



# FACT SHEET

## VITALITY UK

Vitality UK consists of VitalityHealth and VitalityLife. During the year, VitalityInvest was launched, which will extend the successful Shared-Value Insurance model into the long-term savings market in the United Kingdom.

### Vitality HEALTH INSURANCE

**VitalityHealth** offers an integrated medical insurance and wellness proposition to individuals and, predominantly, small and medium enterprise clients. The holistic healthcare solution integrates prevention and health promotion with traditional illness cover.

### Vitality LIFE INSURANCE

**VitalityLife** provides individual and business clients with life, capital disability, severe illness and income protection cover. The Serious Illness Cover protects policyholders for almost four times as many conditions as other providers. VitalityLife is the only life insurer that encourages and rewards policyholders for being healthy through a range of Optimiser products.

### Vitality INVEST

**VitalityInvest** combines behavioural economics, savings and wellness to incentivise people to save sooner, invest for longer, manage their income drawdown and take steps to look after their health. Successful delivery is reliant on financial planning and cash flow modelling tools that combine traditional financial metrics with life expectancy insights. VitalityInvest uses Vitality's proprietary research on life expectancy, through Vitality Age. Vitality Age and the life expectancy insights have been developed in collaboration with the University of Cambridge and RAND Europe.

## Key data in our business

**VITALITYHEALTH AND VITALITYLIFE ARE IN THE top 5 market leaders**

**OPERATING PROFIT**  
↑ 44%  
to R1 104 million

**LIVES COVERED**  
↑ 11%  
to 1 084 million

**46%**  
prompted brand awareness



### Vitality HEALTH INSURANCE

The business has maintained strong growth across all markets with lives covered reaching **577 000**

**MEMBER ENGAGEMENT:**  
**36 million**  
total points-earning activities

**49%**  
of new business from the profitable individual market

**Cash generated by the in-force portfolio exceeds cash spent on new business acquisition**

### Vitality LIFE INSURANCE

The business has been successfully refocused for a low interest rate environment. Indexed premium products make up 39.6% of the business mix, up from 24% in 2014

**NEW BUSINESS INTERNAL RATE OF RETURN IS 4 times higher than risk-free**

**THE BUSINESS NOW COVERS 507 000 lives**

## How shared value is implemented in Vitality UK

### VITALITYHEALTH

Shared value has particular relevance in the UK due to the significant role the government plays in supplying healthcare through the National Health Service (NHS). The NHS may result in an under-investment in health and wellness in the private sector. This creates a requirement to increase public awareness and to create greater accountability among consumers for their wellbeing.

This forms the basis of Vitality's product, brand and marketing approach. We inform people of their risks and reward them for making healthy choices. By improving our clients' lifestyle behaviour and subsequently their long-term health, as well as providing traditional illness cover, VitalityHealth can help to significantly reduce the healthcare burden.

- Through the Shared-Value Insurance model, VitalityHealth has seen a lower claims cost among members who exercise five days a week when compared with those who exercise only once a week.
- The business has also seen a lower lapse rate among members engaged with Vitality and who have a higher Vitality status.

### VITALITYLIFE

Following the successful creation of the Shared-Value Insurance model in South Africa, it was exported globally, first in the United Kingdom. VitalityLife clients can participate in the Vitality Optimiser, which integrates VitalityLife products with Vitality. VitalityLife offers a unique proposition in the market by enabling clients to benefit from Vitality rewards, including upfront premium discounts, dynamic pricing and PayBack according to their health profile. Following the success of the Optimiser products launched in 2016, VitalityLife introduced a new version of the product aimed at smaller policies. The combined impact resulted in over 70% of all new business being optimised.

VITALITY ENGAGEMENT FOR VITALITY UK



65 000  
Apple Watches



468 000  
Ocado HealthyFood deliveries



250 000  
page views on the online Vitality Kids Hub





VITALITY UK

# OPERATIONAL REVIEW



## 2018 Performance

BUSINESS REVIEWS

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Discovery Integrated Annual Report 2018

### *Vitality* HEALTH INSURANCE

#### New business

↑ 14%

to R1 107 million (£64 million)

with the individual segment up 13%,  
representing half of total sales

#### Operating profit

↑ 108%

to R589 million (£34.0 million)

#### Lives covered

↑ 7%

to 577 000

During the financial year, the VitalityHealth back book generated excess cash of R1.6 billion. After new business acquisition costs and the investment in developing the business, R475 million of cash surplus was generated

### *Vitality* LIFE INSURANCE

#### VitalityLife achieved record sales of

R1 172 million

(£67.7 million) up 10% from 2017

#### Operating profit

↑ 5%

to R515 million (£29.7 million)

Strong sales for the year resulted in the business surpassing the milestone of half a million lives insured during 2018

#### Lives covered

↑ 15%

to 507 000

#### The new business margin is

39%

from 36% in the previous year



# Our strategy and differentiators

## VITALITY UK

We have created a unique retail franchise around health through our sponsorship assets and marketing campaigns. During the year, Vitality grew its ambassadors to include Heather Knight, England's women's team cricket captain, and Jos Butler, England's men's team cricket batsman and wicket keeper.

In addition to the existing sponsorship partners, Vitality is now also the Official Wellness Partner of England Hockey, the official sponsor of Back to Hockey and the title sponsor of the Vitality Hockey Women's World Cup 2018. Vitality increased its footprint in football by becoming the Official Health Insurance Partner of Chelsea FC and the Official Wellness Partner to Leicester City FC, Cardiff City FC and Newcastle United FC. Vitality also increased its footprint in cricket by becoming the new title partner of the T20 Blast, International T20 and recreational T20 cricket. Building on the partnership with England Netball, initiatives focus on further establishing Vitality's position in Women in Sport.

Through Britain's Healthiest Workplace, a research survey among participating British employers, we have assisted corporates to understand the cost of ill health for employers and to build the business case for investment in workplace health.

Prompted by the launch of VitalityInvest and to ensure support for our growth ambition and composite model, Vitality performed a strategic review of the brand architecture, positioning and tagline. The business launched a new tagline, 'Positively Different', using a roll-out approach that began with the launch of VitalityInvest in June.

## VITALITYHEALTH

VitalityHealth offers a holistic healthcare solution that integrates prevention and health promotion with traditional illness cover. Through Vitality, clients are encouraged to understand and improve their health. Vitality has recorded 36 million points-earning activities, up 66% from the previous year.

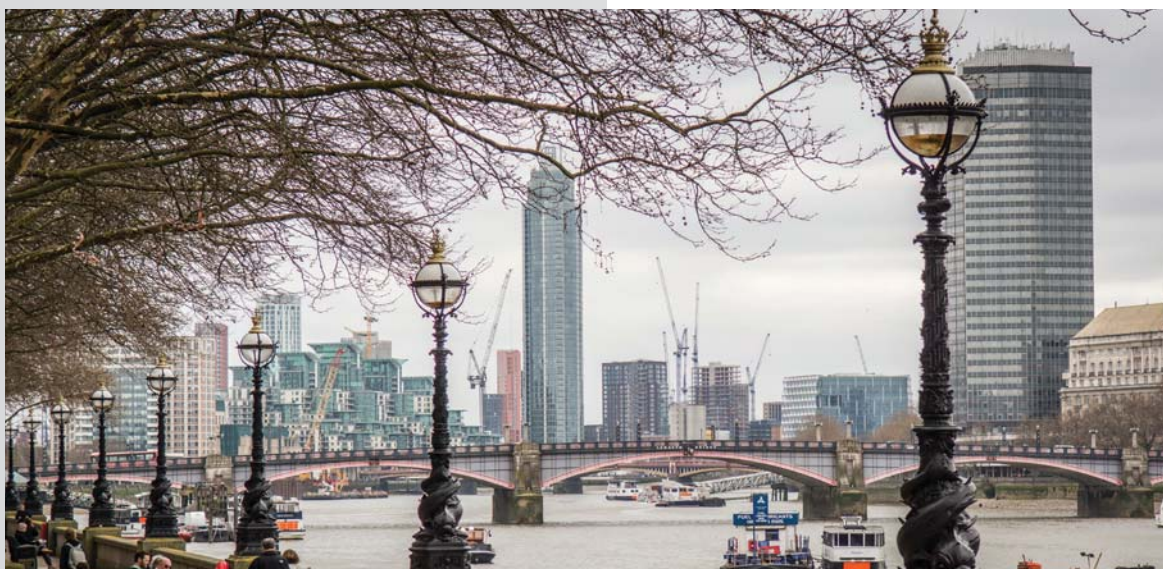
By driving engagement with Vitality, we aim to deliver industry-leading loss ratios and lapse rates, resulting in sustainable margins, and a return on capital of risk-free + 10%. Vitality Active Rewards, pioneered in the United Kingdom, has resulted in record levels of physical activity and significant early evidence of real behaviour change in the complex area of physical activity.

Vitality GP is one of VitalityHealth's proprietary health-tech primary care assets. This service is being developed further to provide access to health information, video GP consultations, face-to-face appointment booking, and self-referral for physiotherapy and psychology therapy sessions. This market-leading offering aims to improve healthcare outcomes for members and manage risks.

## VITALITYLIFE

VitalityLife has reconfigured and priced its business for a low interest rate environment, with a focus on term products and Vitality integration. As a result, sales performance picked up strongly and our distribution footprint continues to grow.

The steady and continued adoption of the Shared-Value Insurance model (Vitality-linked products comprise approximately 70% of new business), has been a key driver of the increasing value of new business margin, which improved from 36% to 46%. VitalityLife's continued product innovation ensures more capital-efficient products with a focus on business mix.





# The **key issues** that impacted our business this year



1

## Britain's exit from the European Union

The effect of a pressurised economy continues to pose a significant risk to the industry. A poor economy could lead to lower discretionary income, which could impact membership of personal medical insurance. Any mass transfer of jobs to Europe could also result in a decline in group health insurance membership. As VitalityHealth is not exposed to large corporate clients, the risk from job losses is limited. On the positive side, funding and staffing concerns in the NHS could be exacerbated by Britain's exit from the European Union, resulting in greater demand for private healthcare.

2

## Ongoing product innovation

VitalityHealth continues to invest in Vitality capabilities in an increasingly competitive landscape. Recent product enhancements offer a holistic health and wellbeing solution. The launch of Vitality Kids in partnership with Disney engages with children on healthy activities and healthy living. The launch of a new Healthy Mind component also addresses the important area of mental health and wellbeing.

We are also enhancing access to primary care services. This includes telemedicine and face-to-face GP services, as well as physiotherapy services. The Vitality GP app will offer a more robust digital journey for members to access services. The face-to-face GP services will continue to improve the level of coverage and efficient member engagement.

3

## Technology and digital assets to ensure quality and efficiency

VitalityHealth continues its investment in digital assets to achieve key service ambitions and provide members with seamless and integrated solutions. This includes enabling technologies to not only deliver outstanding member experiences, but also to empower our service operations teams. These investments are still in the implementation phase. Once implemented, it will ensure the business keeps up with changing member demands, removes barriers to engagement and creates cost efficiencies across service operations.

4

## Navigating regulatory developments

The General Data Protection Regulation (GDPR) came into effect in May 2018. The GDPR forms part of the data protection regime in the United Kingdom, together with the new Data Protection Act 2018. The GDPR is not only a compliance issue, but an opportunity to improve transparency and trust. We ran an extensive readiness programme at Group level (Health, Life, and Invest). This included revising our policies and standards, privacy notices, remediating third party and partner contracts, data breach management, information security, information processing, and data management for big data and analytics.

Our customer relationship management platform was also enhanced to manage customer communications and the appropriate consent. This is supported by a data management platform to create a single view of a client. We completed comprehensive employee training and awareness to ensure our employees are fully prepared.

We participated in various working groups with leading insurance companies in the United Kingdom to shape and align the industry. We also defined a consistent methodology for portability of data with leading financial advisers and insurance companies. We are looking at risk controls in Phase II of the project that will run until the end of 2018.

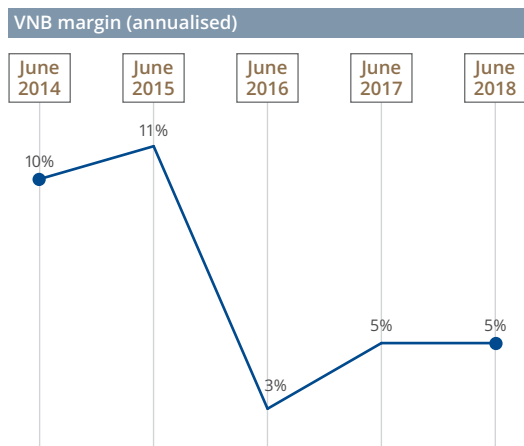
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### Volatile interest environment

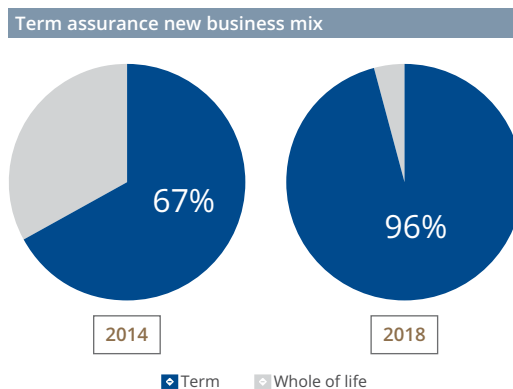
Against a low interest rate environment, VitalityLife has restructured and priced its business, with a focus on term products and Vitality integration. This has been well received and has assisted us to improve our VNB margin. The VitalityLife investment rate assumption was reviewed and set in line with the long-term risk-adjusted yield expected from a basket of fixed-interest securities to improve stability and reliability of IFRS results.

VitalityLife has also continued to strongly promote the benefit of indexed policies in protecting customers from the financially eroding effect of inflation. This has resulted in 39.6% of new business sold this year being indexed policies, where both annual premium and cover amount increase with inflation over time. Indexed policies ensure cover levels remain suitable to clients over the life of their policy, and provide an additional source of premium income for VitalityLife over time.

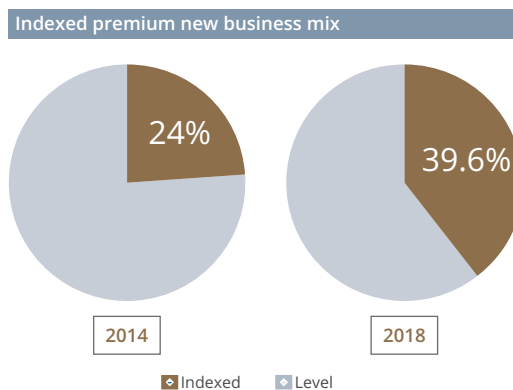
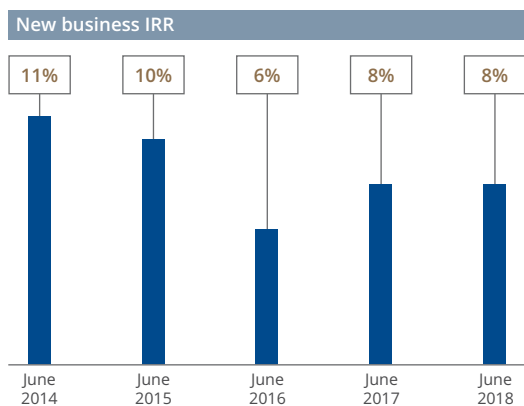
### Maintained VNB margin



### Business reconfigured over time for low interest rate environment



### New business internal rate of return (IRR) four times higher than risk-free



2

### Growth in distribution

Following 11 years of organic growth, we broke through the half a million client level. This has placed VitalityLife firmly among the ranks of established protection providers in the United Kingdom and provides a strong base for future sales.

As our distribution footprint increased across all channels this year, VitalityLife sales volumes achieved record levels for the last two quarters. Overall sales for the financial year were up approximately 10% on the previous year.



3

### Continued product innovation

During the year, we continued to lead innovation in the United Kingdom protection market. Following the immense success of our Optimiser products, we launched a new version of the Optimiser product for smaller policies. This, combined with continued uptake of the Optimiser products, resulted in 70% of new business being sold this year with an Optimiser.

Optimiser products reward customers for being healthy by flexing their insurance premium depending on their Vitality engagement and health. Supported by an increased uptake in Optimiser products, we have seen continued growth in client engagement with Vitality. Emerging VitalityLife experience continues to support the value of increased client engagement, with engaged clients generally exhibiting a lower claims experience and higher persistency than non-engaged clients.

4

### Expanding our offering

The launch of VitalityInvest represents the next evolution in the United Kingdom and sees the extension of the Shared-Value Insurance model into this long-term savings market. VitalityInvest brings together behavioural economics, savings and wellness to incentivise people to save sooner, invest for longer, manage their income drawdown and take steps to look after their health.

The initial product range include individual savings accounts, self-selected personal pensions and an income drawdown. Across the business in the United Kingdom, there is a focus to build on the single Vitality platform to integrate products and customer journeys, and to offer clients more value from their healthcare, life cover and long-term savings products.

### Leadership through technology improvements

VitalityLife was awarded the prestigious Celent Model Insurer Award in the category for Operational Excellence. This reward provided recognition for the Vitality Nurse programme, which has revolutionised medical evidence collection for VitalityLife by bringing it in-house and drastically reducing the time to obtain results through automation and the use of technology.

## OUTLOOK

### VITALITYHEALTH

#### Key focus areas going forward will include:

- Ongoing focus on the quality and efficiency of our digital assets to ensure a seamless offering for clients. For example, we will focus on enhancing the role of telemedicine.
- Using our learning from Britain's Healthiest Workplace to support and equip businesses to improve their employees' health, productivity and engagement.
- Continued strong growth in profitable individual and small and medium enterprise business, while also achieving strong growth in the corporate market on a marginal cost basis, which will provide a contribution to fixed costs. We will achieve this through product design and pricing sophistication.
- Focusing on launching new initiatives in the United Kingdom that leverage the Vitality brand, are customer based and use proven application of the Shared-Value Insurance model.

### VITALITYLIFE

#### Similar to VitalityHealth, VitalityLife will maintain a focus on:

- Continued new business growth across all markets. We will achieve this through product design and pricing sophistication.
- Continued growth in the distribution footprint across all channels.
- Ongoing focus on the quality and efficiency of our digital assets to ensure a seamless offering for clients.
- Focusing on launching new initiatives in the United Kingdom that leverage the Vitality brand, are customer-based and use proven application of the Shared-Value Insurance model.

#### We will also focus on:

Growing the VitalityInvest business by applying the Shared-Value Insurance model to the long-term savings market in the United Kingdom.

**Vitality** HEALTH INSURANCE

**Q** Is the loss ratio sustainable?

**A** We believe it is, yes. The superior claims performance is due to the combined effect of Vitality on selection, retention and risk, sophisticated care pathways, tariff improvements and a re-engineering of the claims management process. Sustainability is driven by the multifactorial nature of the loss ratio. In addition, Vitality has a positive ripple effect on many factors contributing to the loss ratio. For example, member selection, retention and risk. As we continue to improve Vitality to effectively change behaviours that affect risk, it will continue to have a positive impact on the loss ratio.

**Q** How will you grow your market share?

**A** We have already been successful in attracting new business through our direct to consumer channel. Through product design and leveraging the brand, we will continue to position ourselves as the provider of choice among new-to-market individuals. In addition, we will pursue product innovation to attract an increasing portion of the market's switcher business.

**Q** Why do you use FinRe in the protection business?

**A** FinRe allows us to more accurately match acquisition cost to the expected lifetime value of the policy. As our new business is heavily weighted to individual policies with high commission fees, understanding the acquisition cost in context of the expected lifetime value is particularly important.

**Vitality** LIFE INSURANCE

**Q** What is the outlook for interest rates and how will movements in interest rates affect your financial results?

**A** As outlined under our key issues, we have reconfigured our business for the interest rate environment, with a focus on term products and Vitality integration. This has been well received and has assisted us to improve our VNB margin. The investment rate assumption was reviewed and set in line with the long-term risk-adjusted yield expected from a basket of fixed-interest securities. This move to a long-term view of the investment assumption improves the reliability and stability of IFRS results.

**Q** How will you grow market share?

**A** We will continue to refine our product design and pricing sophistication, and use the value of Vitality to grow our market share. Emerging VitalityLife experience continues to support the contribution of Vitality when looking at new business. Increased client engagement in Vitality also shows clients generally exhibit lower claims and higher persistency than non-engaged clients. We will also look for opportunities that allow for integration with VitalityHealth products.