What is keeping my CEO awake at night?

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Agenda

- Scale
- Capital
- Regulation
- Cost
- Distribution
- Global issues
Scale
Scale

• M & A
Reasons for M&A deals

- Geographic repositioning: 31%
- Forced sale of insurance assets: 15%
- Bolt-on: 29%
- Run off (2%)
- Private Equity (2%)
- Cyclical/consolidation (20%)
Scale

- M & A
- Solvency II benefit
Solvency II will benefit large insurers

- Yes: 90%
- Don't believe: 8%
- Don't know: 2%

Solvency II will increase industry consolidation

- Yes: 95%
- Don't believe: 5%
- Don't know: 0%
Scale

• M & A

• Solvency II benefit

• Does size matter?
Scale

• M & A
• Solvency II benefit
• Does size matter?
• Size or scale?
Questions for the CEO

Q What are the costs that cannot be squeezed below a certain level in order to accommodate a given level of premium? Given these costs, is there a minimum critical mass for elements of, or all of the business?

Q Can these 'critical mass' costs not be outsourced or otherwise controlled?

Q Do the benefits of increasing scale outweigh the risks such as loss of control and inaccuracy of data?

Q If increased scale is important, is an organic or inorganic approach optimal?

Q If increased scale is not important, would selective disposal enhance the quality of earnings?
Capital
Capital

• Global insurance capital position remains reasonably strong
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Capital

- Global insurance capital position remains reasonably strong.
- IFRS4 Phase 2 – help or hindrance?
Capital

• Global insurance capital position remains reasonably strong.

• IFRS4 Phase 2 – help or hindrance?

• The return of the composite insurer?
Capital

• Global insurance capital position remains reasonably strong.
• IFRS4 Phase 2 – help or hindrance?
• The return of the composite insurer?
• Regulation drives convergence of capital structures
Questions for the CEO

Q What plans do you have for the radical restructuring of your reinsurance programme to take advantage of Solvency II changes?

Q How do you propose to communicate to owners the changes to your capital structure that will be made necessary by Solvency II, continuing low yields on investment, and higher investor demand for returns?

Q Do you know what your accounts would look like under IFRS4 phase 2?

Q How are you responding to the delay in Solvency II implementation?
Regulation
Regulation

- Trust in financial services is very low
Which of these sectors do you trust?

- Financial services: 45%
- Banks: 47%
- Media: 51%
- Energy: 53%
- Pharmaceuticals: 56%
- Brewing and spirits: 59%
- Telecommunications: 60%
- Consumer packaged goods: 62%
- Food and beverage: 64%
- Automotive: 66%
- Technology: 79%
Regulation

- Trust in financial services is very low
- Customers think insurers try to confuse them
Customers think insurers try to confuse them

Percentage of insurance buyers who think that insurance providers make terms and conditions deliberately complicated

27%

73%
Regulation

- Trust in financial services is very low
- Customers think insurers try to confuse them
- Lots of new regulation
What has been the general impact of new regulation on your organisation?
Regulation

• Trust in financial services is very low
• Customers think insurers try to confuse them
• Lots of new regulation
• Insurers aren't banks, but do regulators care?
Questions for the CEO

Q To what extent is your regulatory stance reactive and to what extent have you managed to move to business as usual?

Q Does your board really understand the risks in the business?

Q Do you actively manage your regulator?

Q The last time you had a major regulatory challenge, how quickly did you react? How will you react next time?

Q Are you clear about the role and scope of the three lines of defence?
Costs
Costs

• Outsourcing
How important were each of these objectives in your most recent outsourcing effort?

<table>
<thead>
<tr>
<th>Objective</th>
<th>Important</th>
<th>Very Important</th>
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</thead>
<tbody>
<tr>
<td>Reduce operating costs</td>
<td>62%</td>
<td>25%</td>
</tr>
<tr>
<td>Improve Customer Service</td>
<td>42%</td>
<td>31%</td>
</tr>
<tr>
<td>Gain competitive advantage</td>
<td>20%</td>
<td>29%</td>
</tr>
<tr>
<td>Gain tax advantage</td>
<td>20%</td>
<td>23%</td>
</tr>
<tr>
<td>Leverage new technologies</td>
<td>17%</td>
<td>25%</td>
</tr>
<tr>
<td>Desire to consolidate</td>
<td>17%</td>
<td>25%</td>
</tr>
<tr>
<td>Access more flexible HR models</td>
<td>11%</td>
<td>42%</td>
</tr>
<tr>
<td>Improve controls</td>
<td>4%</td>
<td>10%</td>
</tr>
</tbody>
</table>
Costs

• Outsourcing

• Nondiscretionary vs. discretionary spend on professional services
Spend on professional services

- GT FS fees 2011-12 on client nondiscretionary needs: 7%
- GT FS fees 2011-12 on client discretionary requirements: 93%

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Costs

• Outsourcing

• Nondiscretionary vs. discretionary spend on professional services

• Shaving not cutting
Questions for the CEO

Q Do your outsourcing activities blur your cost base or make trends clearer?

Q How vulnerable are you to operational or financial failure of an outsourced provider?

Q How central is cost base control to your agenda?

Q How aligned are your cost control priorities to your strategic priorities?
Distribution
Distribution

• Direct distribution of UK non-life personal lines increasing
Distribution

- Direct distribution of UK non-life personal lines increasing
- Aggregator usage focuses on simple personal lines products
Aggregator usage focuses on simple personal lines products

- Conversion Rate (%)
- Researched (%)
- Purchased (%)

- Car insurance
- Life insurance
- Home insurance
- Travel insurance

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Distribution

• Direct distribution of UK non-life personal lines increasing

• Aggregator usage focuses on simple personal lines products

• Customers greatly prefer personal contact for complex products
Customers greatly prefer personal contact for complex products.

- **Americas**: 83% prefer personal contact, 17% do not.
- **Asia Pacific**: 89% prefer personal contact, 11% do not.
- **Europe**: 78% prefer personal contact, 22% do not.
Distribution

• Direct distribution of UK non-life personal lines increasing

• Aggregator usage focuses on simple personal lines products

• Customers greatly prefer personal contact for complex products

• Aggregators are here to stay
Distribution

• Direct distribution of UK non-life personal lines increasing
• Aggregator usage focuses on simple personal lines products
• Customers greatly prefer personal contact for complex products
• Aggregators are here to stay
• We are in a world of multi-channel distribution
Questions for the CEO

What is your aggregator strategy, and does it fit with the fact they are likely to be around for the long term?

What is your multi-channel strategy?

How do you compare profitability data for the same business from different channels?

What is your assessment of the impact of regulatory change on your distribution channels?
Global issues
Global issues

• Low interest rate environment
Low interest rate environment
Global issues

- Low Interest rate environment
- Regulation
Global issues

• Low Interest rate environment

• Regulation

• Emerging markets
Global issues

• Low Interest rate environment
• Regulation
• Emerging markets
• Data
Questions?
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