



The Actuarial Profession
making financial sense of the future

Risk Management from the perspective of the C-Suite
Perspectives on Risk Management in a Modern Financial Firm

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Friends Life

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Agenda

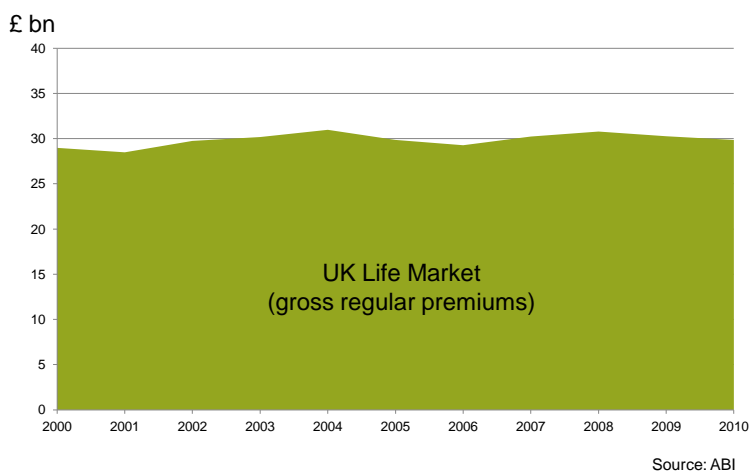
Perspective on UK Life and Pensions industry

Friends Life Group and Resolution

Risk management in the corporate suite

Case study: Separation and Integration

The UK Life Sector is ex-growth...



...and future growth prospects are weak

Industry faces massive change agenda

- Solvency II
- National Employment Savings Trust (NEST)
- Retail Distribution Review (RDR)
- Tax basis of life industry
- Fiscal reform affecting pensions
- Gender neutral



Investors and analysts increasingly focused on cash

- Multiple reporting bases (MCEV, IFRS, FSA Returns)
- Investors want to see the cash:
 - how much cash comes from the back book?
 - how much cash is recycled to support new business?
 - what are the terms of the new business – IRR, payback period?
 - can we believe the Value of New Business (VNB) estimates?
- **What is cash in life insurance?**



Agenda

Perspectives on UK Life and Pensions industry

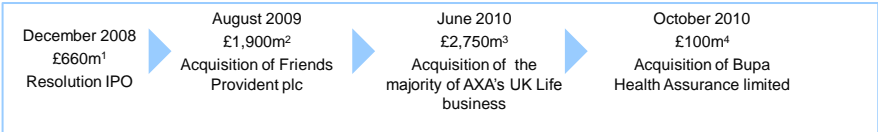
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Case study: Separation and Integration

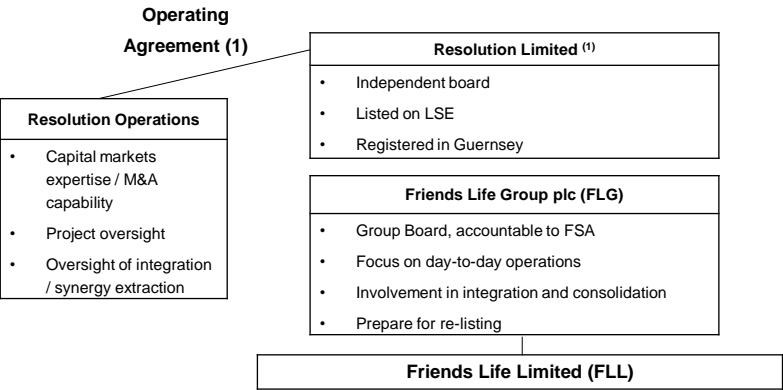
Resolution plc - UK life assurance restructuring

- UK Life project to consolidate open UK life assurance businesses
- UK Life project:
 - delivered through UK listed company with independent board
 - advised by members of The Resolution Group



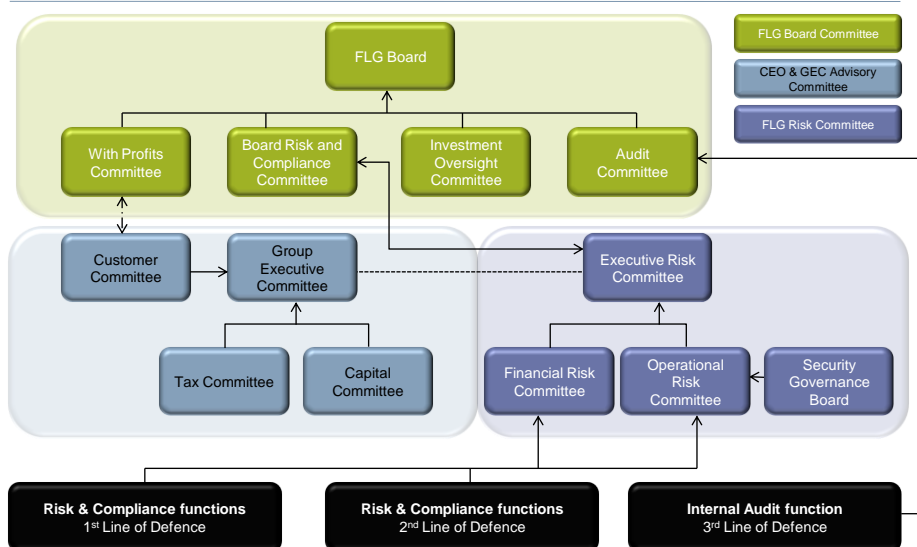
Note: All figures rounded, conversion rate £ 1 to \$1.61 as of 11/11/2010
(1) US\$1,100m Resolution IPO
(2) US\$3,100m acquisition of Friends Provident plc
(3) US\$4,400m acquisition of the majority of AXA's UK Life business
(4) US\$ 160m acquisition of Bupa Health Assurance limited

Friends Life is the platform for the Resolution UK Life Project



1. Resolution Limited has an agreement with Resolution Operations LLP ("ROL"), under which ROL provides services to it in these areas

Friends Life Governance Structure



Agenda

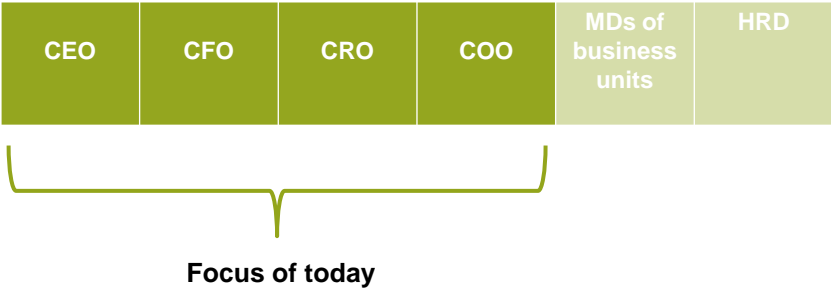
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The C-suite



Risk Universe for a life company

Strategic Risks	Operational Risks	Financial / Insurance Risks
<ul style="list-style-type: none">• Customer and distributor behavioural change• Regulatory / fiscal change• Competitor actions• Delivery of stated strategy and targets	<ul style="list-style-type: none">• Fraud• Errors• Conduct of business compliance• Customer retention• Business continuity• Data protection	<ul style="list-style-type: none">• Asset / Liability mismatches• Asset behaviour• Liquidity• Volatility of capital surplus / solvency coverage• Persistency• Mortality / morbidity• Longevity

What does CEO worry about?



Key concerns

- Clarity of strategy and alignment of organisation
- Overall business performance
- Right team
- Clear accountabilities
- Measurement of team's performance
- Board and shareholders

Risks

- Meeting performance/ targets
- Strategic risk

What does CFO worry about?



Key concerns

- Meeting financial targets
- Balance sheet resilience
- Dividend supportability
- Expenses
- Board and shareholders
- Audit committee

Risks

- Meeting performance/ targets
- Financial risks
- Risk of performance misstatement

What does CRO worry about?



Key concerns

- Clarity of risk appetite
- Robustness of risk framework
- Risk awareness ... culture
- Prudential compliance
- Conduct of business
- Regulatory relationships

Risks

- Everything!!

Agenda


Background on FLG

Perspective on UK Life and Pensions industry

Risk management in the corporate suite

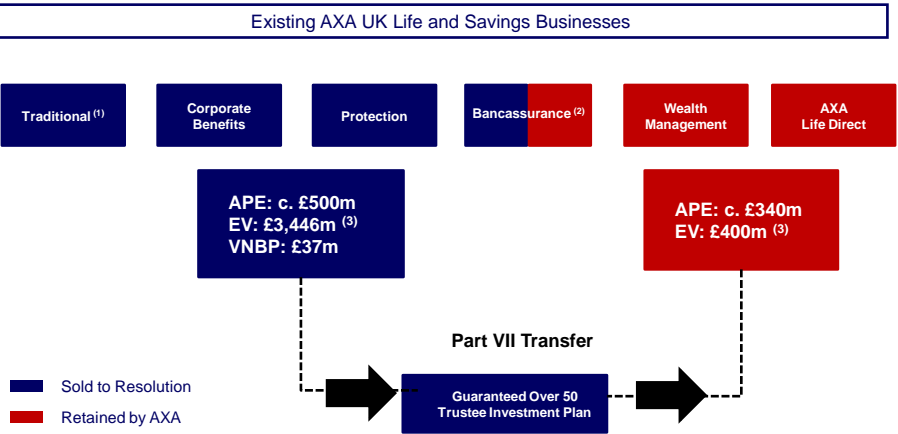
Case study: separation and integration

Transaction created a leading UK Life Insurer

	 FRIENDS PROVIDENT	+	AXA UK Life Business
Product APE by major business line	<ul style="list-style-type: none">Corporate pensions: £310mProtection: £50mAnnuity: £23m		<ul style="list-style-type: none">Corporate pensions: £203mProtection: £48mAnnuity: £27m
Distribution	<ul style="list-style-type: none">Mostly IFA & EBCBrandassurance		<ul style="list-style-type: none">Mostly IFA & EBCBancassurance
Group Financials	<ul style="list-style-type: none">Net EV: £3,488mFinancial assets: c. £48bn		<ul style="list-style-type: none">Net EV: £2,546mFinancial assets: c. £53bn

1. New business APE for the year ending 31 December 2009; excludes Friends Provident's International activities and Lombard

Acquisition entailed complex separation



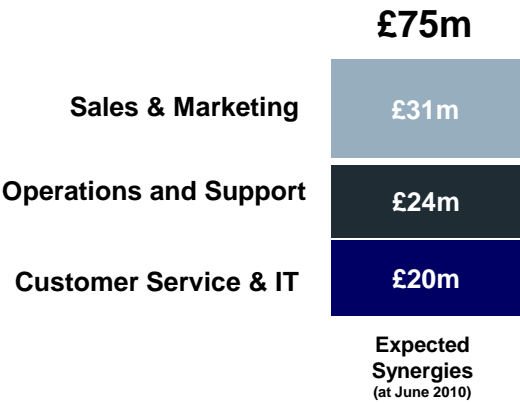
Timeline and Separation and Integration (S&I) approach



- Resolution's 100 Day Programme methodology
- Targeting full separation within 2 years; Full integration within 3 years
- One single Programme overseeing all integration and separation activity, including Part VIIs
- Key integration risks identified and stress tested

Clear plan – Risks carefully managed

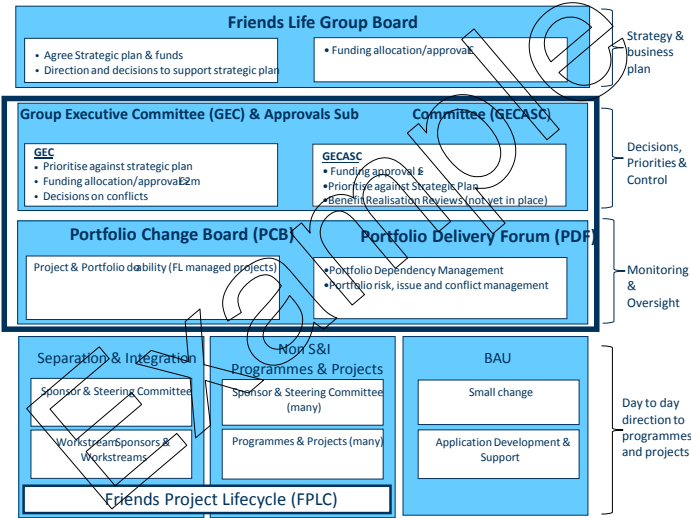
Initial S&I Synergy Targets of £75m (circa 20%)





Process needs phased approach		
100 Day Plan	Separation	Integration
<ul style="list-style-type: none">Starts from date of completionDay 1 board and Leadership team appointedEnsure unified approach at end 100 days to Assurance Functions, Governance, Control, MI & Business Plan, FinanceAlign with Group policies	<ul style="list-style-type: none">75 transitional services at point of completionAll services are running successfully,Plans under way for migration off the servicesImplement rebrandingPart VII transfers	<ul style="list-style-type: none">Creating a focused approach to marketOrganisation Design60+ senior management roles appointedConsultation on initial redundanciesDecision on sitesRebrand and re-launch product propositions
Completed end Nov2010	Completed by end 2012	Completed by end 2013

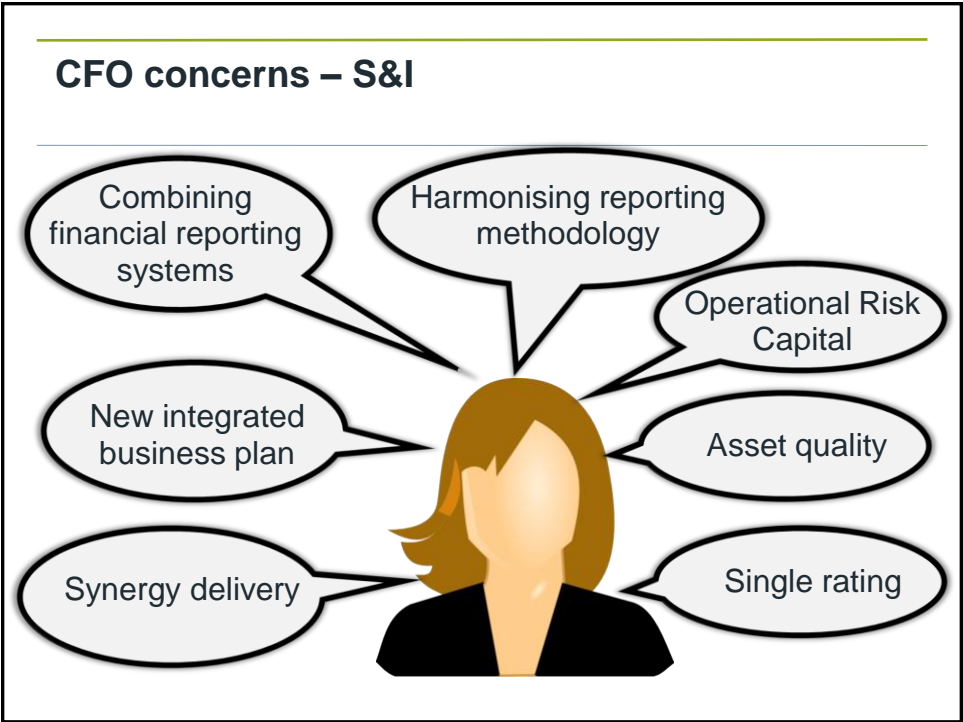
Robust Governance Framework



Feb 2011 Strategic Review –
UK market participation decisions

	Products	Channel		
		IFA / EBC	Distribution partnerships	Existing customers
Corporate	Group Pensions	✓	✓	✓
	Group Risk	✓	✓	✓
Individual	Protection	✓	✓	✓
	Annuities	TBC	TBC	✓
	Savings & Investments	X	X	✓
	Pensions	X	X	✓

✓ = Full channel coverage ✓ = Selective approach X = No activity / withdraw



Continuous monitoring of benefits

Project and Description	Business Unit / Area	Overall RAG	Costs	Milestones	Benefits	Risks / Issues	Overall RAG last month	Trend
Organisation Design work stream	S&I							
Ex Transition Services Agreements								
Systems migration								
Financial reporting harmonisation								

2012

2013

Aggregate Do-ability

R

R

Budget Ytd Full year projection

G

R

N/A

A

Portfolio Dependencies

A

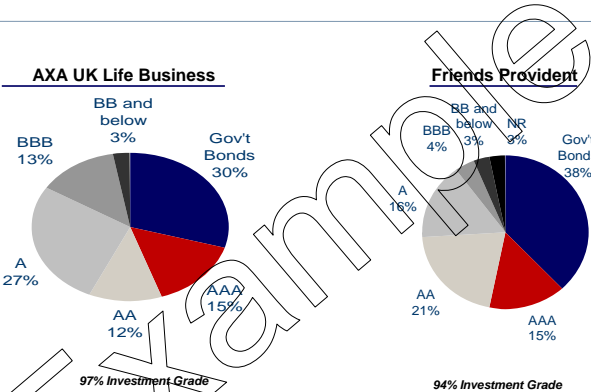
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Portfolio Milestones

A

N/A

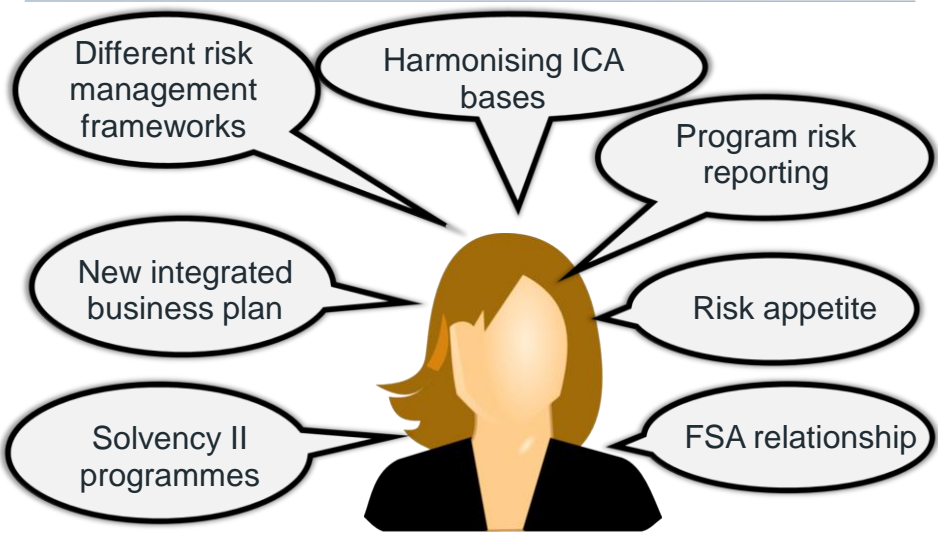
Asset Quality



- c. £53bn financial assets of which £13.3bn in fixed income

1. Refers to exposure to government bonds issued by Spain, Portugal, Italy, Ireland and Greece

CRO concerns – S&I



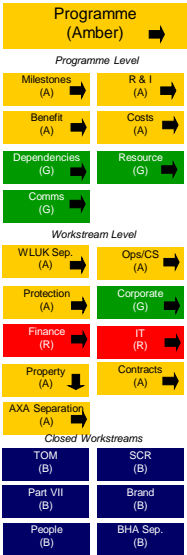
Regular Reporting to Board Risk Committee

Key points since last S&I Steering Committee on 16 May, 2012

- **Programme status and overview** – Programme remains Amber as
- **WLUK Separation** – Embassy and Life Rebrand completed successfully weekend ..
- **Protection** –Some fixes have already been applied – and more are required before the main partner migrations.
- **Finance** – General Ledger – QL Migration is dependent on Solvency II developing the Life system interface.Unit Pricing – approach to testing is being reviewed ..
- **Operations / CS** – A gap in scope in relation to Agency data has come to light. Site closure
- **IT** – Traditional project – experienced patch problems
- **Corporate Benefits** –Scheme Literature Integration
- **Property** - planned closure of XYZ announced
- **Contracts** – the ABC negotiations continue – letter sent outlining our position and response awaited. Legal are currently drafting a response disputing their claims
- **AXA Separation** –Print services...

Key challenges and risks:-

- **Application Host Migration** – will be reviewed in this meeting



Where are we as a result of all of that?

- Clear strategy and targets
- New brand i.e. Friends Life
- Streamlined organisation



Streamlined organisation for Friends Life

UK Go to Market – *scale markets, good margins, efficient platforms*

Protection	Corporate Benefits	Retirement Income	Sesame Bankhall
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Heritage – *focus on closed book value drivers*

Clarity of Accountability	Outsourcing	In house Investment Management	Capital Management
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International – *two attractive businesses*

Friends Provident International	Lombard
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Building capability and track record to drive value from further UK Life Sector consolidation

Where are we as a result of all of that?

- Clear strategy and targets
- New brand i.e. Friends Life
- Streamlined organisation
- 2/3 of Separation and Integration delivered
- Synergy benefits being realised
- Clean interim project reviews



C-suite and Risk Management

- Decision making under uncertainty
- Culture – behaviour and tone from the top
- Framing of objectives
- Incentives

Thank you!
