four transactions of over 1 billion pounds in the second half and continue to see a regular flow of repeat business from large schemes who like working with us. Our international businesses are both on track for record years with 1.7 billion pounds or $2.2 billion transacted so far and our largest ever deal transacted in Canada.

Looking ahead, 2025 is looking even stronger. In the UK, we already have one billion pounds of exclusive business we expect a complete early in 2025 as well as an impressive pipeline of over 35 billion pounds of active deals, which we expect to transact on in the year, with no doubt more to come as the market develops. So let me summarize, this is a phenomenal business with a great market outlook and one that we as a group are incredibly well-placed to deliver on across our key markets and importantly in whatever markets we face. Jeff, over to you for the financial outlook.

Jeffrey Davies Legal & General Group PLC - Group Chief Financial Officer

Thank you Andrew, and good morning everyone. In this part of the presentation, I'm going to cover three things: how we generate long-term economic value from annuities, the strength of our track record in managing the associated risk, and year-to-date PRT volumes the associated financial metrics and implications for capital return.

Turning value creation. The way in which we generate economic value from PRT and from annuities more generally can be described in simple terms as the net spread on the assets received as premiums. This locked-in spread can be multiplied by the asset base which grows as we write new business. We can then unlock further value for the group through our expertise in optimizing the back book from management actions and from the asset management fees generated from managing our own annuity book. Over recent years, we have generated 100 to 120 basis points of operating profit and 90 to 110 basis points of OSG on open and annuity assets annually and expect this to continue. The difference between the two metrics is explained by their different economic bases, the time in a profit recognition and tax. This margin on assets reflects the steady and predictable release of value into profits and capital generation over the duration of the portfolio.

Moving now from the spread to the volume side of the equation. For ease of calculation, we show here the impact of writing 10 billion pounds of PRT a year, starting from a base of around 70 billion of institutional retirement assets. When compounded over the next five years, the book would grow by around 10% per annum. After allowing for all the movements, the in-force portfolio runs off at about 4%. This would deliver growth of 5 to 6% per annum in assets over the period. Indicatively writing 13 billion per annum consistent with the upper end of our volume guidance would see this increase to growth of around 7 to 8%.

In addition to this predictable underlying earnings, over the next five years, we see potential to generate at least one billion pounds of additional value. This comes from a number of sources. Includes the ongoing optimization of our bond portfolio, with additional upside from currently holding more gilts. Switching traded assets into direct investments and liability reinsurance. Of course, the opportunities for optimization continue beyond 2028.

So, bringing the pieces of the equation together, demonstrate the attractive value proposition of this business. We are able to lock in long-term reliable returns as we continue to write new business, grow our asset base and optimize the book. Our synergistic business model allows us to retain even more value. With the asset management fees earned from managing our own annuity book, adding a further 50 million pounds value generation per annum.

So, turning now to our track record in risk management. I want to cover off today two of the key risks for institutional retirement: credit and to a lesser extent longevity. We hedge all other market risks including interest rates, inflation and currency. So on credit, our A- rated annuity portfolio is made up of public and private credit diversified by sector and geography. Over half of the portfolio is international and just 1% of the portfolio is sub-investment grade. We carry out regular deep dives by sector and we have a compelling track record of managing the portfolio to minimize downgrades and defaults.

Our 32 billion pound direct investment portfolio is substantially government or corporate credit exposure sourced privately. Again, diversified by sector. Over two-thirds of our direct investments are A rated or better. And since 2016, we've received 99.9% of the scheduled cash flows. Property exposure is limited. A lifetime mortgage book is high quality with a loan to value of just 32% and where we have long-term rental income, our exposures to the counter party are not the underlying property. Therefore, direct property exposure constitutes just 2% of the total annuity portfolio.

So, turning to longevity risk. Since the introduction of Solvency II in 2016, we have re-insured about 90% of the longevity exposure from UK new business. Around 40% of the longevity risk in the total global annuity portfolio is now re-insured using collateralized longevity swaps. This market is buoyant with competitive pricing and we have an active and diversified panel of 19 high quality counter parties. Separately, funded re-insurance is a helpful risk and capital management tool, especially to support large transactions for which to date represents only a small portion of our total book. We have strong risk management framework in line with the PRA policies and guidance and will continue to make use of funded-re and longevity swaps where appropriate with a view to maximizing returns for shareholders. So turning now to the PRT business we've written to date in 2024. As you've already heard, we've written or are exclusive on 10.5 billion of global PRT and its expected to close in 2024 and we're an exclusive on a further one billion pounds expected to close in January of next year.

The market environment of tighter corporate credit spreads and wider gilt spreads means that we, like others, have found the use of gilts-based investment strategies more attractive for some of the business we have written this year. Total business written year to date has been at an IFRS new business margin of around 7% and an IRR of more than 14%, and the capital strain for UK PRT has been just 1% compared to the lower than 4% target we announced at the capital markets' event in June. This gilts-based approach results in a highly attractive return on capital with scope for further back book asset optimization as well as very low strain under Solvency II. We therefore anticipate returning to shareholders a proportion of the capital not deployed on strain this year. This would be incremental to our previous guidance and we will announce the board's intention for total capital returns at the full year results in March 2025.

As a reminder, here are the group and institutional retirement targets we set out in June. These remain unchanged and we are confident that we are on track to deliver them. We are also set to achieve the mid-single digit growth in core operating profit for full year 24.

So, to summarize, PRT is an attractive and growing market and it remains the gold standard option for DB schemes. We are well positioned to win. Our brand, our ability to develop innovative solutions, our client service and our investment capability are important sources of competitive advantage, and we have a track record of robust risk management and a proven ability to create value in all market conditions. This gives us confidence in delivering the targets we set out at our capital markets' event. So I'll now welcome back Antonio and Andrew to the stage and pass back to Antonio who will take us through the Q&A. Thanks.

Antonio Simoes Legal & General Group PLC - Group Chief Executive Officer

Thank you, Jeff and Andrew. So maybe, as usual, I'll start, yes, there on the right Farooq, you have your hand up and maybe say your name, there's a microphone that will come to you.

Farooq Hanif JPMorgan – Analyst

Hi, thank you very much. I'm Farooq Hanif from JP Morgan. Firstly, just on back book optimization. You talked about the value creation from maybe moving into higher spread on the back book later on if that opportunity arises. Can you just explain how that will come through in both IFRS and Solvency II in terms of the variances, et cetera? Second question is on when you talk about gilt markets, there are obviously other markets, thinking France right now, where spreads are really high. I can tell you probably haven't thought about doing that yet, but would that be something you would consider and there's other attractive margins there? And I guess my last question is on the really, really large schemes. So, I think that's what a lot of people are waiting for to see how they move and how you transact. There was a really large one which I think you stepped back from. Can you talk about the landscape there and the timing of executing on some of those? Thank you.

Antonio Simoes Legal & General Group PLC - Group Chief Executive Officer

Yeah, thank you Farooq. So, on maybe the first two, Jeff, you should address and then Andrew you should come back on large schemes. Farooq, your first question, and this is an important, so a big theme of what I've been describing is the capital discipline and the pricing discipline. And so just to be super clear, with a heavy gilt strategy, the way we've priced our business is that we have to achieve a 14% IRR, so a 14% return on capital without assuming that later back book optimization. So this is a subtle but very important point.

So, we're saying, if the market conditions change, and I'm sure Jeff will say this in a second, we will look to optimize from gilts into investment-grade credit. But the way we've priced, the way I approve the transactions is with the current market conditions we need to deliver an IRR above 14%. Jeff, do you want to talk about that and how that would happen? The gilts, well, other sovereign debt and other things without giving too many trade secrets?

Jeffrey Davies Legal & General Group PLC - Group Chief Financial Officer

No, that's right.

Antonio Simoes Legal & General Group PLC - Group Chief Executive Officer

Then Andrew will come back on the large schemes.

Jeffrey Davies Legal & General Group PLC - Group Chief Financial Officer

Yeah, yeah. And as Antonio said, we need to be a little bit careful, we don't say exactly what we're doing on investment strategy. But actually on the second one, we look at all of the market, we look at what treasuries are doing versus swaps we have looked at them, and believe me, yes, if the opportunity is there, the team will bring it. We then make a decision of what exposure we want to that and you can all take a view on French spreads and is that an anomaly or not at a point in time. So yeah, we do look more broadly. Gilts is a shorthand for looking at government bonds more generally, but clearly we put a risk management profile over that.

In terms of where things come through. So what we talk about the back book optimization, that is a subset of the management actions that we have already. In IFRS you have very little leeway on this, that will come through in the same way as we have back book optimization currently in our investment margin line. So you'll see that come through as we would execute that so, effectively we'll get that capitalized up front to the extent that we put it through. Obviously, if it's very material, we will make people aware of that, that it's been a big action in the year. In the OSG, the management actions come through in the same way, so the same way as you have them to date, they're embedded there in the OSG that comes through and that's part of the billion-plus that we talk about. We've guided previously that we think there's management actions of around 200 million a year. You might argue that given we're sitting on a more gilts based, there might be a bit more potential to do more of those in the future, which is why we see the opportunities.

Antonio Simoes Legal & General Group PLC - Group Chief Executive Officer

Thank you, and wait, large deals. One second.

Andrew Kail Legal & General Group PLC - Chief Executive Officer, Institutional Retirement

On the large deals, I think everyone's got their own definition of large. When we talk about mega deals, we're talking about deals where the scheme is larger than five billion pounds. Worth remembering, in the UK alone, there are tens of those schemes out there that are, you heard me say before, they will likely transact at some stage. In terms of what's active right now, there are at least four of those schemes in the market. Will they all transact in one go or partial? What we've seen so far is those schemes largely transact in tranches. So quite whether it becomes a very large scheme in of itself where it's just a large scheme transacting part of its book will depend on the scheme in question. But also, as I said, we're participating in all of those transactions. At that end of the market we'd be active on all of those. So we're looking at those four schemes, but as I said, we're looking at many others in terms of building relationships that we have to our asset management teams, et cetera, to build a pipeline for future years as well.

Antonio Simoes Legal & General Group PLC - Group Chief Executive Officer

Thank you. So coming.

Mandeep Jagpal RBC Capital Markets – Analyst

Hey, good morning. Thank you for the presentation. Mandeep Jagpal, RBC Capital Markets. Three questions from you, please. First one is based on where market conditions are heading into 2025, should we expect the asset allocation and therefore capital strain to be similar to the 1% next year? Second question is can you provide any color on the impact from moving longevity assumptions to CMI 2022 and your year-end results? And finally, how much funded reinsurance do you expect to use this year?

Antonio Simoes Legal & General Group PLC - Group Chief Executive Officer

Thank you. I think that probably land mostly with you, Jeff, maybe just saying a word... No, you don't need it, but for you to gather your thoughts, Jeff. So, the current market conditions are still the current market conditions. We're not giving necessarily guidance on, well, because we don't know, right? So the market conditions are unusual in the sense that they're very wide spreads for gilts and very narrow spreads for investment grade. If you look at historically, that's unusual, that's the word we're using. And to the extent that it continues in the same way, we will write the same type of business that we're writing. But so probably can't give you much more guidance than that. I'm sure you'll touch on funded-re but this year because of a heavy gilt strategy, we've used much less funded-re but again, if that changes we would again use funded-re as we've used in the past. Jeff.

Jeffrey Davies Legal & General Group PLC - Group Chief Financial Officer

Yeah, I mean I think you've answered some of it there. Yeah, I mean it's minimal use of funded-re this year. There was less occasions where it was attractive given what's happening on the asset side and the strain that we have. In terms of, again, Antonio covered it. Interestingly, even though the market changes all the time as you know, and so we can't predict what it will look like, we have plans of different scenarios. The teams have already evolved their investment strategy and the way they're thinking about it. It also very much depends on the duration of the scheme liabilities that are coming to us about what looks most attractive and the combination.

But it's still much more combination of direct investments and gilts that looks most attractive at the moment, but that could change at any time of course. But as Antonio says, if it looks the same as it does this year, we're comfortable with that as well and we can repeat that and possibly even repeat the buyback in that scenario. So we're comfortable in however this plays out I would say.

Antonio Simoes Legal & General Group PLC - Group Chief Executive Officer

And longevity assumption?

Jeffrey Davies Legal & General Group PLC - Group Chief Financial Officer

Yeah, the longevity. I mean you'll know yourself the table's better than I do I'm sure, there is less impact. We see much more impact from just a pure role forward. We have some benefit as usual from our BAU changes, but generally it's smaller than it was last year is probably the best guide.

Antonio Simoes Legal & General Group PLC - Group Chief Executive Officer

Thank you. Thank you. Mandeep. I'll come to Andy and then to Tom.

Andrew Crean Autonomous Research – Analyst

It's Andrew Crean with Autonomous. Could you actually give us the asset strategy or percentage going into gilts versus direct?

Jeffrey Davies Legal & General Group PLC - Group Chief Financial Officer

Well we could tell our competitors what we're doing, but I'll answer it.

Antonio Simoes Legal & General Group PLC - Group Chief Executive Officer

But finish your question then we'll come back to it. It's a good point Andrew, but finish your question and we'll come back.

Andrew Crean Autonomous Research – Analyst

Just going further than that. Essentially gilts, I mean this business is priced off gilts and the winner wins by maybe 3%. So everyone prices around that. If you are going to invest in gilts, what is the purpose of trustees actually selling out? Is there actually an existential risk to the business? And then a third question, if you are using a quarter of the capital and you are making a 14% return, does that mean the actual profits which you expect are down by well 75% or put more nicely, what is the actual profits you made or will make on the 24 business relative to the 23 business?

Antonio Simoes Legal & General Group PLC - Group Chief Executive Officer

Yep. Thank you. Great questions. So just and maybe on the asset, we can't say much, but just let me address the purpose point and the biggest strategic point on the gilts heavy strategy. So, we've discussed this a lot as a team. So more from a perspective of what is our competitive advantage. With a heavy gilt strategy, it also gives, you saw what the chart that Jeff showed of 38% of our balance sheet is direct investments. With more gilts in our book that gives us the opportunity to do more direct investments. So Andrew, to your point, you could argue that in a heavy gilt strategy, almost everybody can do that, if you think about it that way, the competitive differentiation that Andrew, our Andrew, talked about earlier, we continue to invest heavily in direct investments, which we believe is the fundamental differentiation. And from a trustee perspective, which I think where you were asking the question, we continue to see the end game of a buy-in, buy-out as the right solution.

So, we still see our model as being as powerful as ever from a differentiation perspective. On the other question, which is important, so that chart that we showed on the new business margin that we showed for this year, 7%. So you're right, it is lower than let's say the 8% that we were talking about earlier, but we are consuming a much smaller proportion of capital. So the IRRs in a comparable business are higher, but the pound amount is smaller. But that gives us the capacity to invest in other areas or indeed to do a share buyback as we did. So the 7% IFRS new business margin is an important metric because we still feel the business is very profitable from a quantum perspective and certainly from a profitability IRR perspective is much higher because it's consuming less capital. Maybe you want to add to that and you have a follow-up.

Jeffrey Davies Legal & General Group PLC - Group Chief Financial Officer

Yeah, so I think that's an important point that for a start, lots of the profitability comes off the enforce, and so there's a huge amount, the minimal impact from 2024 new business is not that material on total profitability, total OSG. And that's in many ways more than compensated from the buyback. And as you said, we'd been guided into a sort of a 8% for S value and you see 7% there so it's definitely not a 75% fall in profitability by any means. And I think also I think it's important, we can't tell you exactly what we're doing, but it's a combination of gilts related strategies. It's not as simple as just buying a gilt that matches the duration of the scheme and that wouldn't make a lot of sense for many people.

It is a combination of gilts related strategies using anomalies in the government bonds versus swaps combined with some direct investments. And we're evolving that going forward. We can make that look very attractive to us and to the schemes, high IRRs, it works on our metrics, you see the new business value and actually you see the increased volume in internationals. So we have been nimble in allocating capital in order to compliment the UK metrics we see from the gilts based with different metrics that you see in the international business, which as a portfolio looks very attractive and allows us to hit all our targets as we've said.

Antonio Simoes Legal & General Group PLC - Group Chief Executive Officer

Yeah, and it's probably worth saying, I know you want to follow up, which is maybe for everybody else, I know you understand this well, but when we look at the yields that we're getting right now with the heavy gilt strategy in the mix of what we're doing minus what we're paying for the scheme minus the costs, all of it, we have a spread that is allowing us to have a return an IRR above 14%. So yes, the schemes are priced off gilts, but actually at the moment that net spread that we have continues to be, and Jeff showed the average net spread, but deal by deal, that net spread is still very, very healthy and when it's not, we have the pricing discipline of walking away from a deal. I sense that you had a follow up there.

Andrew Crean Autonomous Research – Analyst

Which is, sorry, thanks. Clarification was when you quote new business CSM and when you quote new business profit within the OFSG, is that based on the current asset strategy?

Jeffrey Davies Legal & General Group PLC - Group Chief Financial Officer

Yes.

Antonio Simoes Legal & General Group PLC - Group Chief Executive Officer

Yes.

Jeffrey Davies Legal & General Group PLC - Group Chief Financial Officer

Yes, absolutely, yes.

Andrew Crean Autonomous Research – Analyst

Both are on the current.

Jeffrey Davies Legal & General Group PLC - Group Chief Financial Officer

Yes. So we don't anticipate any back-book optimization. There's minimal amount of warehousing and stuff as normal.

Andrew Crean Autonomous Research – Analyst

All of that.

Jeffrey Davies Legal & General Group PLC - Group Chief Financial Officer

But it is what we are executing, what we priced on is what the assets we intend to have as quickly as we've generated them and we've put them to work. It's this year basically.

Andrew Crean Autonomous Research – Analyst

Great.

Antonio Simoes Legal & General Group PLC - Group Chief Executive Officer

That's a great question. And actually Andrew Kail could... To many Andrews, the other Andrews here actually today. But so, could you talk about this because actually the way we price, so every deal that is above roughly 500 million comes to me for approval, below that is Andrew then goes to the group board, we look at the series of metrics and we look, Andrew exactly at that, at how the new business profitability, particularly that sort of 7% number where that is, the IRR of the business, and then there's the strain, tons of hundreds of metrics actually. But if you look at how we actually price each deal, we are making sure that each one of those metrics are meeting our hurdles. So it's important in a portfolio, every deal is different. Some deals have very long durations, some have shorter, but that pricing discipline, which for me particularly this year is really important. We're making sure that every single deal is meeting those hurdles. You may want to say…

Andrew Kail Legal & General Group PLC - Chief Executive Officer, Institutional Retirement

I wouldn't...

Antonio Simoes Legal & General Group PLC - Group Chief Executive Officer

The receiving end of that.

Andrew Kail Legal & General Group PLC - Chief Executive Officer, Institutional Retirement

I think there is a series of metrics, as Antonio said that we look at literally on a deal by deal basis and the asset strategy that supports that individual deal is the one that we use to take through my governance, and then up to group or the board at the scale of the transaction is large enough as Antonio said. And then Jeff talked about back book optimization. Any future optionality we see and we will see that likely with gilts if credit spreads widen, that's not taken into account in pricing that transaction. It's an option we have later that's at our choosing if it makes sense for us to do that. But absolutely not built into current day metrics.

Antonio Simoes Legal & General Group PLC - Group Chief Executive Officer

Which is on the 1 billion plus that Jeff talked about. Thank you. Tom, I think you had...

Thomas Bateman Mediobanca – Analyst

Hi there, thank you. Thomas Bateman from Mediobanca and thanks again for the presentation, really, really good. Just a small follow up on that. Given the lower capital requirements, are you hoping for a big shock in spreads? I know that probably wouldn't be great for your share price, but it would be great for the margin that you make, right? So, are you indifferent between using gilts and if we did have big shock in spreads, would that be better for you? Second question, just for a bit of colour on the funding ratios, I think a large deal went through and I thought it was quite a high funding ratio. It was just, can you give some colour for where that might be and if it's changed at all for deals that go through, not the broader funding ratios. And finally, just a small clarification on the back book optimization. I assume that 1 billion is already in the 5 to 6 billion OSG target, but I think what you're saying today is there's just a bit of upside because of the gilt strategy.

Antonio Simoes Legal & General Group PLC - Group Chief Executive Officer

Yes, that's the exact answer to your question. So actually Jeff was very careful when we were saying 1 billion plus. You could argue that the plus is the upside that wasn't there because we had talked about 200 million times 5, so that's a billion, so that's that bit.

Just on your first question, an issue coming back also on that, on the funding levels, Jeff, which is, so Andrew made this point and we are very clear that we make money in all market conditions. That's important that we think about the resilience of the model. Both we're able to price back to actually Andrew Green's question earlier of we're able to price in a way that's attractive to the trustees and attractive to us, but also the ultimate profitability for us as LNG and for our shareholders makes sense. So that's almost the philosophical end of it.

What needs to happen for the market conditions to change? It could be a combination of almost three scenarios. Either the gilt and sovereign spreads tighten. So that's probably the most logical thing that could happen historically, but we could get into a big discussion about sovereign debt. But that's one thing that could happen. The other one, which I think Tom is where you were going, that could be a shock from a credit perspective so that the investment grade credit widens. Or, both happen at the same time. So in any of those scenarios, we would start writing new business in our old strategy. So would that be more comfortable for us? We're more used to it, but actually it still works. And then there's this additional logic of would we rotate out of gilts into investment grade credit? Probably. But we would only do that when it's almost like there's another IRR calculation there.

It only makes sense if the benefit of that is demonstrably higher than any capital that we would incur. And so it's not a free option, but it's an upside if you think about it from a modeling perspective. But I don't think we have a preference on what the-

Jeffrey Davies Legal & General Group PLC - Group Chief Financial Officer

But to be clear-

Antonio Simoes Legal & General Group PLC - Group Chief Executive Officer

... and then obviously as you say, we're one of the largest companies in the UK. We definitely don't want a credit shock that impacts the global economy. But it doesn't need to be a credit shock. It could be just a credit widening coming back and there's a slightly Goldilocks scenario where the economies are still doing okay, but there's a bit more credit spread and we certainly would revert back to... We've always used gilts so it's just lighter from a gilts perspective.

Jeffrey Davies Legal & General Group PLC - Group Chief Financial Officer

Yeah, I mean it's important to say that there are scenarios where those move such that there's no capital deployed. We can shift to the credit because the way the Solvency II works, we're able to move to credit with no impact on capital. Those are probably slightly more extreme, but it depends on what's happening with the gilt side of things. And then the others would be a decision about are we deploying capital because the upside on the return on capital is sufficient. There's definitely scenarios where that happens for milder spread widening on credit even today. And we believe we have plenty of capital to exercise those management actions, which is why we're comfortable making the statements we are about capital returns. Yes, I've always said some nice controlled spread widening is good for us. We did discuss a big spike and we'd go to the CRO and say we want to move billions into corporate credit, but everything's really uncertain.

Antonio Simoes Legal & General Group PLC - Group Chief Executive Officer

He is nervous here in the first row. But I think there's an important point here, which is we have a lot of experience in many different... We've been writing this business for 35 years, we've seen every single market condition and every time we're able to find a solution that works for trustees, for us, for our profitability. And so that's the point. Funding levels, which was Tom's second question, so Andrew-

Jeffrey Davies Legal & General Group PLC - Group Chief Financial Officer

Is that the funding measure of schemes?

Thomas Bateman Mediobanca – Analyst

Yeah, it was just at what level do they go through? Is it 110, is it 120, and has that changed at all?

Andrew Kail Legal & General Group PLC - Chief Executive Officer, Institutional Retirement

Yeah, it varies by scheme, but 510 is normally where you start to see them trade. We're presenting today on the fourth and the new data comes out tomorrow in terms of where schemes are. But as I said in my presentation, all the schemes that we are talking to, they've locked those positions in so they're now operating comfortably above 100%, taking at the larger end. And that's A, securing them a buyout but also making them, you're seeing from commentary in the wider press, what happens with that surplus. And that again varies by scheme. In some cases the sponsor is interested in that. In other cases it's about augmenting benefits for members and the trustees. What is really clear is, it's the trustees that want to protect that position such that they can affect a buyout. That's what drives it. But it's around that 105 to 110% plus, which means their funded on a buyout basis.

Antonio Simoes Legal & General Group PLC - Group Chief Executive Officer

Great. Abid. Yeah.

Abid Hussain Panmure Liberum – Analyst

Morning. Thanks for taking my questions. It's Abid Hussain from Panmure Liberum. I have two questions. The first one is on capital distribution. Look, clearly I think the market appreciates the incremental distribution that you're guiding to this morning, but I have to ask why not deploy that saving on the new business strain for additional PRT given that you are still achieving above 14% IRR and whilst that growth opportunity exists? Or are you saying that a share buyback at the current share price is more creative to you? So any color on that please? And then secondly, on private assets, a follow-up, I guess, to Andrew's question, what's the limit of moving further into direct investments, currently 38, 40% of the book. Would you be comfortable to let that drift up to 50% or is the opportunity really mainly on the 10 billion or so of new PRT that you're writing per annum?

Antonio Simoes Legal & General Group PLC - Group Chief Executive Officer

Thank you. Thank you for the questions. Jeff, you should take the second. Let me just take the first. Effectively, I don't think there's a either/or here, Abid. I think we're writing all the PRT we want to write at the moment. So it's not what I've said is, what we said couldn't have been more explicit is, in 2024 because of 1% strain in our UK business, a proportion, repeating my CFO's words, a proportion of the capital that we have not used, we are returning to shareholders. That final decision will be taken in the round with the board in March. And the reason why I'm saying that, when I was standing here in front of you on the 12th of June, I said that the way we think about returning capital to shareholders is what are the opportunities in front of us? What's the market environment?

So we take all of that in the round, but if you think about it from a 2024 perspective, here we are on the 4th of December, we know that what we had planned for 2024, we haven't... So that capital, when I talked to you in June, I thought I was going to invest that in PRT this year. I've written the PRT I wanted with a much lower capital strain. That capital we're returning to shareholders. That is not precluding me from writing any more PRT deals going forward. And indeed if we have, Andrew said this, it's a very lumpy business, right? Just before Christmas we did a 4.8, previous Christmas, 4.8 billion deal and we'd done that three weeks later. I will be showing you a 13 billion this year, meaning this has been a very good year. Next year could be an even bigger year, but the share buyback that I'm potentially doing is not precluding me from writing that.

Jeffrey Davies Legal & General Group PLC - Group Chief Financial Officer

I was checking with Andrew. My mind had gone completely blank on your second question. I've got it…

Antonio Simoes Legal & General Group PLC - Group Chief Executive Officer

Private assets at 38%. That's why I have a notepad here.

Jeffrey Davies Legal & General Group PLC - Group Chief Financial Officer

I know, I know. I forgot it today. No, we have said in the past that we had a sort of a notional limit in the 40 to 50. We would be comfortable going up to the 50% limit, we continue to do more work on that. I mean we've said I think not all direct investments are created equal, some are way more liquid than others, et cetera. So we do the work on that. We categorize those. So we believe we have headroom, but equally at the same time, what we've been doing in '24 brings on a lot more liquidity to the book, which then gives us the headroom to do the direct investment.

Antonio Simoes Legal & General Group PLC - Group Chief Executive Officer

Before I come here, I have one online. So before I ignore everybody else that's not in the room, says Awinda from Goldman Sachs. Legal and general has done a large amount of work in social impact investing with affordable homes and the like. How do you envision this area evolving over the coming years? It's just a very nice link to this. Obviously private markets continues to be a key focus for us. I think what's different, and you can see already this even from what I told you in June, this is the proof points around our strategy. We're not just investing our very large balance sheet where we're investing a big proportion of that in private markets, but we are bringing third-party capital alongside us. And so clearly areas where I believe that this intersection of purpose and profit where we believe the social impact is there, but the returns are there for us.

We are bringing other partners with us. The affordable housing fund is probably the best example. We did many, but since it was mentioned there I was last week in Manchester with Laura and the series of our teams, we did an event called Connecting Capital and I was sitting next to the Greater Manchester Pension Fund's CIO. They've invested alongside us on affordable housing. So part of that was the private assets that come from the annuity book, our own balance sheet. But then we brought in the Greater Manchester Pension Fund and the access pool, which are a series of other local government pension schemes. The benefit of that, it's obviously that we're doing that for the PRT business, the focus of this morning, but also that creates fees in asset management, which is a preview of what... When Eric is sitting over there next year doing the deep dive on asset management, that's a big part of our asset management strategy, which is new versus where we were a year ago. Thank you, Abid. Thank you.

Dominic O'Mahony BNP Paribas Exane – Analyst

Dominic O'Mahony, BNP Paribas Exane. Firstly, thank you for the presentation just on strategy. It sounds like you're not expecting a change or undergoing a change in the longevity reinsurance approach. Given how much rates have increased over the last few years and the risk margin change, what would it take to retain some of that? I mean, is the answer just that there is no way that it could be retained because the re-insurers have such an advantage diversifying with Japanese mortality or is there something else that could actually change that equation for you?

The second question is, I'm just on slide 30 looking at the asset allocation to seize on market opportunities piece, if I've understood this correctly, you want the yellow to be higher, the spreads to be higher, so you can allocate to credit spread. And you want the green to be low because that's attractive pricing. It looks like actually the current conditions are as tough as they've been. And I guess this is consistent with writing a little bit less than maybe one could have done in a very buoyant environment. Am I interpreting that right? That it's just very competitive? I get you need to make less money because at a higher rate environment the credit capital requirement is lower. But I wonder if you could comment on the conditions implied by that.

I've got one more. Forgive me for the length of the questions, but-

Antonio Simoes Legal & General Group PLC - Group Chief Executive Officer

We have no limit today.

Dominic O'Mahony BNP Paribas Exane – Analyst

Okay, very good. Well, I've got another seven. So I'm looking at footnote two on slide 48, your 7% new business margin, it's got a couple of adjustments in it. One is the reinsurance timing, which makes perfect sense. The second is it includes annuity book optimization from direct investment capacity enabled by gilt-based investment strategies. I assume that means it doesn't make sense to allocate to credit on the front book, on the back book switching from liquid to illiquid is still accretive because there's still a spread there. I wonder if you could... But of course the 1% strain is on the new business alone. If you were to put the strain from that into the new business, what would it have been? I realize that's an incredibly convoluted question. So hopefully it makes sense.

Antonio Simoes Legal & General Group PLC - Group Chief Executive Officer

No, no, it's really good. Someone reads his footnotes. That's really important. Thank you, Dom. So I think Andrew, you should address the competitiveness of pricing and how we see that in the market. And then Jeff, you should address longevity and the footnote on page 48, just on longevity, there's no reason. So we take decisions on what is the right pricing from a reinsurance perspective at any point in time. And actually sometimes we see that particularly deferred lives, maybe I'm answering you. In deferred lives, the pricing is not as good and we actually take some of that risk and by the time people then retire, we reinsure it at that time. And actually this year we've done in a few deals, again, not giving too much away, but we've done a bit of that this year.

So it's not a binary, we will never retain longevity risk. It is, given our size and our pricing power in the market, we've always said this from a reinsurance perspective, there are people that want to do reinsurance with us at pretty attractive rates. We do that and obviously in longevity there's an incentive for us to do that. But actually we are also relaxed or we can retain some of that. And we did some of that this year actually, in some of the deals. Do you want to mention that and then we'll come back to pricing.

Jeffrey Davies Legal & General Group PLC - Group Chief Financial Officer

Yeah, I think that's the important point. And don't forget, I mean there's 2 billion of individual annuities where we don't reinsure, or very little if enhanced. And in the US we don't really reinsure that much, but there is a very attractive market. And on impairment it's just a pure cost to capital play against the risk margin. We were always very explicit, we were even explicit with the PRA. They would need to go a bit further to be attractive against where reinsurance pricing is. But we have been able to retain some deferred within that because the equation didn't stack up, and we are able to do, that still within that strain number. And so that creates future value and future optionality for us for other management actions in the future as well. So that's the way we've looked at that. On the footnote, it's a bit of the discussion we were having with Andrew.

There is no additional strain. So those are just the activities related to new business, which is why it is a bona fide number for IFRS new business value that we have created from writing those transactions. I don't want to give too much away on exactly what we're doing there on the investment strategy, but it's also then the way the accounting works for the DI to back book. But it is everything enabled by writing that. It's not assets beyond the premiums that we are rotating out. So it's not some extra volume of change of management action that we're suddenly allocating to this. This is, it's standalone that it works as a transaction that we're able to do as part of writing those liabilities.

And there is no additional capital strain. And if you think of that on a simple level, we're obviously not selling gilts to buy DI because the gilts are in the new business. If we're selling the same rated credit to put on the same rated direct investments, they have the same credit charge, subject to duration and everything else. So there isn't a change there. As I said, I don't want to give too much away on what we're doing, but that is all we're saying there is, it won't be reflected purely in the CSM because of the way the accounting works, but we think it is absolutely the right way to look at this and the right new business metric.

Antonio Simoes Legal & General Group PLC - Group Chief Executive Officer

So they are comparable.

Jeffrey Davies Legal & General Group PLC - Group Chief Financial Officer

Yes.

Antonio Simoes Legal & General Group PLC - Group Chief Executive Officer

So there isn't another strain that we have somewhere that we didn't show on the 1%. They are absolutely comparable and we've been, and to reassure you, and also for me, I wanted to look at it forensically as the new CEO, which is we've looked at this in a way in the most conservative way. So we could have made some assumption that in the future we'll rotate out of gilt into investment grade and somehow, at least in our pricing models, we could have assumed that we're not. But we are assuming that because we have done rotation into DI without giving too much away, that is in that 7% number, but it's also in the 1% strain number. Pricing conditions in the market, how we think about 2024, and well maybe a bit of also how do we see pricing into 2025? We already have a billion that is going to come through in the first quarter.

Andrew Kail Legal & General Group PLC - Chief Executive Officer, Institutional Retirement

I mean, you know this, the market is competitive out there for PRT. That's clear. We see different competitors in different segments of the market. We have less competition at the high end of the market, and it changes through the size of the schemes, but it's competitive. But it's why we spent the time this morning talking about why we believe we're best positioned to win. Asset origination, reinsurance capabilities, scale. What we do with relationships with our asset margin team are critical to us winning. As I say, ultimately it comes down to price and that's where we believe, Jeff's talked about the agility we have in these market conditions. I mentioned it too. It's about can we put together with the package of strengths we have, a competitive price? Is it as tough as it's been? I don't know. We've showed how we've been agile through all of the different market cycles we've seen.

The core strength that we have is the ability to create value principally from assets that when we put together a price, it gives the trustees the value that they want to transact. To your point, Andrew, earlier about the sustainability of the business, but also gives us the margins that we need to cover the IRR that Antonio has talked about and that's how we priced this year. And those conditions, on the deals we've just transacted, that won't complete until 2025, have been similar. So we are expecting those same market conditions to persist for the current time, but it's why we're doing the work we're doing around the asset strategy to make sure that we can as well as having all those competitive advantage around our structure and brand, we ultimately can put that most competitive pricing on the deal, because as we know the deal's clear in relatively fine margins, so pricing is critical.

Antonio Simoes Legal & General Group PLC - Group Chief Executive Officer

Thank you.

Andrew Kail Legal & General Group PLC - Chief Executive Officer, Institutional Retirement

Larissa's trying... She's behind the mic.

Antonio Simoes Legal & General Group PLC - Group Chief Executive Officer

Larissa, come here. Come here next to Ed. Come on, come on, come on, you're there in the back. Come, come, come here. There's a seat there. Just next to Ed, come on. So tell us, Larissa.

Larissa Van Deventer Barclays Capital – Analyst

I can't believe you're making me walk all the way to the front.

Antonio Simoes Legal & General Group PLC - Group Chief Executive Officer

I am, I am. I am. Yes.

Larissa Van Deventer Barclays Capital – Analyst

Serves me right for wearing heels, which I never do. Thank you. Larissa van Deventer from Barclays. Antonio, two big questions please. The first one, you are very specific in today's release about the new business strain being roughly 1% for the UK PRT business. But how should we think about the drivers of strain for the UK retail business and the international book? Related to that at some point, does that approximate 4%, which is the long-term expectation you always had for the UK, or should we think about that differently? And then another question, there's been a lot of talk today about the gilt being predominantly gilt at the moment. How do you think about past deals, the back book, to what extent would you consider trading to optimize? And to what extent do you remain with your previous strategy, which was to buy and hold to maturity?

Antonio Simoes Legal & General Group PLC - Group Chief Executive Officer

Great, thank you. Two great questions, which I think squarely at you, Jeff. And before you say we don't disclose that, we don't actually, but it's important that... So they are comparable in the sense, the one thing we said always but particularly on the 12th of June is that the UK strain is below 4%. That's what we said before as you know because you've seen the numbers, it has been consistently below. So we're not targeting 4, we want it to be lower than 4. It's abnormally low this year. So it is low because of heavy gilds in the UK, but the rest of the strategies are not low in the same way.

So we've said in the past that the international strain is comparable to the UK but this year to be super transparent with you, it's very low in the UK but it's not necessarily low in the US and Canada in the same way. So without giving you the actual number, so we are in the usual conditions in the US and Canada. And by the way, I feel really proud that we've had record volumes in the US and record volumes in Canada. I'm not sure if Andrew said this is a throwaway comment. Just yesterday we got another deal confirmed in Canada, but those have been more with the metrics that you're used to, the type of strain and the type of metrics. Whereas in the UK we've had this abnormally low strain. Anything else you want to say on that?

Jeffrey Davies Legal & General Group PLC - Group Chief Financial Officer

No, I mean, you covered most... I think the individual annuities and it's bit to my comment previously, we optimize value for the whole portfolio and so we don't reinsure the individual annuities. So naturally that comes with a bigger capital strain. We obviously plan for that over a period to optimize the value, as I say. Similar in the US, we've been happy to allocate a bit more to that higher strain in those other businesses because we see the value there, and those are working for us, and as a portfolio that works very well. UK PRT is a very competitive market that we can win in using a different strategy. It's also the biggest scale. I mean 8 billion at the same strain as the individual annuities wouldn't work so well for us. And so we build a portfolio that we think makes sense optimizing all those metrics and reinsurances too. We say, "Okay, let's keep some longevity on that." That works very well as a diversified portfolio and the metrics complement each other in what we put together then.

Antonio Simoes Legal & General Group PLC - Group Chief Executive Officer

And on the back book and trading. So Larissa's second question, which is, so if you think about what are we doing from a back book perspective?

Jeffrey Davies Legal & General Group PLC - Group Chief Financial Officer

Yeah, I mean I don't think we've changed the way we think about the whole thing philosophically. As we said, we're able to lock in very reliable profits going forward. We match the vast majority of the portfolio. If we see, pick a word, dislocations or something happening where we believe there's value, we have always moved that to optimize the risk reward. And it is a reasonably high bar, under solvency too, actually. And with the regulator of why are you trading the risk reward within that? Are you reducing overall risk and the yield for the risk that you are taking? Where we believe there's those opportunities, we do make some shifts.

The other thing I would say though is when you've already got 70 billion or more than that, and you're right in 10 billion, you make your changes by really how you're allocating the new business because the amount of volume that you're doing, the amount that you're purchasing, the amount of normal times credit new issuance that you want to be buying, is mostly taken by the new business. So it's the shape of what you do on the new business, you tend to use to actually slowly shift the total in force to where you see those opportunities.

Antonio Simoes Legal & General Group PLC - Group Chief Executive Officer

You had a clarification or follow up? On the first one, I think, I could see you were leaning forward.

Larissa Van Deventer Barclays Capital – Analyst

I did, but I am not sure that it's a quick answer though. I was curious about the relationship between new business strain and margin, especially when it comes to the longevity reinsurance aspect of it.

Jeffrey Davies Legal & General Group PLC - Group Chief Financial Officer

They vary and it depends how expensive the reinsurance is-

Larissa Van Deventer Barclays Capital – Analyst

Fair enough.

Jeffrey Davies Legal & General Group PLC - Group Chief Financial Officer

... versus the best estimate. That varies for UK BRT, US BRT, and individual annuities. Reinsurance take different views.

Antonio Simoes Legal & General Group PLC - Group Chief Executive Officer

Thank you.

Larissa Van Deventer Barclays Capital – Analyst

Thank you.

Antonio Simoes Legal & General Group PLC - Group Chief Executive Officer

Thank you for the questions. We have another question online and then I'll come here to the room from Rhea, from Deutsche. So could you provide, and I think this is Andrew's, for you, and links to the previous question we got earlier. It was Dom actually that asked the question. Could you provide more color on flow? What kind of market share do you have in the small schemes market and where would you like it to go? There are other players targeting this market too, how do you think about pricing, competition, and margins in this segment of the market? So basically that slide that we showed on the below 100 million schemes.

Andrew Kail Legal & General Group PLC - Chief Executive Officer, Institutional Retirement

Yeah, so the reason I mentioned the flow proposition this morning is we define smaller schemes at 100 or less. I mean our competitors might do it somewhat differently, but for us that's the benchmark. We just find dealing with those trustees, they're looking for a different type of solution, a different type of service. Typically, they have less sophistication around their asset base, they they're more liquid than illiquid. They have a desire to transact more simply and quickly. And therefore we've built flow which allows them to enter the PRT market in a way that is quicker and easier than some of the attributes we think about with the larger schemes. And virtually all of the time, these are asset management clients. This is the business model I took you through. We have the asset management division, has those 1700 relationships.

By volume, the majority of those are with those smaller schemes. And we want in as part of providing a one-stop service to be able to provide those asset management clients for those that want it and are funded to be able to do so to move into a PRT solution. So flow is very much a continuation of the service that our asset management teams have, and we wanted to be able to do that quickly.

We would, in the current year, have transacted about 30 schemes at that level. I expect the number to go up over time as the market matures and we build onto that. But we just apply the same metrics and the same methodology when it comes to financials. If it was a large scheme, they still need to make sure they cover the IRR that we are looking for and therefore on average you would see probably higher margins in the smaller side of the business. But, it varies by scheme. But we put them through the metrics and the filter that Antonio described earlier. They go through exactly that same process and we look at them like any other transaction, but it's particular to give that full stop service to the asset management clients that we're focused on this market and we would expect to do some more.

Antonio Simoes Legal & General Group PLC - Group Chief Executive Officer

And we are, so we play, and maybe other people would argue this, but we are the largest player in the market. We play in all of the segments and therefore, this is a really good question. That's why we showed that side, which is we consistently attempt to have more or less the same market share in the three segments because there was also the green bit I think on the chart, which was the bit in the middle. And importantly, and this is important for asset management because a lot of these clients are our asset management clients. There was this 84% number there. It's important that we quote for those deals, but in some cases, we walk away from them at all levels. And so, we have many, this is back to the previous question on pricing, I think I wouldn't claim that. So, pricing is a very important factor, but given all the other strengths that Andrew showed on that side, we certainly get a final look when some other people don't get because we are just a few basis points away from the final pricing. And so, trustees are absolutely to choose the best solution, but actually, given everything else that we offer, we tend to walk away from the schemes that we don't want from a pricing perspective. And then price, pretty much, we see all the markets. So, across all the segments. Thank you, Rhea, online. So, Andrew.

Andrew Baker Goldman Sachs – Analyst

Great, thank you. Andrew Baker, Goldman Sachs. So, the first one, so those interest the capital return today is based on the UK PRT strain less than 4%. You've been below that for a while. So, as we think going forward, should we think that if you come in below 4% consistently that that will also come back over time? And then similar, but I guess a little bit different on CALA, just remind me, what have you said on that a hundred million solvency benefit? Should we expect that coming back or not? And then second, which is potentially the third question, I do admit. Can you talk about the, so the supply and demand dynamics, so you showed this 45 billion per annum baseline. We're obviously seen some growth plans from competitors, potentially new competitors entering the market, third party solutions coming in various forms.

When you look at the supply of capital versus that 45, do you think we're in balance going forward or do you think there's excess supply or not enough supply? Any thoughts around that would be really helpful. And then, finally, we've seen a competitor enter the market with a PRT transaction that shares some of the benefit also with the corporate. I guess, have you seen demand for this type of solution and do you have any plans to come up with something similar in this regard? Thank you.

Antonio Simoes Legal & General Group PLC - Group Chief Executive Officer

Thank you, Andrew. So, I'll just take the first one on strain and maybe Jeff, you could just go back to exactly what we said on the 100 million of CALA. And then Andrew, you should answer the supply, demand. By the way, we don't comment on specific other transactions, but we can actually explain how we have done innovative solutions that they look a bit like that. So, on strain, just to be clear, we always look at the capital that we return to shareholders in the round and that's why we're saying it's logical for us not to do this bit by bit, but actually to come to the full year results and say, with our board, what's the opportunities ahead of us, the question we got from a bit earlier, where are we from an overall solvency perspective, what we have in our plan, and then decision. That's why we look at this in the round.

But you should expect the same mindset, which is if we were expecting something that was somewhere below four but we are writing business at 1%, or for some reason, the pricing moves against us and we decide that we want to write less PRT, that could be the other scenario. If we're not deploying that capital, you'd expect a proportion of that capital to be returned to shareholders. That's my philosophy from a capital allocation and capital distribution. We want to be as transparent as possible with you, so that you know, from a predictable perspective, this is what's happening. Now, I think, Andrew, where you are going with your question is it's not that if it's mathematically 3.8 versus 3.6, that is... What's happened this year is that the difference between 4% and 1%, apply that to 10 billion. It's a big number. And so, that's why we felt as part of this deep dive into our biggest business, we wanted to be very clear of what we're doing in 2024. So, 2025, to the extent that the conditions are similar, yes, that would be the logic, but I didn't want you to leave the room with, "Oh, it's a mathematical formula. They do this, this and it's going to be another 233 million." It'll be in the round. We will look at all the opportunities. CALA, it's probably worth rehashing what we said at that point.

Jeffrey Davies Legal & General Group PLC - Group Chief Financial Officer

All we've said is that you shouldn't focus on the headline number, some liquidity that comes in over time. You should focus on the capital impacts of what it's had. And similar to the PRT, where we didn't use the capital, we've had a hundred million of capital release in respect of CALA. That will clearly go into the thinking for buyback next year. Some of you have made an assumption on that, some haven't, but we haven't said one way or the other because it will be in the round of the thinking.

Antonio Simoes Legal & General Group PLC - Group Chief Executive Officer

Yeah, thank you. And supply, demand, and innovative solutions, maybe the final question.

Andrew Kail Legal & General Group PLC - Chief Executive Officer, Institutional Retirement

I think on supply and demand, we've seen a build-up of the market over time that then got accelerated through funding levels. So, you've now, and given the schemes of locked those in, you've now got a whole bunch of schemes that working with their advisors know that they are ready to move, they're ready to transact and that's worked through. So, I think why are we confident that the 45 billion that we showed is sustainable is because we're aware of the schemes that I talked about, those 1700 schemes, the entire market that are at a transactable level, but it then needs to be met with a group of insurers that can provide a competitive price to those schemes.

And I think, generally, the employee benefit consultants do a good job of making the market of bringing those schemes to market and getting the quotes that ensure there's a good deal for the trustees in a competitive market, but equally, the insurers can make the margin they require to transact and therefore, that's why I think we're going to see the market at or around the 45 billion inevitably because of some of the large schemes I mentioned that could be quite volatile comfortably by 10 billion or so in any one year if certain schemes move the markets.

But I think underlying, I think the market is good at normalizing around moderating that supply and demand. On the innovative schemes, I gave some examples on the presentation of, I think we are a market leader in innovation. Some of the things we've done on the major schemes have been highly innovative. The transaction you are referring to yet, are we interested in innovation? Yes, of course, we are. In the book this year, there is a transaction that has many of those attributes, we chose on that occasion not to issue a press release and talk about it, but are we interested in innovation and working with clients to create mutual value? Absolutely.

Antonio Simoes Legal & General Group PLC - Group Chief Executive Officer

Great. Thank you, Andrew. Nasib.

Nasib Ahmed UBS – Analyst

Thanks. Nasib Ahmed from UBS. First question on the Glasgow office. You've got an admin team that you brought in there. It seems like you're kind of losing your operating leverage, like if you do a 10 billion deal tomorrow, does it mean you're getting a multiple of those people that you brought in into that office or somebody else to administer those policies? And then related to that, why not outsource the admin on that? Secondly, on surplus extraction and augmenting benefits, are you seeing a lot more of the funded schemes looking to run on? And then, finally, on Netherlands and Japan, I know it's not a footnote, but it seems like a footnote. Lifetri have found their own solution. There's a 400 into the market, our hours at double-digit, you're getting mid-teens, why even bother looking at those markets?

Antonio Simoes Legal & General Group PLC - Group Chief Executive Officer

Thank you. Actually, they're mostly to Andrew, actually. But maybe just Nasib, on that final one, I was slightly different from what we said in 12th of June. I want to be very clear that the three markets we're looking at, when we look at this 1 trillion opportunity over the next 10 years, they're the active markets and the UK is the largest in terms of volumes, the US is the largest in terms of stock, and Canada is smaller than the three. The reason why we're talking about the three of them and then we're talking about the Netherlands as potentially markets like Japan is because the regulatory environment needs to be there for that to happen. Maybe one or two years ago, we thought it would develop faster and it's not developing as faster and as you said, Lifetri chose a different strategy. So, we're looking at how we would do that.

The why bother question for me is more those markets a bit similar to Canada. For us, as you know, we're not directly writing business in the same way that we're doing in the US and the UK. In those markets, we really write that business in Bermuda and the incremental cost for us is negligible. So, basically, it is a person, a person and a half sitting in Bermuda and then us working with a competitor. So, if you go back to the beginning of this presentation, we are the leading player in PRT globally. It makes sense for us to extend that to every market where that happens. In my plans, to be clear, on the OSG question earlier, we've assumed nothing from that. So, it's pure upside and to your point, we'll be pragmatic as we've been in the Netherlands. If we can't find the right partners, if things are not developing, we will not do it. Japan may never happen as a market and there may actually be other markets that end up being a possible markets for PRT.

Obviously, it's not a number that you plug on a spreadsheet, but it's an upside that we could have in the future. Andrew, do you want to talk about surplus extraction? You talked a bit about that and then operational leverage.

Andrew Kail Legal & General Group PLC - Chief Executive Officer, Institutional Retirement

Yeah. I wasn't expecting a question in the Glasgow office. I'm very pleased.

Antonio Simoes Legal & General Group PLC - Group Chief Executive Officer

Yes, I know.

Andrew Kail Legal & General Group PLC - Chief Executive Officer, Institutional Retirement

Very pleased to get-

Antonio Simoes Legal & General Group PLC - Group Chief Executive Officer

We've opened an office in Glasgow. I think we'll be very happy.

Andrew Kail Legal & General Group PLC - Chief Executive Officer, Institutional Retirement

Actually, I was there just a few weeks ago. It's a terrific new location for us. Actually, it's the opposite of what you say because you said, are we losing operational leverage? We did what we did because it gave us operational leverage. So, what we've done there is, and some of you remember, we insured 7.5 billion pounds of British Steel pensioners. It's a huge complex scheme. We're very proud of that partnership we had with them and with that scheme and its complexities, having the people that run that scheme for British Steel come and join our business has enabled us to give the service quality we want to the British Steel pensioners, that's really important given where that transaction is.

But because of the scale, it's not a full-time job for them. So, we're now moving those individuals to work on our other schemes and therefore, it's not just about, it's actually providing leverage for us in what is a good central hub. The skills and resources, if we choose to expand in Glasgow, gives us operational leverage. So, we are really excited about that model. You shouldn't infer that every scheme we do, we'll take all the people. That's not the case. But back to innovations and models, getting the right DB skills to deal with schemes, but also give us leverage as we grow. That's a really important model and we're very happy with where that's gone so far. To your question on run on, are we seeing schemes run on? Going back to what I said, we still see buy-out is the gold standard. Our own data tells us that over three quarters of schemes are moving to an insurance solution, that's why we're confident in the 1 trillion pound number.

So, some schemes are absolutely running on and that's because they're still getting their funding levels, they're still moving their illiquid assets into liquid assets and preparing for transacting. We have seen no instances of companies moving what was going to be a transaction back to a run-on strategy because of any government consultation or sponsor intervention. So, we're absolutely seeing the transacting runway exactly as it was and we continue to talk to those schemes. It's also worth saying, even if a scheme decides that run-on is their strategy, which is perfectly acceptable if that's what they want to do, there's a very high chance, that's one of our asset management clients and therefore, we work with that client and service them from an asset management perspective, as well as offering a PRT solution ultimately. So, our strategy has got the flexibility to deal with all of those schemes, whether they choose to transact, the majority will or the majority 10% or so that run on, when we work with them as an asset management business.

Antonio Simoes Legal & General Group PLC - Group Chief Executive Officer

That's a really important point here. Actually, Andrew and I were having a dinner last week, the week before with trustees of the main schemes and we're having this conversation as you'd expect, this came up, and of course, there's a lot of self-interest with advisors than others. Oh, there might be an entire scheme, but actually, look at the numbers we've put up there and it's our numbers plus LCP and others. So, we're still only saying, I keep on talking about 1 trillion. 1 trillion only takes you to 35% of the schemes having transacted. So, we're talking about a 1 trillion opportunity over the next 10 years, but there's another trillion after that because actually, what Andrew is saying is what we see with clients, we think that more than half of the schemes will eventually want to do a buy, but even if it's not 50 or 55, even if it's 40, we are only assuming 35%, and 35% gives you the 1 trillion opportunity.

So, I talked a bit about a golden year of PRT back in the 12th of June. There's a golden year after that, meaning, we have a trillion over the next 10 years and another trillion after that to get to the 50%. So, although there is a bit of chatter in the market about run-on, we feel that it doesn't, particularly, the numbers we've talked about, we've been pretty conservative and then asset management continues to benefit from that if people are running on. So, thank you. That's a really, really good question. Steven.

Steven Haywood HSBC - Analyst

Thank you. Thank you. Steven Haywood from HSBC. Just a couple of follow-ups from the previous questions, actually. So, you're talking about the run-on and the surpluses. Are any pension schemes sort of delaying their decisions for that buy-out to see whether they can extract surpluses beforehand for their own shareholders? Secondly, you mentioned about the innovation obviously, but previously, in the presentation, you mentioned non-standard solutions, as well. Just curious as to what a non-standard solution is. Do you take on board the liquids at the point of buy-out or buy-in? Are you willing to share the risk reward like one of your peers is obviously doing, as well? And then a proper question on hedging. I know I saw that you mentioned in there that you actually hedge currency inflation and interest rates. Can you give us an indication of the proportion of this that's hedged, whether it's 50%, 90%, or so, and can you talk about why, potentially, related to this, your interest rate sensitivity on solvency do is still quite high? Thank you.

Antonio Simoes Legal & General Group PLC - Group Chief Executive Officer

So, run-on and innovation, Andrew, and then hedging for you.

Andrew Kail Legal & General Group PLC - Chief Executive Officer, Institutional Retirement

Yeah, on the run-on, to the extent, as I said, we are not aware of any company changing its mind. There will absolutely be schemes out there with surpluses that are engaging with their sponsors as to the right way of managing that. I think that's not a new conversation. It might be getting more publicity these days. There's another feature where depending many, many companies now would have both DB and DC schemes and how those are governed, particularly if they're in the same trust, will also make that a more complicated conversation and you might get an alignment or non-alignment of interest amongst the trustees. In many ways, when we engage on a PRT process, they've already passed the Rubicon of they're going to likely transact. But I think it's fair to say there will be some conversations in the background where companies and their trustees are working out given the funding levels, what's the right way, an effective way of transferring the DB members to an insurer and also then dealing with that surplus and that will be a live dialogue.

On the innovation, be careful what I say because, of course, this is proprietary in many ways and competitive advantage. But your example was a good one about where we have on schemes, where we took illiquid assets, or we created a structure whereby we can use the skills we have as a group to trade those assets more effectively. For the trustees, we are absolutely wanting to do that and we actually think it's a competitive advantage. The fact that we have asset management, the division and the skills they have across all markets enables us to engage with trustees and their advisors and oftentimes, create a more competitive price because we can see a solution through the illiquids that other insurers might find more challenging because they don't have the in- house skills to deal with. So, that would be an example of innovation. There are others.

Antonio Simoes Legal & General Group PLC - Group Chief Executive Officer

And it's fair to say, Steven, that in the top end of the market, there's more of that customized solutions. And as we grow through mid-market and then this flow solution, which is our proposition for the smaller schemes, that's more standard because what you want is for us to be able in that part of the market to write as many schemes profitably as we can and so, then to be more standard. So, a lot of the innovation is across the entire spectrum, but a lot of this more tailored solutions are naturally for the big schemes. Hedging.

Jeffrey Davies Legal & General Group PLC - Group Chief Financial Officer

Yes. So, we don't see any reward in taking currency risks or basically, a hundred percent match that as you would expect. The regulator would very much want us to, if we're going to be paying sterling pensions, we need some sterling cash flows. So, we absolutely do that. Similar to inflation, to be honest, we don't see the value in that. We might take a small view at any point in time, but there it's the only bit we are dealing with is people have come up with some weird and wonderful ways of having benefits increase over the years. So, they're not all perfectly CPI or RPI or anything else. And even if they were, you can't get exactly the assets. So, there's always a little bit of basis risk in there, but basically, where we hedge that as far as we can for inflation as well, and even on rates, as you know simplistically, we cash flow match everything, so that we are, again, not relying on any cash flows that we don't already have to pay people's pensions and we make sure that we have all of that.

Why we still have rate sensitivity is because we're a big group and a big balance sheet. So, even if we were hedging a hundred percent of the solvency requirement, it's about 8 billion at the moment. Our SCR, well, we're 200 and something percent, so we have another 10 billion of assets that also will move around. We don't think it necessarily is economically sound to hedge all of those in a way that then would completely immunize the solvency ratio. And so, that's what you see. You have seen that our sensitivities come down. It was 21% once for a hundred base point 19, we were down in the 13s, 14s. Now, we have taken action on that, but we also have an eye to IFRS at the same time. And so, we try and optimize. Once we've done everything else for the risk management, we then try and create the best economic value by optimizing between the two without necessarily wasting money or liquidity on trying to hedge the full solvency ratio.

Antonio Simoes Legal & General Group PLC - Group Chief Executive Officer

Thank you. Any other questions? Yes, it's good that we don't finish in the hedging questions. Thank you.

Nimrat Kaur BofA Global Research – Analyst

Hi, this is Nimrit from Bank of America. Thank you for taking the questions. I just have one on the cash flow visibility in terms of these deals that you're signing. How much cash does gets locked up in the beginning and what's the timeline when you start to see it back the payback period, in a way?

Antonio Simoes Legal & General Group PLC - Group Chief Executive Officer

If you can answer, we actually have given actually a little chart with exactly how that emerges over time.

Jeffrey Davies Legal & General Group PLC - Group Chief Financial Officer

We've shown it before. We have an appendix, which shows how this merges. So, on the standard portfolios, when the strain was around 3%, 4%, payback was about four years. Obviously, with the GIL strategy, payback is almost a year, just basically come back straight away. And so, that has a quicker payback period and you've got the cash coming off and basically, the runoff in the OSG, the vast majority of that is real cash. That's just capital being released in the business or the spread that we're earning on the assets, falling through to profit, we pay some out to pensioners. What's left over is just cash to us. So, that's a pretty good proxy.

Antonio Simoes Legal & General Group PLC - Group Chief Executive Officer

Thank you. So, yeah. Please.

Peter Scott Mudita Advisors - Analyst

Hi. Thank you. It's Peter Scott from Mudita Advisors. I was actually going to follow up on that by looking at the very last slide in the appendix because I don't think this is one I've seen before. I've seen the second last but not the last. Could we just talk through a couple of questions on that? They're probably basic, but it talks about capital emergence. Is that OSG? Okay. Does this assume the second line, the strain on that 10 billion is 2.77% or is?

Antonio Simoes Legal & General Group PLC - Group Chief Executive Officer

Yes, that's what it is because you see the 217.

Peter Scott Mudita Advisors - Analyst

Yup, okay.

Antonio Simoes Legal & General Group PLC - Group Chief Executive Officer

So, it's not the current market conditions.

Peter Scott Mudita Advisors - Analyst

Right. So, I was wondering whether that, it's a very niche question, but I was wondering whether the 277 include some emergence even in that hypothetical year or not. It sounds like not. And then the final question I was going to ask is, I'm assuming that the PRT you've written this year won't look like this second line because the strain is much lower, but the cash flows are much lower.

Jeffrey Davies Legal & General Group PLC - Group Chief Financial Officer

Well, no, no, the cash flows aren't much lower. They're marginally lower, to be honest, because a lot of it is the spread that comes with that.

Antonio Simoes Legal & General Group PLC - Group Chief Executive Officer

The payback is much faster, which is the previous question. And clearly, from memory, the 276, the number we have there, the 2.7, obviously, that is 1%. So, actually, you can adjust it. So, we've done it on what we think is the standard cash flow emergency. A few of you in the room ask for that chart. So, that's why-

Jeffrey Davies Legal & General Group PLC - Group Chief Financial Officer

It's consistent with the half year, where we showed a range of 2% to 4% for strain, 1.5 billion of OSG. It's consistent with that.

Peter Scott Mudita Advisors - Analyst

Great. Thank you. That's very helpful.

Antonio Simoes Legal & General Group PLC - Group Chief Executive Officer

Thank you. Could someone read the appendix? So, look, thank you. Thank you all for the questions. Just maybe to summarize, we have a clear strategy overall and we are making good progress across the board in our three businesses. In institutional retirement, we have a phenomenal opportunity ahead of us. I've talked about this 1 trillion opportunity of PRT expected over the next decade in the UK, the US, and Canada. There's probably another trillion after that, as I said, we are the leading global player in this market. We have competitive advantages from our scale, from our asset sourcing, or the discussion we've been having right now. And importantly, our synergistic model with the rest of L&G, the synergies with asset management, the synergies with the retail business. We have a proven track record of creating value in all market conditions, including the conditions in 2024, giving us the confidence that we will deliver on our targets. This year, we've had a strong year. We've written attractive business in a more capital efficient way, giving us the scope to return more to shareholders. So, I look forward to seeing many of you, well, at our full year results. But if I don't see you before then, I hope you have a good Christmas break. Thank you.