

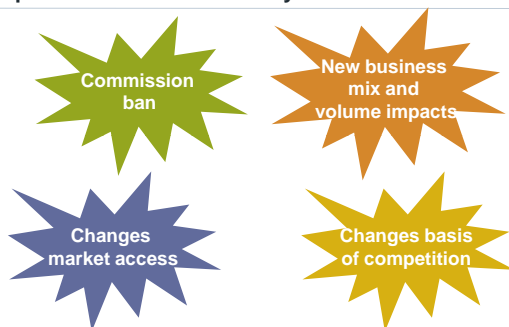
The Actuarial Profession
redefining the future of the industry

CILA Seminar, 11 May 2010
Jeremy Forty, Towers Watson



The Retail Distribution Review

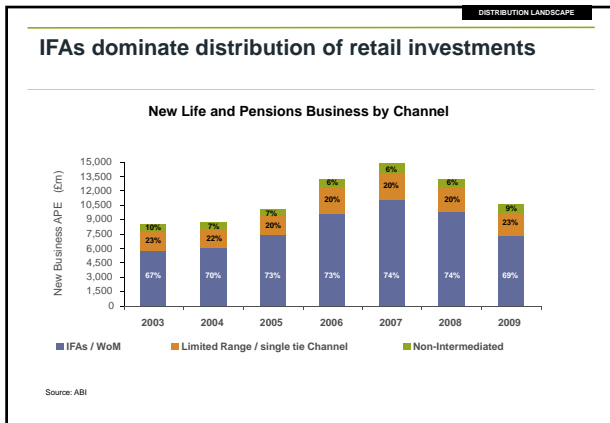
Four reasons why the Retail Distribution Review is important for the life industry

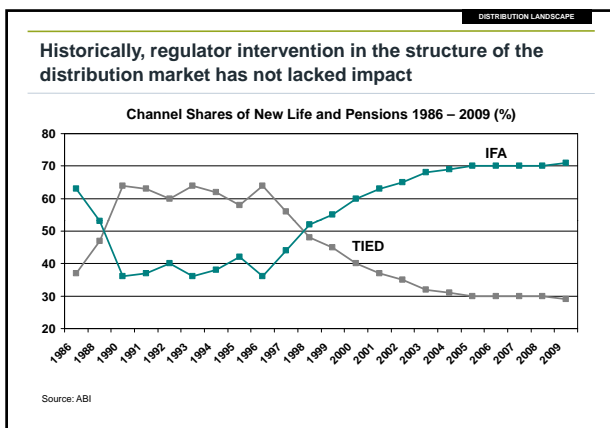


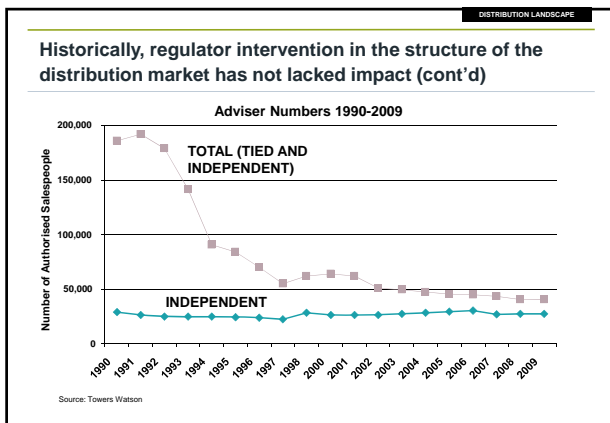
- Commission ban
- New business mix and volume impacts
- Changes market access
- Changes basis of competition

Agenda

- The current distribution landscape
- RDR objectives and scope
- Proposals and timeline
- Life industry implications







OBJECTIVES AND PROCESS

The RDR is part of the FSA's retail market strategy

Treating customers fairly

Financial capability

Retail Distribution Review

Desired RDR outcome:
"more consumers to have sufficient confidence in the market to want to use its products and services more often"

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OBJECTIVES AND PROCESS

The FSA set six objectives for the RDR

1. Improved clarity of products and services
2. More consumers to have their needs and wants addressed
3. Improved standards of professionalism
4. Remuneration that allows competitive forces to work in favour of consumers
5. Viable firms able to deliver on long-term commitments
6. A regulatory framework which supports the above and does not inhibit future innovation

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PROPOSALS AND TIMELINE

RDR timeline

27 June 2007 25 November 2008 25 June 2009 26 March 2010 Dec 2012

Discussion Paper (DP07/1) Feedback Statement (FS08/06) Consultation Paper (CP09/18) Policy Statement (PS10/6) Implementation

Discussion Paper (DP10/2) Platforms:
 delivering the RDR and other issues for discussion

Consultation Paper (CP10/8)
 Pure protection sales by retail investment firms

| PROPOSALS AND TIMELINE | |
|--|--|
| PS 10/6 contains final rules covering the key areas | |
| Topic | Detail |
| Enhanced standards of independence and disclosure | <ul style="list-style-type: none"> • Clearer service descriptions based around polarisation between independent and restricted advice and disclosure of restrictions • Independence: <ul style="list-style-type: none"> – advisers must carry out comprehensive and fair analysis – recommendations must be unbiased and unrestricted |
| Higher minimum adviser qualifications | <ul style="list-style-type: none"> • QCF level 4 – first year degree standard • Applies to new entrants from 2010 • New professional standards framework and CPD |
| Adviser remuneration | <ul style="list-style-type: none"> • Ban on provider-influenced remuneration of advisers • Replaced by Adviser Charging • Advisers can still be paid out of client premiums - but no factoring • Tightening of soft commission rules |
| Full implementation: 1 January 2013 | |

| PROPOSALS AND TIMELINE | | | | | |
|--|---|--------------------------------------|--|--|----------------|
| Five main sales models are likely under the RDR | | | | | |
| Attributes | Advice and sales models | | | | |
| | Independent advice | Restricted advice | Simplified advice | Basic advice | Execution only |
| Scope of services | "Unrestricted, unbiased" including extension of product range from packaged products to "Retail Investment Products" May be limited to "specialised" markets | Must disclose nature of restrictions | Can be independent or restricted Involves giving personal recommendations | Restricted only. Stakeholder products. No personal recommendation | No change |
| Adviser charging | Yes | Yes | Yes | No | N/A |
| Minimum professional standards | Yes | Yes | Yes | No | N/A |

| PROPOSALS AND TIMELINE | |
|---|--|
| Adviser charging: key points | |
| <ul style="list-style-type: none"> • Relates to how adviser firms are paid by providers • Ban on commission, rebating and factoring • Separate disclosure of cost of manufacture and advice • Charges communicated up front to customer • Applies to vertically integrated and tied firms and independents • Advice charges must be product neutral • Ongoing charges only for ongoing service | |

INDUSTRY IMPLICATIONS

Implications: market structure

| RDR Impact | Adviser Implications | Provider implications |
|--|---|---|
| <ul style="list-style-type: none"> Harder to be an adviser: <ul style="list-style-type: none"> Higher threshold for independence Minimum professional standards Harder to access provider support Increased capital requirements | <ul style="list-style-type: none"> Adviser exits Consolidation – including possible emergence of larger advisory firms Advisers switch to tied or multi-tied Move upmarket Expand into manufacture | <ul style="list-style-type: none"> How to secure market access in future landscape |

INDUSTRY IMPLICATIONS

Implications for propositions and competition

| RDR Impact | Adviser Implications | Provider Implications |
|--|--|--|
| <ul style="list-style-type: none"> Advisers must agree charges with customers | <ul style="list-style-type: none"> Setting the Advice Charge tariff – level and structure Clarify or change proposition and target market to justify charge Improve sales effectiveness (increase productivity, reduce unit costs) Invest in adviser support – and rebalance economics Change individual adviser remuneration | <ul style="list-style-type: none"> How to compete in post-commission market |

INDUSTRY IMPLICATIONS

Implications for new business mix and value

| RDR Impact | Adviser Implications | Provider Implications |
|---|---|--|
| <ul style="list-style-type: none"> IFAs must be "unbiased and unrestricted" Extension of product set beyond packaged products | <ul style="list-style-type: none"> More sophisticated product selection processes Increased use of non-packaged investment products | <ul style="list-style-type: none"> Threat of reduced volumes and profitability: <ul style="list-style-type: none"> Product commoditisation Downward pressure on charges Increased competition from current and substitute providers Product mix changes Improved persistency (post 2012) Reduced new business strain |

INDUSTRY IMPLICATIONS

Projected changes in the distribution mix and product trends will increase polarisation of winners and losers

| | <i>Projected change in addressable market</i> | |
|------------------------------------|---|---|
| IFA-only bond manufacturer | -66% | <i>Plus:</i> Reduction in number of product selection decision points as advisers consolidate and adopt restricted model |
| IFA-only pension manufacturer | -13% | |
| Multi-channel pension manufacturer | +23% | |

Source: Towers Watson analysis

Summary

- Some adviser exits but main trend will be migration from independent to restricted firms
- Consumers win from lower prices and better qualified advisers...
- ...but many stand to lose access to sources of advice
- Increased consolidation
- Significant competitive challenges for life companies generally...
- ... but also opportunities to capitalise on market disruption and underserved markets

For more information

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