



The Actuarial Profession

making financial sense of the future

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Maximising the value of distribution in a changing landscape

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Agenda

- Introduction and caveats
- The changing landscape
 - Impact of RDR and auto-enrolment
 - Outlook for L&P product value
 - Outlook for distribution value
- Discussion

Some food for thought

- The Genesis of with profits insurance:
 - The Equitable policyholder revolt
- The Genesis of unit linked insurance:
 - IOS
 - Prevention of Frauds Investment Act
 - Tax relief
- **Entire landscapes can change...**

The Retail Distribution Review

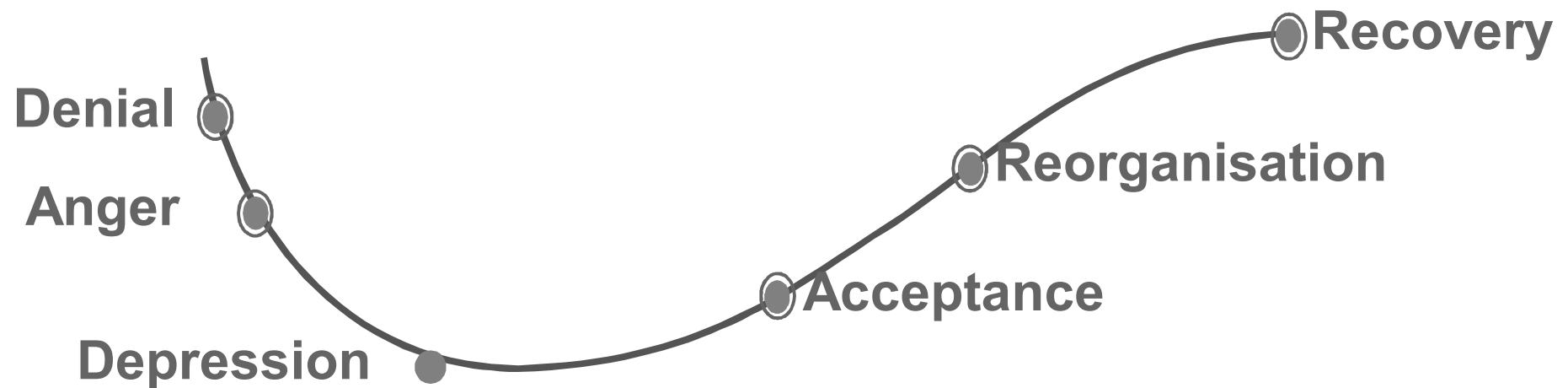
New landscape

- ▶ Reduction in investment advisor numbers – we estimate 20,000 in 2013 compared with 30,000 today
- ▶ Removal of commission - particularly indemnity commission
- ▶ Retention of existing trail commission
- ▶ Lack of compelling fee based advisor propositions
- ▶ Increased qualifications
- ▶ Increased capital requirements
- ▶ Reduction in new investment business volumes
- ▶ Increased reporting

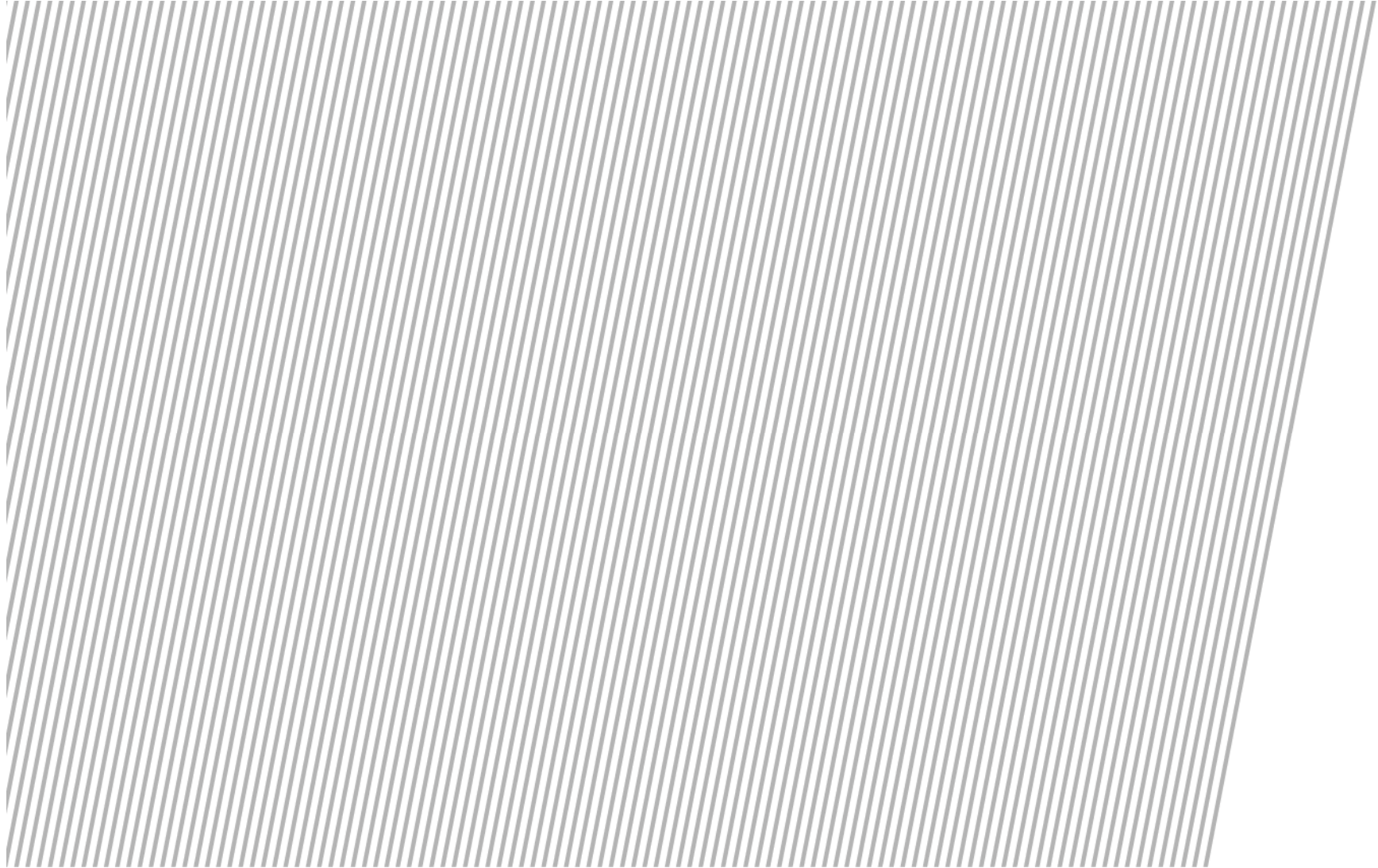
IFA reaction?....

The loss of commission

And where is your business?



Product value Post-RDR



Where is the value?

Packaged individual life & pension products?

- ▶ Negative outlook
 - ▶ Three hours to provide advice on a simple IPP for £200 per month. Cost = £600 – difficult sale!
 - ▶ Fund required to provide £5,000 pa = £100,000. Hard for many people to understand
 - ▶ Consumer confidence in pensions?
 - ▶ Constant changes in tax rules
 - ▶ And.....

Auto-enrolment

- ▶ Likely to proceed as planned. Another threat to regular premium individual pensions
 - ▶ Consumers without a pension; generally:
 - ▶ Too young
 - ▶ Too old
 - ▶ Too poor
 - ▶ Chosen to opt out
 - ▶ How large is the market for additional investment in excess of regulatory minimum?
- ▶ Forecast: 75% drop in regular IPP 2013

Where is the value?

Group Pensions

- ▶ The good news:
 - ▶ Persistency is going to get much better
- ▶ The other news
 - ▶ Auto-enrolment impact
 - ▶ Absence of churn reduces new business volumes
 - ▶ Challenges for fee based advice
 - ▶ Margins
 - ▶ DC trust based propositions
- ▶ Is Corporate Wrap an appropriate provider response?

Where is the value?

Retirement Solutions

- ▶ Positive:
 - ▶ Scope for innovation
 - ▶ Demand for advice exceeding supply
 - ▶ Wall of money
 - ▶ Absence of brands
 - ▶ Pressing need for your skills:
 - ▶ Longevity risk management
 - ▶ Offering equity exposure coupled with guarantees
- ▶ Not so positive
 - ▶ Some companies don't seem to want to manage risk

Where is the value?

Protection

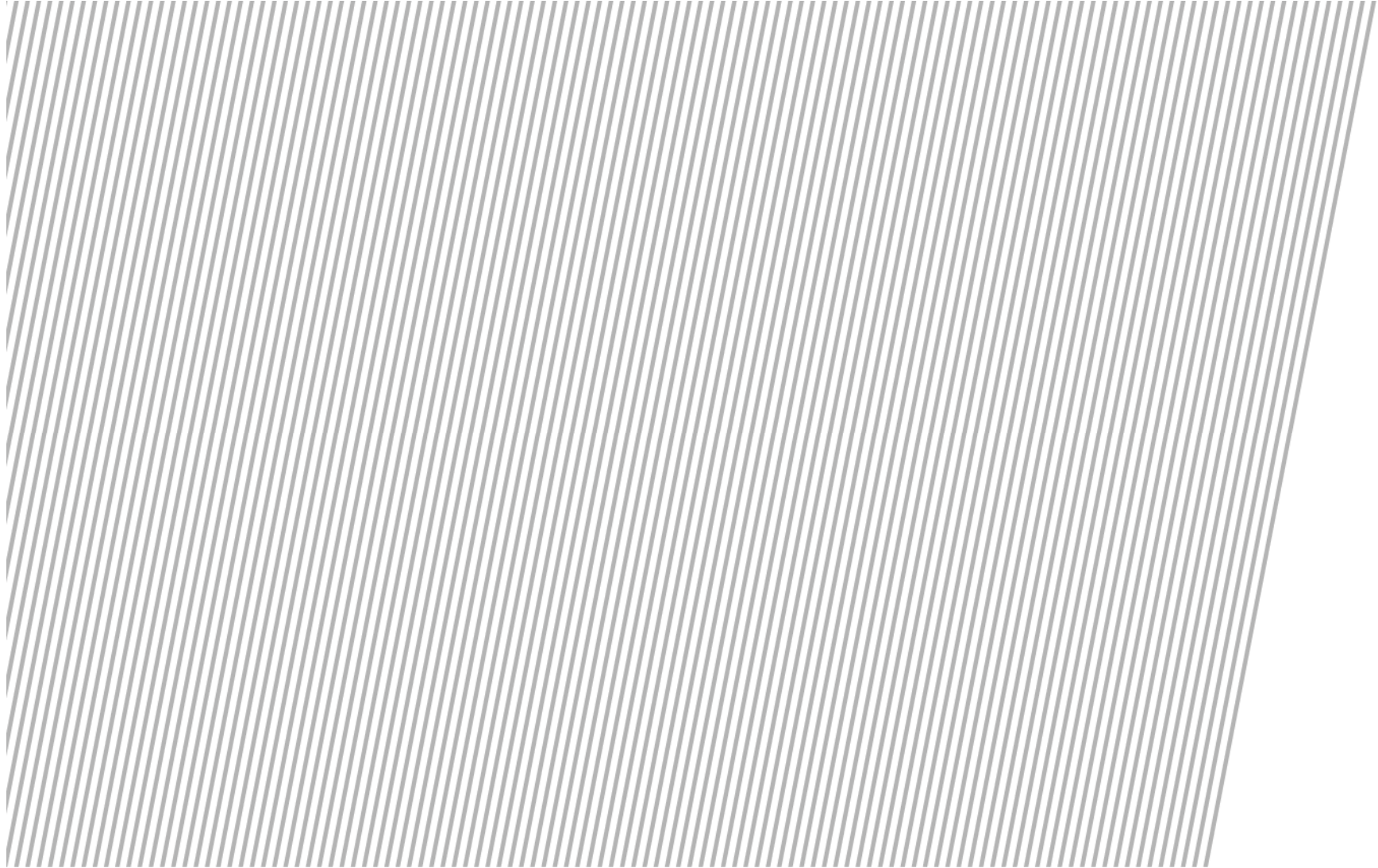
- ▶ Bound to be a growth market:
 - ▶ Tax changes open up opportunities for players without “I”
 - ▶ Sales tend to increase when investment business is challenging
 - ▶ Innovation in the protection business model
 - ▶ Interesting potential in Group Life

Where is the value?

Platforms

- ▶ Our forecast is £300bn by the end of 2013:
 - ▶ Improved client outcomes
 - ▶ Better business model for advisors
 - ▶ Fees via cash accounts
- ▶ But:
 - ▶ The number of players will increase before they decrease
 - ▶ Margins will be challenging – why % of fund charges?
 - ▶ Platforms are not a distribution channel

Distribution Channels



Value vs Volume

- ▶ Focus on new business value that is being generated, rather than just volumes.



▶ Strategy
▶ Distribution
▶ Incentives

Metrics

- ▶ Persistency
- ▶ Product charges
- ▶ Product cost
- ▶ Commissions
- ▶ Product margins
- ▶ Deals
- ▶ Servicing

Where is the value?

IFAs

- ▶ Potentially endangered species and not much interested in L&P investment products
- ▶ Maybe 10,000 in 2013?
- ▶ Still a cottage industry – not a single brand. Can be 100% owned by a provider.....
- ▶ One year to go – few pragmatic business plans or business models
- ▶ But never underestimate the resilience!

Where is the value?

Restricted Advisors

- ▶ Not tied!
- ▶ Can be whole market or single tied
- ▶ Less cost and risk than being an IFA
- ▶ But:
 - ▶ Will the concept appeal to the advisors?
 - ▶ Will the large firms/networks be aggressive re deals for their clients?
- ▶ Opportunity to enter into partnerships based on what you can both do for clients.... Interesting idea!

Where is the value?

Direct from provider

- ▶ Face to face?
- ▶ Remote?
- ▶ Non advised?
- ▶ Do providers have:
 - ▶ Appetite
 - ▶ Capability
 - ▶ Capital
 - ▶ Culture
- ▶ Will workplace provide access?

Where is the value for providers?

- ▶ It may be in investment management – but most providers are now open architecture
- ▶ It may be in customer service – many players have out-sourced this
- ▶ It may be in tax efficient products – but these are in short supply in L&P companies
- ▶ It may be in risk mitigation but some players don't wish to get involved
- ▶ And most have out- sourced distribution. So.....

Questions or comments?

Expressions of individual views by members of The Actuarial Profession and its staff are encouraged.

The views expressed in this presentation are those of the presenter.

