



## AXA ASIA PACIFIC HOLDINGS LIMITED ANNUAL GENERAL MEETING – 15 FEBRUARY 2001

### Group Chief Executive's Presentation Speaking Notes

*(Please check against delivery)*

Thank you chairman and good morning everybody.

I have been Group Chief Executive for just over a year now and there is no doubt that the last 12 months have seen major change in the company.

I would like to do three things this morning:

- Present a summary of our financial results for the year ending 30 September 2000
- Give you an overview of the last 12 months focussing on how we have been building capability to perform more effectively in the future
- And finally to spend some time looking at our priorities over the next 12 months as we seek to gain momentum.

Firstly the highlights:

Operating profit after tax and before abnormals was up 16% to \$309million. Bearing in mind the significant changes in Australia and New Zealand over the last 12 months I think this is a solid result.

We have had strong contributions to operating earnings from AXA China Region where we have seen a 25% increase over the last year to \$134million. Also contributing strongly was our health business where operating earnings increased by 188% from \$14million last year to \$40million this year.

There is no doubt that our results this year have been helped by strong performance from investment earnings. In Australia and New Zealand the investment earnings were \$90million, up 27% if we adjust for last year's one off gains on disposal of certain strategic shareholdings.

Reflecting the move back into equities in Hong Kong, and a fall in US interest rates, we have also seen strong growth in investment earnings from AXA China Region at \$114 million, up over 200% on the same period last year.

In Australia and New Zealand we had a reasonably good year for new business. New annual premiums were up 68% to \$296million and lump sum investment inflows were up 66% to \$4.6billion. This has helped us return to marginally positive net retail flows and we also saw quite strong overall inflows into institutional and wholesale funds.



Over the last 12 months we made further progress in improving cost efficiency and recurring management expenses in Australia and New Zealand were down over 3% to \$441million.

Significant action has been taken over the last 12 months to stem the losses on our income protection portfolio and these actions have started to take effect. We saw some improvement in the result over the second half of the year although it is still early days to say that we have fully resolved the problem.

We have also taken steps to simplify the business and we have successfully disposed of a number of non-core assets - our trustee businesses in New Zealand and Australia, two of our mortgage portfolios in New Zealand and, more recently, our health business in New Zealand.

And finally, in what I believe represents a tremendously exciting opportunity, we have formed a new joint venture asset management business with Alliance Capital, one of the worlds premier asset managers and a fellow member of the global AXA group.

I would now like to look at the results in a little more detail turning first to Australia and New Zealand.

Operating earnings, that is the profits that emerge from our risk and funds management products, increased by 16% from \$84million to \$98million. A significant contributor to the profit last year was the growth in our health business. Profits from our core life and funds management operations fell reflecting the losses in income protection and the lack of growth in sales of retail investment products.

Investment earnings, that is profits on shareholders reserves, increased by 27% if we adjust the 1999 result for the large one off gains on the sale of certain strategic assets.

Turning to AXA China Region operating earnings increased by 25% to \$134million. However this increase does reflect the increase in the group shareholding in AXA China Region from 73.5% to 100% as a result of the buy out of the minority shareholders in December 1999. On a like for like basis operating earnings in Hong Kong fell by 4%.

We did though, see a very strong increase in investment earnings to \$114million. This was helped by a significant move back into equities over the last 12 months and by strong bond markets.

Exchange rate movements contributed positively to the AXA China Region result as the Australian dollar fell over the year compared to the Hong Kong dollar.

Total assets under management and administration increased strongly during the year. In Australia and New Zealand we saw an increase of 15% to \$32.2billion due to positive cash flows and good investment performance.

In Hong Kong funds under management increased by nearly 40% to \$6.5 billion due to positive cash flow, improved investment performance and a positive movement in the Hong Kong dollar exchange rate.



And we also saw strong growth in our international funds under management which increased to \$1.36 billion mainly due to the acquisition of AXA Life Singapore. The Group finished the year with \$40 billion under management and administration

So what do these results mean for our shareholders? Dividends increased by 6% to 9.5 cents per share, earnings per share increased 16% to 17.6 cents and return on equity, calculated as profit before abnormals as a percentage of average shareholders equity, was 11.4%.

It is pleasing that the share price has shown positive reaction to the new strategic direction in Australia and New Zealand. At the AGM last year the price stood at \$2.19. At close of business yesterday it stood at \$2.71, an increase of 23% representing a reasonable performance relative to the all ordinaries.

On balance I think a solid set of results but close analysis reinforces the importance of turning around our business in Australia and New Zealand and returning to growth in Hong Kong.

I would like to turn now to an overview of the past 12 months and to the progress we have made.

Firstly Australia and New Zealand. As you will be aware there were a number of significant challenges facing the company 12 months ago. In the fast growing investment and superannuation markets, our market share was low and declining. Over the last 12 months we have set out a very clear strategic focus - our business is wealth accumulation and financial protection. Our people have told me that this is the first time for many years that there has been clarity about our direction and about what we want to achieve. This has helped us to focus on what is important.

We have also painted a picture of what success will look like. We have launched a major transformation program - K5 - and set out 5 aspirational and very tough goals to be achieved by 2003.

Firstly to double the value of new business. The important word here is value. Yes we wish to be a leader in the market segments in which we compete but profitability of new business is more important than volume.

K2 - to move into the top 5 in net retail funds inflows. The retail investment and superannuation markets are the fastest growing and most profitable market segments in Australia and it is critical that we significantly increase our market share in these areas if we are to be seen as a major financial services player.

The third objective - K3 - is to reduce our management expense ratio by 50%. Although we have been successful in reducing costs in recent years we need to do much more if we are to be able to invest in growing the business and to produce competitive products and services. Two thirds of this improvement will come if we can achieve our first two growth objectives without increasing headcount. The other third will come from a series of cost efficiency initiatives which are already underway.

The fourth objective - K4 - recognises that our products are distributed, in the main, by financial planners and intermediaries. There is a clear correlation between market share and the service and support we provide to financial planners. We have set



ourselves the objective of being one of the top five service providers as measured by the ASSIRT survey.

And finally - K5 - which recognises that in our business it is the performance and motivation of our people that counts. AXA carries out an annual staff attitude survey around the world called Scope. We have set ourselves the objective of being in the top 25% of companies within the AXA group over the next 3 years.

These are tough objectives - they will not be easy to achieve. We still have a long way to go. However I am pleased that since we launched them in April we have made progress in the right direction under each one of them.

We have also, over the last six months, implemented a new organisational structure in the critical marketing and distribution areas. We have for the first time introduced very clear segmentation in distribution between our aligned adviser system and independent and non aligned adviser networks.

We have also formed a new marketing division which has responsibility for product pricing, profitability, distribution support and for continuing to build the AXA brand.

As the Chairman mentioned we have made a number of external appointments to strengthen the senior management team. As well as our new CFO, Matthew Slatter, we have a new General Manager of Distribution, Neil Swindells who joined us from a similar position at AMP. I am also pleased that Richard Shermon, who I worked closely with for a number of years in the UK, has moved to Australia to take responsibility for our new Marketing division.

And we have continued to strengthen awareness of the AXA name and brand in Australia and New Zealand. Helped by our very creative TV advertising campaigns aided awareness of the AXA name is now over 80% and, most encouragingly, AXA is the company most associated in the Australian market with being global. Nearly 35% of consumers mentioned AXA - a significantly higher proportion than those mentioning any of our competitors.

As you will know we, along with most other insurers in the Australian market, have suffered significantly deteriorating experience in income protection business over the last 2 or 3 years. We have taken strong action over the last 6 months to address the problems that we have been facing.

We have improved product design for new business removing some of the undesirable features that have grown up in recent years due to market pressure.

We have also put through some selective rate increases including increases to business enforce. These increases average around 20% but are greater for higher risk categories.

Critically we have tightened up our underwriting standards both in the areas of medical underwriting and, just as importantly, financial underwriting.

And finally we have increased the resources and emphasis being devoted to claims management. This is not to resist genuine claims, but rather to ensure that all claims are genuine and that policy holders are encouraged to return to work when they are able.



These initiatives have led to significantly improved financial performance in the second half of last year. However it is too early to say that the problem is behind us. There is no doubt that market pressures have led to weak underwriting practices and product design over a number of years and we must expect to see this reflected in claims incidence rates into the future. What will be critical is to ensure that we continue to manage claims fairly but tightly.

There are signs that others in the market are moving to follow our lead. However there is no doubt that we will lose some market share. It is a little early to tell precisely what the market reaction is going to be but reduction of 30% in our share is possible. However, as our K5 goals make clear, it is the value of new business that is important to us and there is no future for the company, for advisers or for our customers in writing new business on terms which will lead to losses.

In sharp contrast, another area of our risk business - private health insurance - has been doing extremely well. Helped by the Government's Lifetime health cover changes last year, our health business grew by one third. We now have one million members - 10.6% of the national market.

Helped by innovation in product design, in the use of technology and in the contracts we have negotiated with provider hospital groups, we have one of the best claims ratios in the market at 81%. The management team has also taken action to become more cost effective in recent years and we have a below average expense ratio of 12%.

Total premiums in our health business last year were \$731 million up 12% on 1999. The big effect of the increase in membership will come through in our premium income this year.

And as I said earlier total profit increased 184% up to nearly \$50 million before tax.

Clearly we have a very successful health business and we are close to completing a review of the future direction of this business to ensure that we maximise shareholder value.

The Chairman mentioned in his report one of the most exciting developments over the last 12 months which was the announcement of our joint venture partnership with Alliance Capital. Asset management capability, investment performance and the perception of our abilities as an asset manager, will be critically important if we are to achieve our objective of reaching the top 5 in net retail funds flows. The reputation of National Mutual over the last 10 years as an equity manager has not been strong. Although short term performance has improved significantly there is no doubt that it would have taken a considerable time for perceptions to start to match the reality. Accordingly we looked for ways in which we could achieve a quantum improvement in our asset management capability and in the perception of asset consultants. We also sought to leverage the global capability that AXA has as the fourth largest asset manager in the world.

This partnership with Alliance Capital, a member of the AXA group undoubtedly brings us world class asset management capability. We now have on the ground asset management operations in the United States, in all the major markets in Europe, in Tokyo, in Singapore, in Hong Kong and of course in Australia and New



Zealand. We are the only one of the top ten asset managers in Australia who is truly global.

This partnership has been very well received by the market and by advisers. We now have top rated asset management teams in each major asset class - Australian equities, international equities, fixed interest, cash and property. The integration is well advanced and we will have asset management teams in Sydney, in Melbourne and in Wellington.

We are already well advanced with plans to launch a range of new mutual funds starting in March and will the full retail product range being launched in July. We are also upgrading a number of our superannuation products and adding Alliance Capital managed funds to these.

I would now like to turn to AXA China Region - our very successful business in Hong Kong.

There is no doubt that the last 12 months has thrown up a number of significant challenges.

New life business fell around 15% compared to the previous year. This was for two principal reasons. Firstly the market moved strongly towards unit linked products and we did not have a suitable product range in place until the end of the year. And secondly there was a significant reduction in the number of life agents in the Hong Kong market.

New government requirements on agent qualifications caused an overall market reduction of around 16%. In addition we lost around 200 agents through the poaching activities of one of our competitors. As the Chairman said earlier we do not believe that this poaching which involves very high up front payments to agency leaders and their teams if they move from one company to another, adds shareholder value. It is bad for the image of the market and leads to significant churning of in force policies to the detriment to customers. We have build our reputation and our success by operating in a quality fashion and we are confident that we can continue to be successful without stooping to the tactics that some of our competitors have adopted.

A major feature of the market in Hong Kong last year was the introduction by the government of the new Mandatory Provident Fund. We finished the year as the seventh largest provider in the market with a market share of between 6 and 8% - final figures are not yet available.

We are one of only 5 companies selected by the Government to provide MPF products to their employees.

Although mandatory evidence suggests that at least 30% of employers in Hong Kong have not yet signed up and there is an opportunity to further increase our new business in this area.

We have responded proactively to the market challenges in Hong Kong. Our agent numbers have now stabilised - and we do not expect to see any further significant defections.



Very encouragingly the productivity of our agency sales force is significantly up on the same period last year and this is being helped by the new unit in product range that we launched in January.

We have put in place a new management and remuneration structure and we have also implemented a series of initiatives around recruitment and retention but these are based on reward for building long term value, not up front cash payments.

We are also taking steps to diversify our distribution through the development of salaried and corporate sales forces.

As I said earlier we have a very high quality and successful business in Hong Kong. We were named the Best Insurance Company in Hong Kong for 2000 by Capital Magazine and I expect to see a return to growth in both agency numbers and new business during the current year.

As you will know AXA is one of only a handful of foreign life companies to have been granted a licence in China.

AXA Asia Pacific has a 25% economic interest in the joint venture between AXA and our local partner, Minmetals.

Substantial progress has been made during the year. We are now fully operational with a full product range and at the end of the year had over 1000 agents operating in the field.

New business sales were initially slow due to unexpected changes in regulatory requirements.

However we now have a full range of participating life insurance products in the market place and the last quarter showed substantial improvement in new business activity.

AXA has applied for a licence extension and we are hopeful that this will be granted over the next 12 months.

China is predicted to be the only new entrant into the top 20 global life markets over the next 25 years. Our position represents an exciting long term strategic opportunity.

Elsewhere in Asia we experienced very strong growth. As the smaller economies have continued to recover from the Asian crisis we have seen increases in both agent numbers and new business with increases ranging from 64% in the Philippines to 565% in Thailand.

We are also pleased with developments with our bank partners. In the Philippines we have commenced a bancassurance venture with our partner Metro Bank which is showing early signs of success. We now have over 100 branch based advisers.

And in Thailand we are in discussion about a bancassurance venture with our partner - Krung Thai Bank.

I would now like to finish by outlining our key priorities for the next 12 months.



In Australia and New Zealand the organisation has responded well to change but we need to build on this and to imbed a performance culture and acceptance of change throughout the organisation.

We need to deliver a series of major projects. We are significantly increasing the investment in our business this year. In the next six months we will be launching a completely new range of mutual fund products and later in the year implementing some important upgrades to our superannuation product range.

Leveraging the benefits of our partnership with Alliance Capital will be of critical importance and we will be seeking to increase our penetration of recommended product lists.

We must also continue to take firm action in the management of our income protection portfolio.

Although we still have some way to go we will seek to sustain the trend towards improved results from our income protection portfolio.

Our new product launches, together with enhanced support for our aligned dealerships will help to increase the productivity of our aligned adviser. We need to start to move the productivity of our aligned adviser force towards the levels of some of our major competitors. We still have the second largest aligned adviser system in Australia and this ought to be a source of significant advantage to us.

As our service and product proposition improves, and as we market the benefits of our partnership with Alliance Capital, we need to start to develop relationships with external distribution channels and to increase the percentage of recommended lists on which the AXA name appears.

We will be implementing our new strategy in New Zealand and starting to integrate some of the support functions with those in Australia.

As I said earlier we must continue to improve cost efficiency and there are a number of initiatives underway which will continue to drive down our costs.

And finally we will be investing in further development of our financial portals - [www.adviser](http://www.adviser) and [www.client](http://www.client).

In AXA China Region we are taking steps to strengthen the senior management team particularly in operations, HR and agency management. We are strong believers that the traditional agency model will remain dominant in Hong Kong over the next few years but we need to evolve the management model as the market changes and matures.

We are developing alternative distribution channels in Hong Kong with a growing arm of the traditional salesforce being managed by salaried managers, and through the development of salaried advisers in the corporate and financial planning markets. And as I said earlier we will be looking for opportunities to benefit from a second wave of sales of the Mandatory Provident Fund.



In our other international businesses we are looking to see a continuation of the strong growth in new business that we have seen over the last 12 months, particularly in China.

We will be looking to move away from the current structure where each business is largely autonomous to a structure that will more easily enable us to leverage regional synergies in areas such as information systems, human resources management, finance and product development and this will also help us to leverage the strength and experience we have in Hong Kong into some of our smaller operations.

As I said 12 months ago ladies and gentlemen, year one was about getting the right people, structure and capabilities in place and I believe that we have made a good start.

This year will be about improving our products, service and market offer, and about building and rebuilding distribution relationships.

If we can do this successfully there is no reason why we should not see strong revenue growth in the retail investment and superannuation markets in 2002.

Our aspirations remain very ambitious but if we can build on the progress we have made they are achievable.

Thank you.