

The Life Industry Model – can everyone (or anyone) win?

Trevor Matthews
Chief Executive
Standard Life Assurance Limited

Life Convention & Exhibition 2006
SECC, Glasgow

Outline

- Is the present business model bust?
- The changing life industry model
 - From 1800 to mid 1960s
 - Mid 1960s to early 2000s
 - 2006 and beyond
- Consumer attitudes
 - What do consumers think?
 - *Which?* magazine investigation
- How can we win?

Is the present business model bust?

- “My contention is that we have a system which serves neither the producer of the services nor the consumer of the services. It is doubtful whether it serves the intermediary either.”
- “The present distribution system is distinguished by a focus on business volume rather than quality.”
- “...persistence of policies is low with, for example, around half of customers who buy regular premium personal pensions no longer paying into them after four years.”

Is the present business model bust?

- "...the present remuneration model suffers from product bias, provider bias and churn."
- "...as at May 2006, the top 21 IFAs had turnover of £640 million but operating losses of £22 million..."
- "...we have at present a business model which is based on incentives which produce results which are unattractive to reputable providers, unattractive to their customers and whose benefits to intermediaries are questionable. What are we going to do to change it?"

Sir Callum McCarthy, Chairman, FSA
Gleneagles Savings & Pensions Industry Leaders' Summit
16 September 2006

The Actuarial Profession
making financial sense of the future

The changing life industry model

From 1800 to mid 1960s

- Industrial Assurance
- Monthly premiums collected by inspectors
- Relationship-based
- Effective but expensive
- Mounting expense pressures

The Actuarial Profession
making financial sense of the future

The changing life industry model

Mid 1960s to early 2000s

- Aggressive direct sales
- Transactional based
- Fuelled by higher and higher rates of initial commission
- Model failures
- Fall in UK life and pensions earned premiums – from £95bn in 2001 to £80bn in 2004
- Aggregate of life offices cashflow has turned negative

Sources – Cazalet Consulting and Standard Life

The Actuarial Profession
making financial sense of the future

The changing life industry model

Mid 1960s to early 2000s continued

- Over emphasis on new business rather than developing long term customer relationships
- Very competitive market
- EEV reporting system up fronts profits
- UK commission rates are very high in international terms
- Persistency rates have deteriorated
- Total industry new business of £10bn Annual Premium Equivalent is approximately 60% recycled business and 40% true new business

Sources – Cazalet Consulting and Standard Life

The Actuarial Profession
making financial sense of the future

The changing life industry model

2006 and beyond

- Demography
 - Ageing of population
 - Baby-boomer generation starting to panic with looming retirement
 - Increasing weight of money
- Technology
 - Broadband
 - British Airways

The Actuarial Profession
making financial sense of the future

Consumer attitudes

What do consumers think?

- Disillusioned about past products
- Fear of commission bias and over selling
- Confused in a financial maze
- Clarity and transparency are vital
- Lack of engagement

Research by H2b for Standard Life 2005

The Actuarial Profession
making financial sense of the future

Consumer attitudes

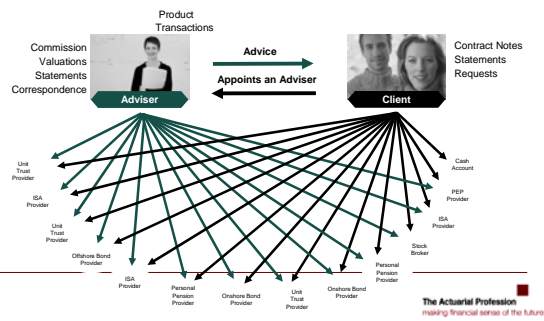
Which? magazine investigation of Independent Financial Advisers



The Actuarial Profession
making financial sense of the future

How can we win?

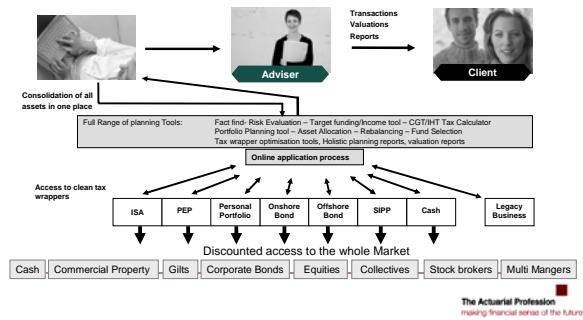
Traditional sales model



The Actuarial Profession
making financial sense of the future

How can we win?

New trusted adviser model



The Actuarial Profession
making financial sense of the future

How can we win?

From the traditional sales model

- Product sales skills
- Getting the client to commit
- Remunerated on the basis of future premium income
- Prospecting critical
- Lots of sales, few clients
- Paid by the product provider
- Initial commission expected to pay for lifetime service cost

to...

The Actuarial Profession
making financial sense of the future

How can we win?

...the trusted adviser model

- Communication skills and consultative relationships
- High client satisfaction
- Assets under advice
- Remunerated on assets and new sales - working for and paid by the client
- Fewer sales, more real clients
- Pro-active and efficient service - client peace of mind
- Long term profitable relationships
- Increased share of wallet

The Actuarial Profession
making financial sense of the future

How can we win?

Aussie experience

- Wrap platforms account for more than 80% of new fund flow
- 55 platforms available
- Assets concentrated on top six (mainly bank owned)
- White labelling is common
- Discretionary financial advice and fee based planning are growing steadily
- Typical fees/commissions are 1% to 3% initial, 50 bpts ongoing
- Client-adviser-provider interests aligned
- Win, win, win

The Actuarial Profession
making financial sense of the future

How can we win?

- Place the consumer at the centre of all we do
- Take advantage of technological advances
- Return to building valuable long-term relationships
- Align the interests of consumer, adviser, provider
- Win, win, win
