Bank of America Merrill Lynch 2019 Insurance Conference
Voya Financial Fireside Chat Transcript

Voya Financial Participant:
Rod Martin, Chairman and Chief Executive Officer
Mike Smith, Chief Financial Officer

Host:
Jay Cohen, Bank of America Merrill Lynch

Jay: I am pleased to introduce Rod Martin, Voya's CEO, and Mike Smith, Chief Financial Officer. Rod joined Voya in 2011 and is really the architect of the dramatic and positive changes that have occurred at Voya over the past eight years.

Rod has more than 40 years of experience in the industry. Mike became CFO in November of 2016 and held other leadership roles prior to his current position, including the CEO of the Insurance Solutions segment and Chief Risk Officer. He's been with the company for about a decade. Is that fair?

Mike: Yes.

Jay: Rod, I want to open up with an open-ended question just to give you a chance to set the stage, reflect a bit on 2018, the accomplishments you had, and then look at your priorities for 2019?

Rod: Sure. I think 2018 in many ways was an absolutely pivotal year in a number of ways; but primarily we completed the portfolio rationalization that we had been doing and analyzing and reviewing and discussing for some period of time.

As you well know, our story in the beginning was a ROE improvement story and a capital return story; we had a Closed Block Variable Annuity business. Mike and I and the management team with the board made the decision and announced the transaction with Apollo and Athene. And then the last portfolio piece that we decided was the discontinuance of new Life sales, and we're retaining that block and running that.

And those were really the key pieces of what we've called internally, phase 2 of our plan. We just introduced, after the third quarter earnings call, our 2019, 2020 and 2021 plan. It's fundamentally built around, as I think most of you would well be aware, our workplace focus with our Retirement, Investment Management, and our Employee Benefit businesses.

We're excited about our workplace and financial distribution focus. It's a streamlined portfolio. We announced three things on that at Investor Day that we just reaffirmed with our fourth quarter call – our organic growth, our expense reductions associated with the portfolio decisions, and our capital management. We guided to 10 plus percent EPS growth rate for 2019, 2020 and 2021. We just reaffirmed that guidance on our fourth quarter call. And I'll pause there.

Jay: That's fair. And in fact, I'm going to take a step even further back. When you took over Voya, this company had a very different culture than it has today. And I would argue it's a very challenging task to change a culture. I wanted to ask you, how did you go about it?

Rod: Yes, it's a huge task and but I would also say, it's a tremendous opportunity. We haven't talked this much externally about this. There hasn't been really a need to talk about it as much externally, but we really treated it as a 6,000 person startup company and we did the things that you would expect companies to do right away with a new management team. And we did an analysis of the businesses we were in, the distribution platforms we were in, the products we were in, all of that analytics. We looked at vision and values. We didn't throw everything out, but we, on the edges, made some improvement.

But this was the piece that we really focused on. To get a different outcome, we knew we needed to change the culture. In fairness, ING Group was focused – pre-financial crisis – largely on top-line sales, as were many other companies, including my former company. Until the music stopped in the financial crisis, that worked for everyone, until it didn't. We knew we needed to focus on ROE improvements, capital return, and solid recurring business results – and that's what we went about.

What we introduced internally was a program that we call Continuous Improvement. Think about it as problem solving. A lot of you might recognize it as lean management – but on top of that, starting with our board and our senior management team, we also saw this as the fresh piece of paper; an opportunity to really think about things differently. ING Group owned 100% of the company. As they sold off their interest, we could appoint Directors and we could start to put our thumbprint on the company. It was a very conscious decision by Mike and I and the team, and our lead Director to, by way of example, start with our Board focused on diversity and inclusion.

And we went from zero diversity to half of our Board are women, three of our five committee chairs of our Board are women. We cascaded that down into the first and second level of the organization. Now half of our business leaders are women. This has been a conscious choice. We're not just doing it because it's the right thing to do; we're doing it because there is tons of evidence that supports doing that.

Another thing, we were born out of the financial crisis and focused on being recognized as an ethical company. We've qualified for all years we've been eligible, which is five years – we will know shortly for the most current year – by the Ethisphere Institute. Last year they recognized 130 companies globally as the world's most ethical companies, there were only five financial services companies. That was very important to us. The diversity and inclusion piece is important to us.

Voya Cares was another initiative that we actually introduced at the Investor Day. You might say, that's interesting, but we want to be recognized as America's retirement company – and one in five families in the US have someone with a special need or disability or are supporting someone. Our ambition is to be America's retirement company. It became very self-evident to us that we've got to support all Americans, not just the four of the five families that aren't impacted by that. It started as a very grassroots effort. It's really taken traction. It's something our employees are very drawn to and proud of. In fact, Charlie mentioned at Investor Day that 20% of the business we garnered last year was in some way influenced by that program. That could be at the sponsor level, could be at the advisor level, it could be at the consultant level. And we think that matters.

Just this week, we were recognized by Barron's as the leading financial institution on sustainability. All of those roads intersect. It was deliberate in our thinking when we began this journey a little over 5.5 years ago as a public company, and we're very proud of the outcome.

Jay: I think when investors talk about ethical companies, they probably don't focus that much on that topic, right? But where people want to work, that's very important. With retaining employees, that has to be an important?

Rod: I think it's critically important in retaining employees. Frankly, it's critically important to the people with whom we're doing business. And it's not just the consultants, although they're an important constituent. It's the consultants, the advisors, those companies, and the participant – people like you and me. You're going to choose to do business with a company based on how you feel about that company and what their track record is. We're in the long-term promise-keeping business, and I think the intersection of Ethisphere, the Barron's recognition, the diversity and inclusion – these are contributing factors to the sustainability of what we are building.

Jay: You mentioned Retirement. 2018 was a pretty tough year for that business, you did pretty well though. What distinguished Voya's efforts there in that tough environment?

Rod: I'll start and let Mike jump in. We had a record year last year, record earnings in Retirement. Our ROC in that business is top quartile at this point. One of the beautiful parts of our platform is we stood what we call market-of-markets. We're in the Small/Mid Corporate space. We're in the large Corporate. We're in the K-12, Tax-exempt, and the higher end in the government space. When there are markets that have a little more volatility, I think the strength of our platform will reveal itself as being more resilient. And Mike, you take it from there?

Mike: A couple of things to point out. First of all, strong net flows in that segment. The fourth quarter was our 21st consecutive quarter of positive net flows in the Small/Mid Corporate segment. 21 quarters – 5 years – we've had consistent growth in that segment. That's contributing to the record earnings.

That market-of-markets bleeds over into the mix of our revenues as well – in the fourth quarter you saw this. We're not so heavily dependent on and/or subject to the movements in the equity market. The significant amount of our flow and fees comes from pure recordkeeping – those aren't affected by equity market levels – as well as a fixed account spread-based business, which is a substantial portion of our overall revenue too. We certainly saw some impact to the equity markets in the quarter, but I think less than other peers. And you saw that in the fourth quarter results.

Rod: And Jay, in 2019 we anticipate over $10 billion of recurring deposits. And these numbers are large and it's hard sometimes to get people's minds around what that looks like. Well, it looks like the school teacher and the policeman and the fireman and everyday Americans that are putting away $500 a month, $700 a month to their retirement, and this is very sticky business. This is not being moved based on what CNBC says that morning, on what happens around the world or, frankly, domestically. This is a very predictable, recurring business, and it's one of their preeminent needs and they're very focused on.

Jay: Looking forward in this business, if you look at some of the fundamental headwinds you're facing, what would your list look like?

Rod: We're often asked, and it's a fair question, is there margin pressure? Yes. But it's not new. And it's been not new the entire time we've been a public company. And yet we've found a way to expand that over that period of time. We've been very disciplined, by way of example, on expense management. If you look at our operating expenses since we've been a public company, they're fundamentally flat, and we've grown the company substantially over that period of time.

When we announced the portfolio rebalancing decisions associated with the Apollo and Athene transaction, we announced that we will take out $110 to $130 million of expenses; we're on schedule for that. We just gave an update on the fourth quarter earnings call. When we announced last year on the life insurance decisions of stopping sales, which is another $20 million of savings by the end of 2019. On our Investor Day, for those of you who were there, we announced another $100 million by the end of 2020. Think about that as $230 to $250 million of cost saves in total. We have a very detailed plan. I am highly confident in our ability to accomplish that, and it's one of the three legs of the organic growth, expense management, and capital return story.

I mentioned earlier we've returned $5 billion of capital to shareholders – 46% of our outstanding shares – since IPO. We had a strong share buyback in the fourth quarter. We announced an ASR in the first quarter. That story is continuing.

Mike: Look, I think there's a lot more reasons to feel good about the Retirement business than there are to be worried about it.

Rod: Yeah, we're bullish.

Mike: People are under-saved. There's talk in the public policy arena of changes to further facilitate Retirement savings. There is consolidation of the industry – 10 years ago the top 10 players had 50% of the assets. Now they're at 75% of the assets. We've been in the top 10 and we're gaining share, not only from the top 10 competitors, but also from those that are smaller. You've got 50 players fighting for 25% of the AUM. That's not happening because companies are being brought together, that's happening because customers are voting with their feet. And they're looking for the big players, the ones that are going to be able to provide the top capabilities. We think we're one of them and we're pretty bullish on where the Retirement business is going.

Yes, there's fee pressure. The world is competitive. It's always been competitive; it will always be competitive. We've found ways to make it work. We think we'll be able to continue to do that.

Jay: When I was studying this industry over the past couple of years, I was a little surprised that there wasn't more consolidation given the pressure on that business. Do you think consolidation continues and could Voya play a role in that?

Rod: Yes, on two fronts. I think you're asking it more on the M&A side, I'll come to that. But just the point Mike's making. 50% of the AUM in the 401k space grew to 75%. We grew nicely in that period of time. The bottom 50 players are fighting over the 25%. I think you're going to continue to see that happening absent M&A. The companies are choosing. The players that are going to be here, are sustainable, are companies they want to do business with. And there's going to be a half a dozen players and Voya is squarely in that group that is going got be the net winner of that.

Are there going to be opportunities to buy blocks? Yes, there have been and are. And we answered at Investor Day, and I think Mike did a very clear job, we would look at that; but it would have to meet the threshold of the financial hurdle of our view that is better use of our excess capital than buying back our shares, because we're gaining share organically without it. And so would we consider it? Yes. Is it mandatory to hit the plan? The plan we introduced is based on fully organic growth and we're highly confident about our ability to do so.

Jay: It's a natural concentration occurring anyway.

Rod: Correct.

Jay: The other big business for you that is facing structural pressures is the Investment Management business. Can you talk about how Voya is positioned in this business given some of these pressures?

Rod: I think we've got a bit of a differentiated and unique story in a couple of different ways. We've got four or five specialty sleeves that have done well, and Christine outlined those again at Investor Day. We started in addition to that, four years ago I guess at this point in time – we got tremendous fixed income results, top decile results. We started marking these capabilities to other insurance companies. We've gone from zero to about $4 billion. We're doing business with 15 plus different insurance companies today.

We've expanded our distribution capabilities beyond the US, with these existing specialty strategies and fixed income solutions. Part of that was an extension of the natural relationship we had with NN out of the ING Group. Part of that is other geographies looking for results like what we have, primarily Japan and Asia. And we see an ability to continue that.

Is there pressure there? There are. We had the 12th consecutive quarter of institutional positive flows in the most recent quarter – a little different than the industry. But again, we are very targeted and focused on what we're doing and we're not trying to be all things to all people. And probably that's a difference too.

Jay: With both Retirement and Investment Management, Voya clearly has ample scale. You're a big player in both. If you look at the Employee Benefits business, it is less obvious that you have scale there. How important is scale in that business? Could it make sense at some point for you to grow this business in an inorganic way? Do you have any vigor there?

Rod: Do you want to start?

Mike: Well, I'll start on the scale question. I think first in the Stop Loss business, we have scale and we're a top five player. I think we get a look at every piece of business that we ought to get a look at. And the scale is important. That's more about expertise. It's a fairly concentrated set of players and we're viewed as a key part of that market. I think we're well positioned there. Voluntary is a source of a lot of growth for us. The premiums I think over the last couple of years have grown at a CAGR of over 20%, which is faster than the market.

Scale matters in the sense of having access to distribution. One of the key things we've been able to leverage is our position in Stop Loss has allowed us to take advantage of relationships we have with the key players in Voluntary distribution. We have also a meaningful Group Life business. We've been able to leverage that relationship as well. Scale is, you certainly have to have an efficient platform, but it's less important from a cost perspective than it is from a distribution perspective. I think you've seen us move forward in those markets, because of our ability to leverage our position, frankly, starting with Stop Loss, and then gaining from there, in terms of inorganic. Rod?

Rod: Well, again, I'd put it in the same category of would we consider it? Yes. Do we think it's essential for our focus areas? No. I said this at Investor Day and we put the responsibility of this on our shoulders, but I think one of the more underappreciated assets of our portfolio is our Employee Benefit business. If you look at the returns, it's our highest returning business. We've grown it nicely. We really understand the lane that we're in and we're not trying to be kind of all things to all people.

And if you look at the last four or five – to your point of M&A – commercial transactions and what has been paid for those transactions, I think the company that has acquired them, they seemingly have done well. It's continued to grow their companies. And if you applied that multiple to our business, I don't think it's reflected in our aggregate value right now. I put that on our shoulders to better tell that story to you and consistently show results, but I don't think it's reflected. And we're not trying to be all things to all people. It's the common mistake a lot of companies make; we don't need to be in every product.

We understand our space and I think we're doing it well. The growth of the Voluntary, and frankly, this started largely when Mike had that business responsibility, has been among the best stories in the last four or five years in the industry. And we see that expanding nicely as a perfect complement to our Stop Loss position.

Jay: Let's focus on Voluntary for a second. You hear a lot of companies wanting to grow and growing in that business. What are Voya's competitive advantages in that business that allows you to continue to grow the way you have been?

Rod: I think one is our focus on the market we serve. I mean we play in the 500 lives and up space deliberately. That's where we play well in Stop Loss and it's just been an extension of that. Mike mentioned each one of these businesses has a different set of consultants and advisors that we do business with. And a lot of them, like Voya and other companies, are trying to be more focused on having – I'll use Voya as an example, a One Voya approach – a one whatever-consulting-firm-name approach in approaching the market.

And I said it at Investor Day, if someone has made the decision and gone through the diligence of choosing to do business with Voya within an Employee Benefit array of products, why wouldn't they consider doing business with us, if and when they decide to put a 401-k plan in? Or the reverse of that.

In terms of the direct answer to your question, I think we have what we think is an appropriate array of products, but not every product – we're not confused by we need three times as many products. We have the products that we need. We've got deep relationships and we're staying in our lane and we're doing well.

Jay: The last session I didn't leave any time for Q&A from the audience and people let me know that that was unacceptable. I am opening up now at least for some questions from the audience. If you have a question, just raise your hand and wait for a mic, if you can, because it's being webcast. If you have a question, just pop your hand up, I'll try to keep an eye out there. I'd love to hear from you.

Expenses: you talk a lot about the expense reductions and the efficiency gains. I think most people perceive it as just cutting, cutting, and cutting. But it seems you've also changed the way you fundamentally do business, rather than just cutting expenses. Can you discuss some of these changes?

Rod: I'll start and then I'll let Mike pick up from here. But Jay, the observation is critically important. This is way more than just expense cutting. Look, all companies have to pay attention to that, and particularly in an environment that we're in. But this thesis of continuous improvement – may be said better, problem solving – how do we push the problem solving at the right level in the organization, the people closest to the customer, the closest distributor, the closest to wherever their problem is emerging; and have enough confidence in our people and the tools that we're using to allow them to make those decisions?

And we've rolled this out. We're completely through the company at this point in time. And this is something we started virtually when we went public. And it was our view of how we were going to change the culture. We've got a large operating budget, let's not assume that every dollar we are spending is spent in the most efficient way, and let's challenge those things.

Part of the reason our pure operating expenses have been flat for that entire period of time has been this philosophy. The expenses associated with the portfolio rebalancing is expense reduction associated with those businesses left and you've got to cut those expenses. But at the same time, we're investing in our business.

We've got two things that are happening with high velocity right now. Accomplishing those expense-cutting objectives that we've laid out for you and I'm highly confident of that, but we're also investing substantially in our business. We announced two Investor Days ago – the June '15 Investor Day – a $350 million strategic investment program in digital and data and analytics. And that's run its course. In 2016, 2017, and 2018 we finished that. The run-rate expenses are now built back into the business. We are investing in our Retirement business; we're investing in our Investment Management business. You see that in the P&L of the business right now, at the same time we're reducing these expenses.

And I think the critical part for our internal folks is that they understand both things are happening. I mean we're stepping on the gas of these investments, as well as efficiently moving through the expense reduction. Feel free to round that out.

Mike: Maybe just to give a little color on how we approach these expense reductions, because I think that's illuminating. There's an easy way to go at expense cuts, which is I need to cut X, I spent Y, X divided by Y. Everyone go get that percentage cut. Don't care how, just get it. We haven't taken that approach. And in this most recent round, or where we're looking for this additional $100 plus million of expense reductions that we talked about, we actually did what I'd call a grassroots search for what are the things that we should do as a team, as a collective company, to remove waste from the way we conduct our business. What are the things that we could do better? We literally brought hundreds of people together around the organization, generated hundreds of ideas, evaluated them, found the overlap, and consolidated it.

We now have, in order to achieve the goals that we set forward, we've got a very clear with quarterly deliverables laid out plan set for – that will deliver the savings that we talked about. And it's not a top-down thou shalt cut. It's a bottom-up, what are the things we could do better? And I think to where you started the question, Jay, I mean we've taken more of an efficiency approach and a customer-focused approach. How can we better deliver to customers while doing it less costly? And I think that's what's allowed us to operate at flat expenses and still grow. It's a little discordant for our staff to hear that we're cutting while we're growing, but I think they're getting it. And I think we'll continue to make progress there.

Jay: But doesn't it affect morale when they're hearing about cost cuts?

Mike: It's a management issue, but I think we've successfully navigated it and we've been making reductions for the last couple of years.

Rod: Let me spend a minute on morale. You're asking a really good question. I joined in April of 2011. We started the work that summer on the plan that we introduced when we went public, which was largely, but morphed into what you all would recognize as the ROE improvement story and the capital return story. What we also did in the summer of 2012 is a baseline of third-party organizational health index. And as you might expect, from the financial crisis to then, ING told, you're going to be sold; you're not going to be sold; you're going to be listed; you're not going to be listed. Morale was about as low as you might expect.

We brought a third party in to do this. We knew exactly the results would be awful, but I wanted a baseline to measure how are we improving. Two years later we went back; we went from bottom quartile in the organizational health index, to top quartile. Two years later, just this summer, we did it again on top of and right in the headwind of the Apollo / Athene transaction and the life insurance decision. We maintained the top quartile performance, in terms of the health index.

There are lots of other little indicators. I talked about the diversity and inclusion piece and the Voya Cares piece. One of the things we're really proud about is one of the benefits that was there when we got there, we just amplified it, is our engagement like many of your firms have with your employees in charitable activities. And we really index on this.

Our employees give at a rate 2.5 times the financial services average. We don't make them do that, this is their choice. And I think it's a reflection of people don't do that with their time and money if they're not happy where they are. Whatever firm it may be. I'm using Voya as an example. I think this focus on the culture we wanted to build, the clarity and transparency of what we're trying to do and a third party coming in. We know what that looked like and we know what goods looks like and we know what the difference is and we work from bottom quartile, the top and we maintain that when we did the most recent one. Again, that's what gives us confidence as we push forward.

Jay: Any questions from the audience? Alan?

Audience: As outsiders, we can't see what you didn't do, but when a company has as much as capital as you do, have certain bankers shown you industries or things that you're just not interested, or people have shopped you? Are there any comments you can give us on that aspect?

Rod: In terms of bankers' ideas of Voya – bankers have lots of ideas of what Voya's business is, and that's like asking them not to breathe. Of course they're going to have ideas. We're very bullish about Voya as on the path that we're on. But is there speculation or has there been speculation. Do bankers have ideas? Endlessly. Of course, we listen to a lot of people. But we're very focused on the strategy that we introduced and the direction we're actually getting right now.

Jay: Any other questions? Why don't we end it here then. Rod, Mike, thank you very much for being here.

Rod: Thank you, all.

Mike: Thank you.