

LIBERTY HOLDINGS

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CSSS CUSTOMER CONFERENCE 29 JUNE 2010
BRAVE NEW WORLD?

Agenda

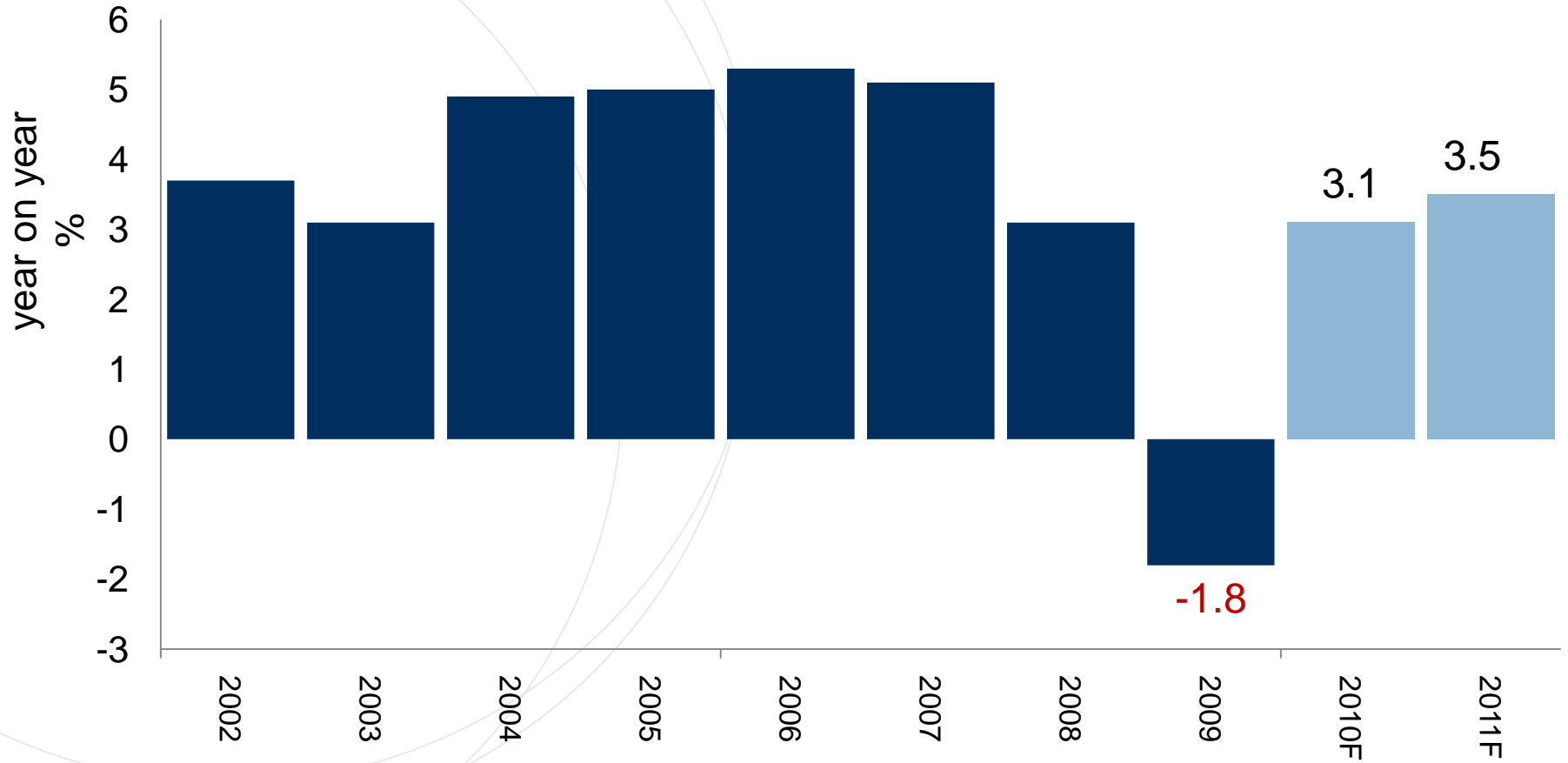
- Global and SA industry trends: customer and distribution
- Liberty – stepping up to the challenge:
 - Customer retention and existing strategies within Retail SA
 - Future direction – customer segmentation
 - Risk and capital management developments
 - Liberty – a diversified group
- Conclusion

A brave new world?

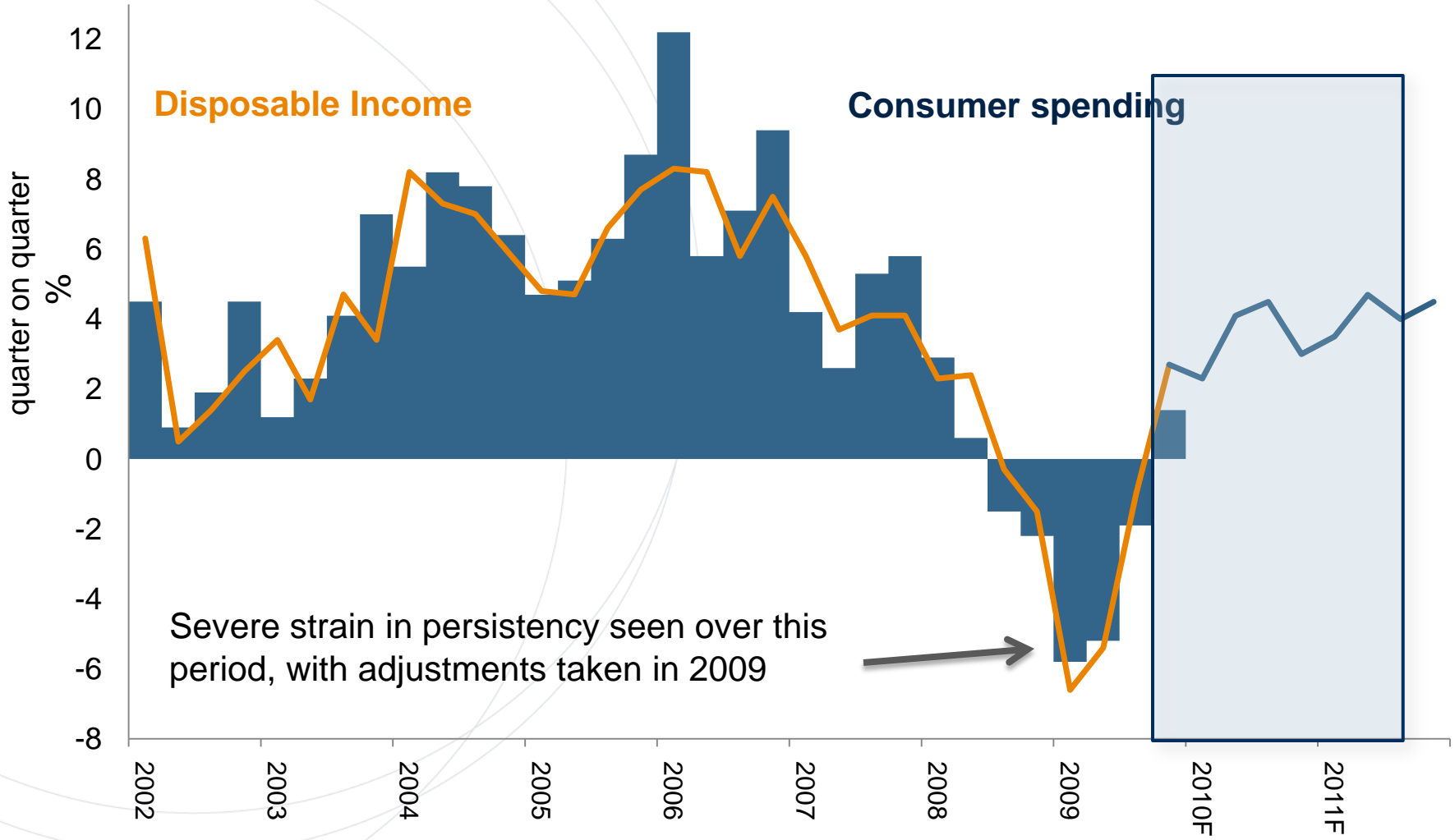
“ The financial crisis will continue to reshape the competitive and regulatory environment within the insurance industry over the next three to five years.”

SA GDP annual growth rate

SA GDP is forecast to grow by **3.1%** in 2010 after declining **-1.8%** in 2009



SA growth in consumer spending vs disposable income



Global and SA industry trends

Global - changing customer dynamics

- Increasingly the internet is being used to research and buy insurance:
 - Typically the internet is used for purchasing **simple** insurance products
 - More **complex** insurance products are researched on-line but purchased via the phone or face-to-face

US market:

“Indicative of the increasing significance of the internet, ComScore conducted a study revealing that in 2009 on-line searches containing the term “life insurance” grew by 15.3% compared with 2008 – from 14.4 million to 16.6 million – while the total number of consumers requesting online quotes for life insurance reached 2 million”.

Life Insurance International – March 2010

- Failure by insurers to use the internet effectively to market or sell products to targeted audiences, will result in:
 - Loss of market share to direct and multi-channel insurers
 - Loss of the opportunity to migrate customers from low-cost, direct policies to higher-priced, agent-driven policies

Technology: an increasing driver of purchasing behaviour

Global - changing customer dynamics

Best practice approaches to customer management developed by some insurers:

- Re-organised their company structure around customer segments:
 - drive a clear behavioural change to understand customers more clearly
 - develop combinations of product, channel and service that meet customer needs.

Exhibit 1: Customer centricity strategies at Allianz, AXA, Zurich



- Group-wide customer focus and innovation initiative
- Re-branding of major business units, e.g. AGF
- Global communications campaign – “ideas to success”

- “Putting the customer at the centre to drive profitable growth and guide operational transformation
- Global Life organized by customer segments and channels
- General Insurance organized by main customer segments and region

- New global branding and marketing strategy – “redefining standards”
- Within business units, effort for a customer segment led strategy
- In 2009 ranking #1 global insure in the Interbrand brand valuation

Customer segmentation becoming critical

Competitive dynamics of the SA life industry

- Pure risk products have become effectively commoditised
- Product innovation to rebuild margin is rapidly copied by other players
- Customers select based on price or broker recommendation, not in sync with the providers' strategy

- Life companies are being outcompeted by wealth managers in the investment space
 - Lower cost base
 - Lower capital requirement
 - Perception of enhanced asset management ability



- Growth in the SA market is primarily in emerging markets
- Old Mutual, Metropolitan, and *Sanlam Sky* have been successful in capturing this growth
- Brand perception plays a large role in customer uptake

- Smaller operators find niche areas of competence in which they can outcompete larger life companies
- Capture niche channels – 1LifeDirect
- Capture niche customer segments – *1st for Women*

South Africa – changing customer dynamics

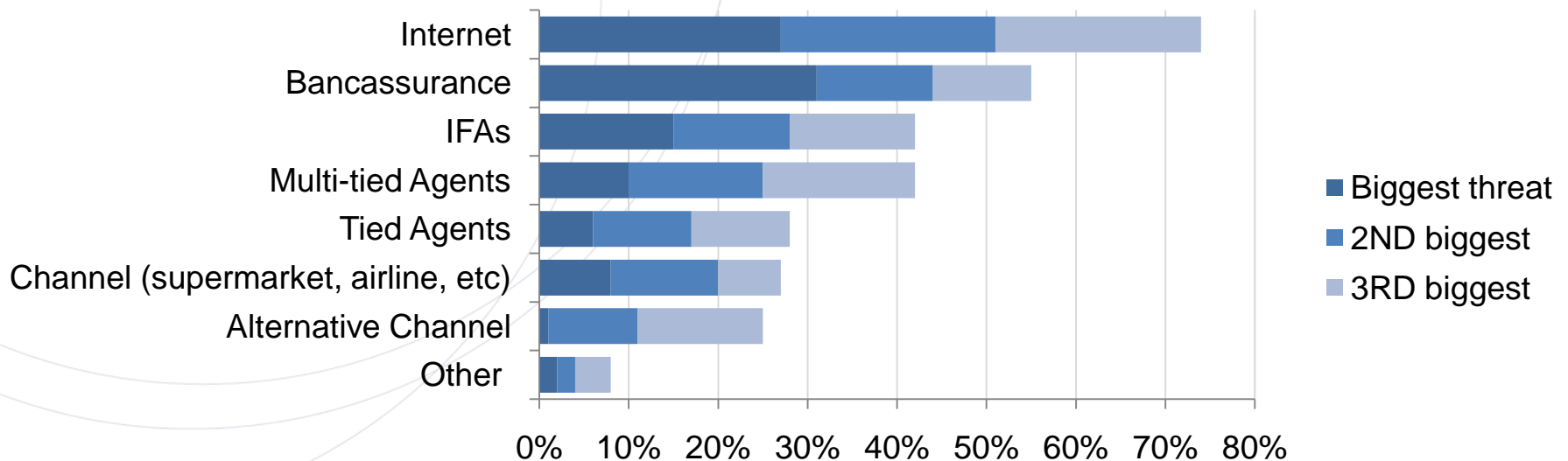
- The customer is more **informed** and wants products that meet specific needs
- From an insurance perspective two sub-markets now exist in South Africa:
 - Traditional **developed** market: predominantly white, low growth and highly competitive
 - **Emerging** market from the black population: rapidly growing - from 22% (of over R8000 income earners) in 2004 to 43% in 2008
 - › The explosion of the black middle income market in recent years has not yet translated into product sales
 - › This provides an opportunity for insurers to serve this market which is currently under-serviced.
 - › No specific products -still mainly funeral products sold here

Emerging black middle class represents opportunity

Global - distribution trends

- An increasing use of independent broker channels rather than tied agents
 - Insurers increasingly prefer a **variable** cost base over a fixed base
 - independent agents often come from tied agencies, are highly trained and motivated.
 - Direct channel sales are growing. As a % of total life global markets assessed, the direct sales channel accounts for:
 - › Investment products (5-10%) - a small role due to the complexity of products
 - › Risk products (15-20%) - high role due to the simplicity of products

Distributors' biggest perceived threat:



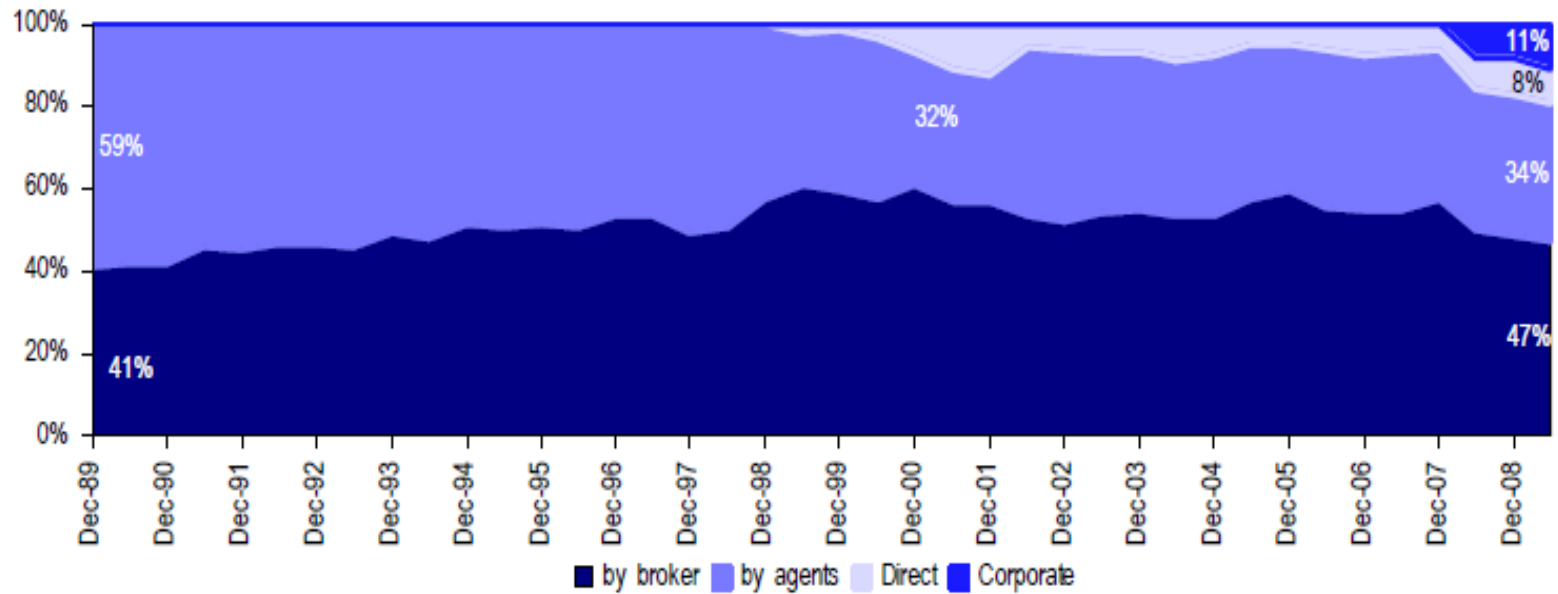
Global - distribution trends

- Challenges for global insurers: the need to manage multiple distribution channels
 - Multiple channels increase market share and customer access BUT are complex too
 - Need best practice solutions per channel for multi-distribution channel model.
Examples:
 - › Detailed tracking of performance to provide preferential service to top brokers and closely manage and penalise under-performing brokers through tight commission management; ‘High Touch’
 - › Direct channel: automation and straight through processing

South Africa - distribution trends

- In South Africa, distribution of life insurance products follows a similar mix as seen in other countries. **Independent brokers** distribute the majority of business, **followed by tied agents**. This situation has been largely unchanged over the last 5 years

South African annual premium equivalent market share by channel



Source: ASISA

South Africa - distribution trends

- **Independent brokers** are particularly dominant in the single premium and retirement annuity recurring premium business
- For ordinary recurring premium business, **tied channels** play a far larger role particularly in terms of volume of policies sold
- The direct channel in South Africa accounts for a small portion of the total investment and risk market, but as with international examples has a far **higher** proportion of the total risk market

New regulation may shift focus to tied force

Global regulatory changes

- The regulatory landscape is now globally interconnected and companies are being forced to take action and to adapt their strategies accordingly
- Insurance companies need to recognise the broader implications and prepare for changes that may lie ahead

Examples of some regulatory changes on the horizon:

- › The move to Solvency II in the European Union (and South Africa - 2014)
- › Further US federal and state regulation post economic crisis
- › In Australia regulatory reform includes:
 - proposals to increase compulsory superannuation savings contributions;
 - The *Ripoll Inquiry* is reviewing financial products in the wake of the financial crisis and looking at the role of financial advisors as well as commission arrangements
- › Local regulations will impact how global players operate in specific market jurisdictions.

While the full extent of regulatory change is unknown signs are that revisions to regulations have the potential to be dramatic

Changing regulation and sales practices: UK – A case study

Pre Regulation (FSA1986 enacted in 1988)

- No consumer protection; No standards for selling or record keeping; Salesmen looked after themselves
- Scandals included *Norton Warburg* and later, *Barlow Clowes*

Endowment mis-selling took place in '80s and '90s

- Retrospective Review undertaken between 1999 and 2006
- With Profit endowments sold alongside mortgages with little regard for risks
 - Outcome was shortfall in client expectations on maturity and mortgages not paid off due to falling market returns – over GBP 1Bn paid out in compensation to 400 000!
- No standards for selling or record keeping before, but “Fact Finds” (FNAs) introduced as a necessity to understand client’s needs

Pension mis-selling took place in '80s and '90s

- Mainly involved cases where Final Salary pension funds were switched to DC personal funds
 - Outcome was clients received worse benefits than had they stayed in original funds
 - 1.1m clients affected and GBP 10Bn paid as compensation!
- Attitudes to risk introduced in Fact Finds and reporting (i.e. Cautious / Balanced / Adventurous).

Changing regulation and sales practices: UK – A case study

Presentation of equity performance

- Rapidly moving equity markets were used by some fund managers to mis-represent performance (e.g. a top performing ‘managed’ fund with UK Equity weighting became the worst performer after markets turned).
- What followed was tighter sector categorisation

Early use of Internet

- Customers began self serving as the web provided research and modelling tools for those who think they can use them effectively – and those who can’t but think they understand!
- Tools allow some assessment of risk and rebalancing of portfolios as well as dealing direct
- Marketing material needs to be very clear

Wider use of Internet

- Clever advisers (e.g. *Hargreaves Lansdown* most profitable IFA in UK) use clients to do all their own servicing on line mostly and give advice in few cases.
- Clients start to mix traditional F2F advice with direct dealing (very hard nut to crack)

With E-books, Facebook, Twitter etc will Generations X, Y need to interact with “advisers” and if so how?

Changing regulation and sales practices: UK – A case study

So what have we learnt?

- Regulation has helped change the face of Financial Services in the UK with most other countries adopting similar regulation
- As a result the customer can expect an Adviser to:
 - › have a better understanding of his/her needs
 - › agree remuneration directly with the client
 - › Be better qualified and have respect for the Regulator and the actions it can take and as a result give a more thorough and professional service

So what has changed from a sales perspective?

- Proper fact finding processes allow for full holistic solutions.
- Proper assessment of clients attitude to risk is crucial for investment based solutions
- Clarity from product providers to clients of the inherent risks of products are essential
- Communications with clients are moving from paper to a varied number of electronic media

Servicing is key but which is the best way?

- Identifying target markets gives focus to service proposition and how to deal with them

The salesman now needs a clear target market too

Changing regulation and sales practices: South Africa

Upcoming SA regulation that will have an impact on our distribution force:

Conflicts of Interest

- Will require extra rigour in remuneration and incentives to all intermediary channels, will alter types of benefits IFAs may receive - may result in a flight to tied force

FAIS Fit and Proper

- Ensuring all intermediaries and key individual meet relevant standards e.g. new regulatory exams and continued professional development (CPD) on an ongoing basis

Protection of Personal Information Act

- Will regulate how we and our advisors deal with customer and other important data

Treating Customers Fairly (TCF)

- Will impact customer outcomes – act in the best interests of our customers at all times and embed a TCF culture at all levels of the business , may result in tighter controls around FNAs

Planned review of intermediary models

- May impact remuneration structures e.g. UK introduced customer agreed remuneration, which encourages value added advice; Australia are also planning on banning commission on certain products

Implementing changes and enhancements to existing business practices to ensure compliance to regulatory requirements

Liberty – Stepping up to the challenge

Retail SA vital statistics

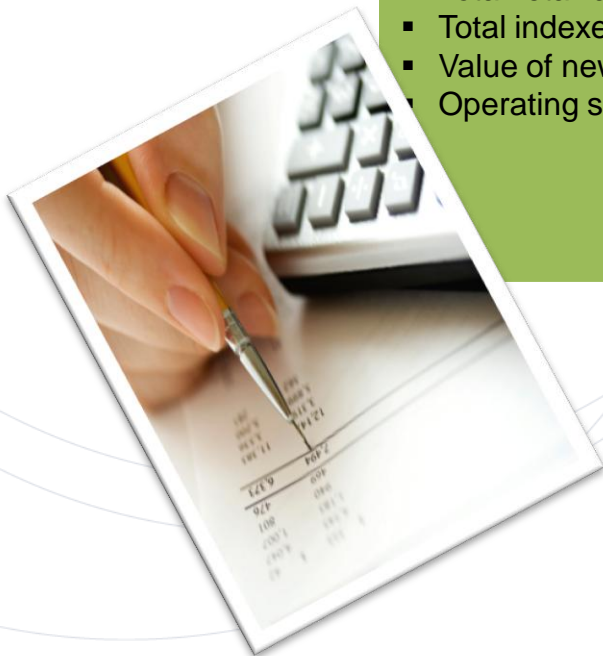
CUSTOMERS

- 2.7 million individual policies in-force
- Approx. 2.1 million policyholders
- Approx. 400 000 new policies
- Various open and closed books of business
 - Liberty Life
 - Liberty Active
 - Capital Alliance
 - Capital Alliance ELM
 - Liberty Growth



2009 FINANCIALS

- Total retail assets under management approx R270 billion (2008: approx. R250 billion)
- Total indexed new business = R 3 995 billion (2008: R4 154 billion)
- Value of new business = R288 million (2008: R700 million)
- Operating surplus = R 171 million (2008: R 1 255 million)

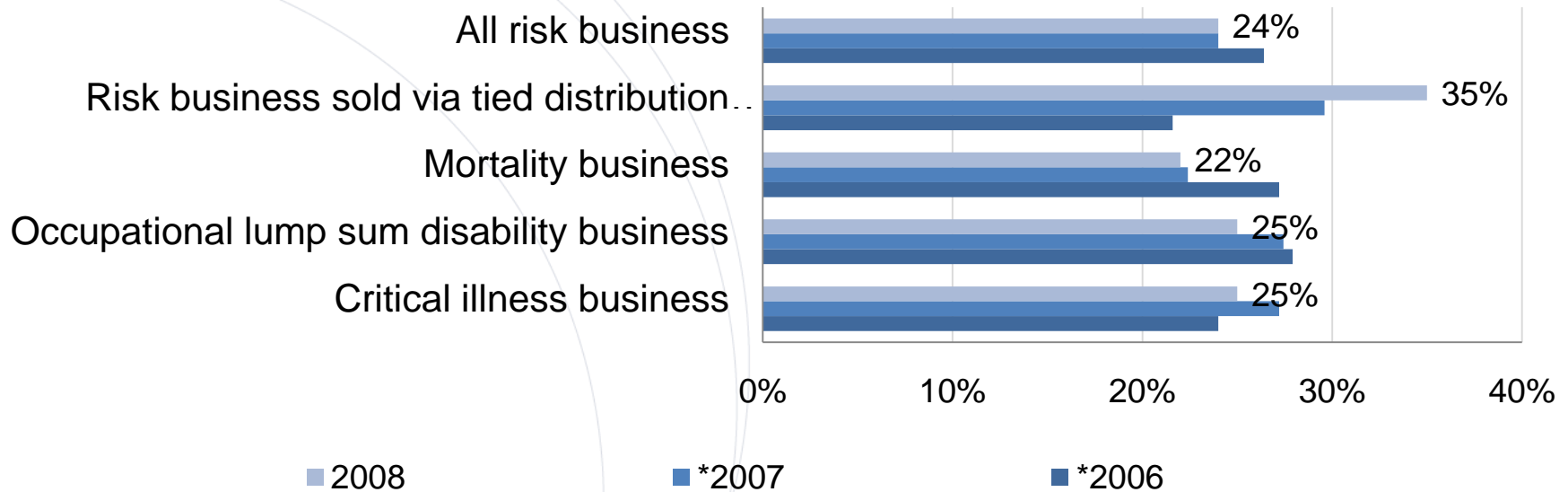


PEOPLE

- 2 204 Head office people
- 3 574 in combined distribution force (2008: 3 614)
- Largest areas are
 - Retail Operations
 - Sales and Distribution
- BEE status progressing well
- Critical skills areas = Retail Actuarial Services

Our retail market position - SA

Retail SA –by sum insured of new **risk** business sold



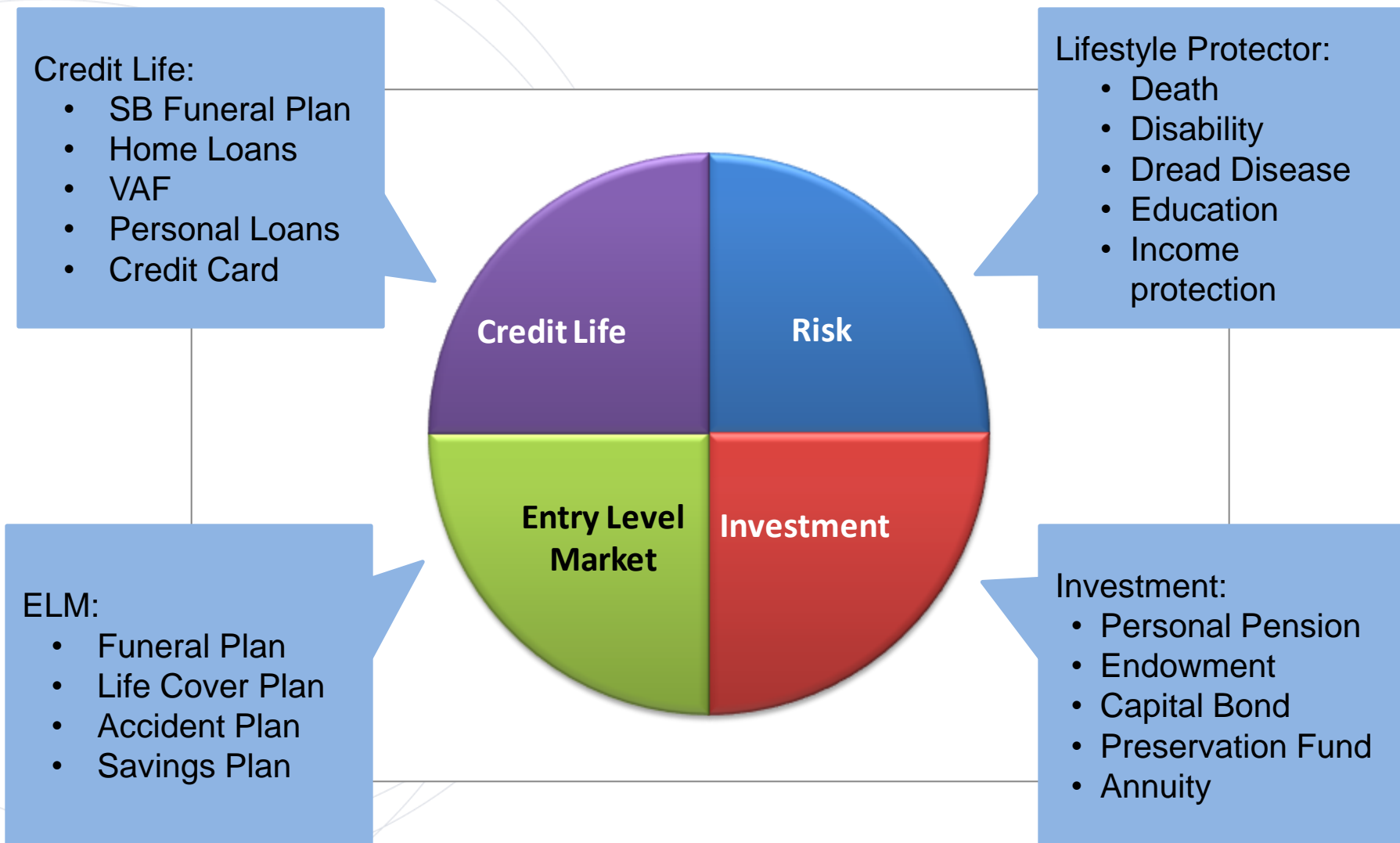
* Figures do not correspond to survey results as we adjusted them by 20% to allow for new participants in 2008.

Source: Swiss Re individual business volume surveys for Liberty

Retail SA – **Investment** market positioning

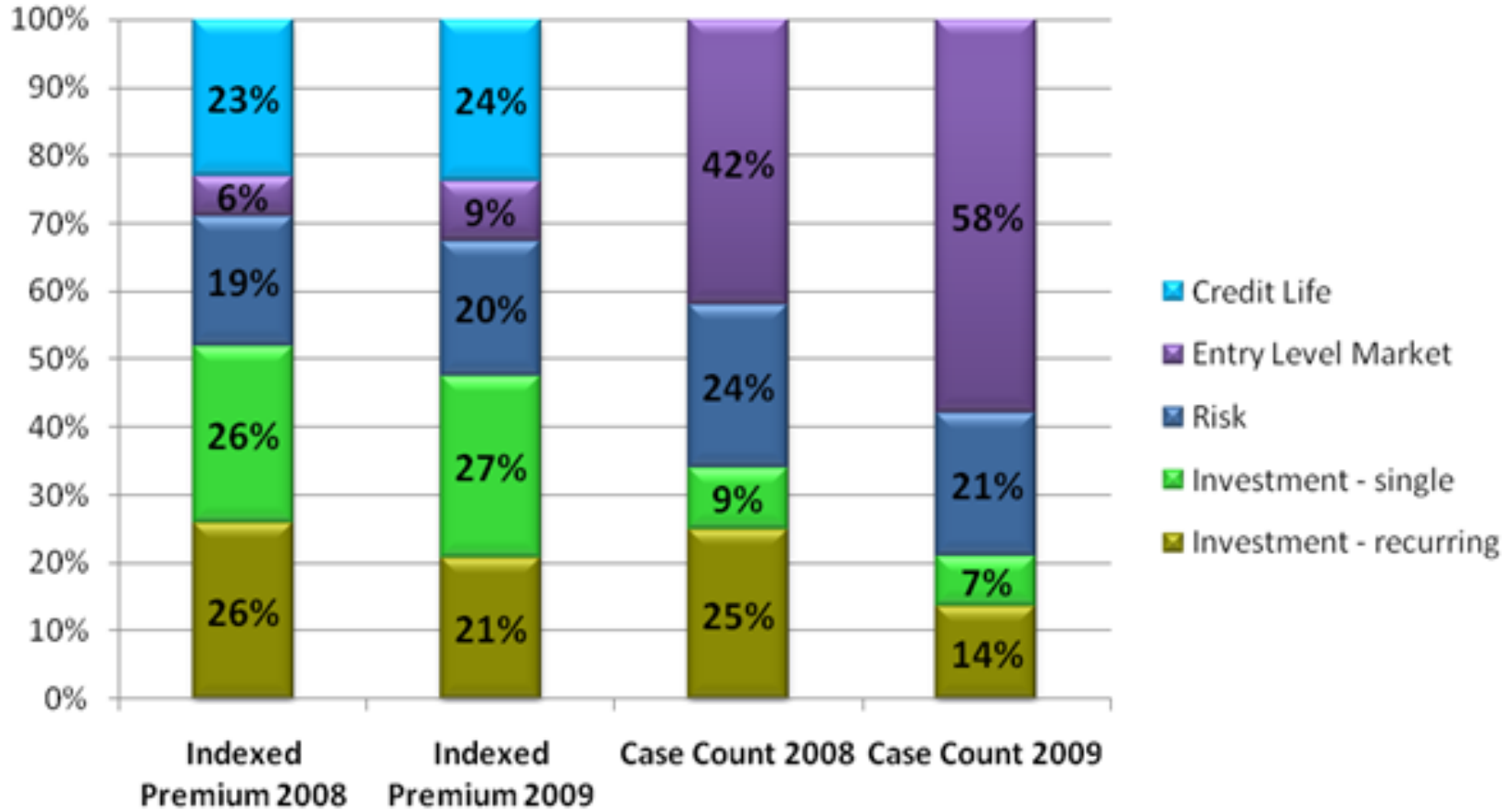
- Liberty holds approximately 19% of market share (*Ketola Research, March 2010*)
- The Standard bank relationship generates a lot of business, especially in the money market funds
- Strong Gauteng presence certainly helps in this market

Retail SA product set



New business product mix 2009 versus 2008

New Business Product Mix 2008 vs 2009 - Individual Life



Liberty product sales trends

Risk product sales trends

Top sellers	Description	Drivers
Life Cover	A lump sum payment upon death	The core / 'lead product' of the comprehensive risk business
Comprehensive Living Lifestyle Benefit	Tiered / lump sum payment for critical illness conditions at varying severities	Competitive differentiator in the comprehensive risk market - Liberty currently offers the most comprehensive benefit
Living Lifestyle Enhancer Benefit	A lump sum benefit for critical illness conditions bundled with Temporary Income Disability	New and unique in the market with no other competitor offering this benefit
Temporary Income Disability Benefit	Income replacement benefit for temporary disability (can be packaged with Living Lifestyle Enhancer Benefit)	Effective and affordable cover to address a loss of income risk

Investment product sales trends

Top Sellers	Description	Drivers
Investment Builders	Recurring based investment	Option to allow up to 15 years commission Unique (C) ratcheting guarantees Early termination charges based on contribution, not investment value
Investment Plans	Single premium based investment	Enhanced allocation Unique (C) and (C+) ratcheting guarantees Attractive Excelsior Property Portfolio access
Retirement Annuity Builders	Recurring based retirement annuity investment	Unique (C) ratcheting guarantees Early termination charges based on contribution, not investment value

Customer Retention and existing strategies within Retail SA

Persistency - the customer under pressure

Main factors contributing to persistency concerns:

- Pressure on the consumer – affordability impacting retention
 - Over a million jobs were lost in South Africa in 2009
 - 35% of correspondents¹ interviewed were struggling to meet monthly financial commitments and did not have enough to save
- Sub-optimal intermediary behaviour
 - Financial pressure on the intermediary
 - Commission regulations introduced in January 2009 has led to an increasing shift to the risk product space unaffected by the regulations
- Price competition:
 - Often cheaper to replace older risk products with newer generation products.

It is affordability and not mis-selling that causes most lapses
(ASISA reports on SA life industry, Dec 2008)

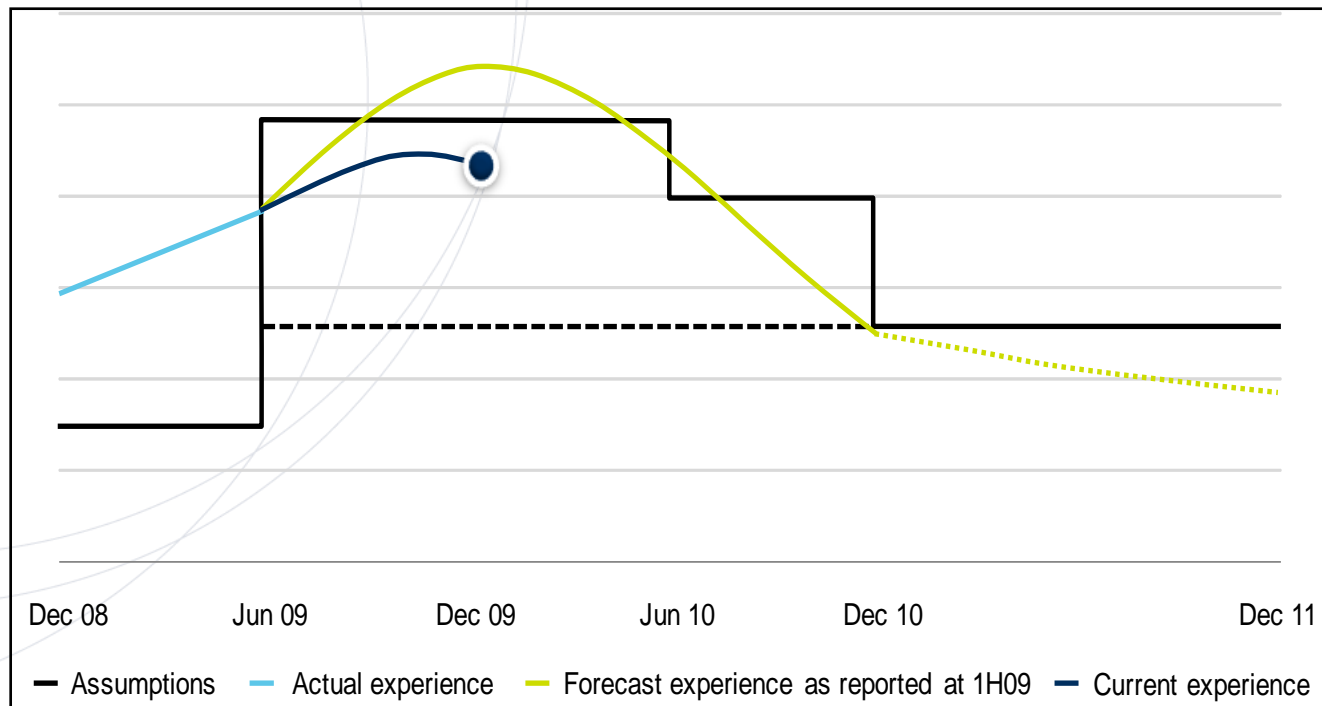
¹Source: A Consumer Financial Vulnerability (CFV) Index for South Africa, Study conducted by Bureau of Market Research College of Economic and Management Science UNISA, July 2009.

Persistency - Retention strategies delivering against objectives

Retention initiative outcomes

- 1H09 average of 10 500 policies saved and 2H09 average of 14 000 policies saved per month
- Success rate increased from 18.0% to 24.5%
- Embedded value showing a clearly improving trend in 2H09
- Persistency experience in 2H09 improved – no assumptions changed on major product lines
- First quarter was stable with some improvement in risk products

Persistency
Assumptions



What we committed to do and what we have done...

1.

Change management, resourcing and governance

2.

Product

3.

Distribution

4.

Servicing
and
operations

5.

Customer
affinity

6.

Defence

7.

Management information

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A key focus area ... Product



Clients can now switch from a renewable, level pattern to age-rated pattern in the same policy

A key focus area ... Product



Premium Pattern



Advisory Fees

- Ongoing advisory fees on RAs
- Servicing commission paid immediately on up-selling
- New options for CAL maturing policies

A key focus area ... Product



Clients can stop or reduce premiums for 6 months

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A key focus area Sales & Distribution



Restructured to increase focus

Process and technology ...



Risk Growth

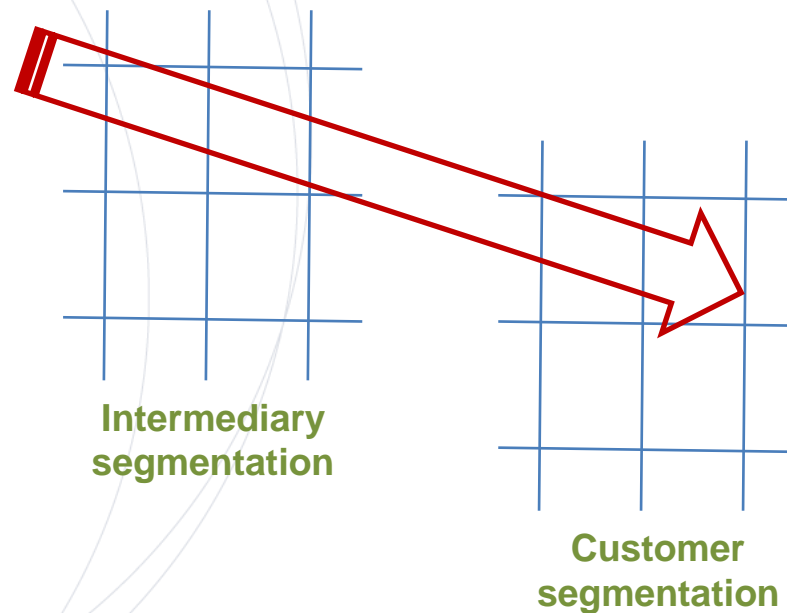
Wealth ConneXion

Faster turnaround time

Implementing process and technology improvements to enhance customer experience

Demonstration of delivery

Our retention efforts will be built on a customer segmentation model, but must be viewed through the lens of our intermediary segmentation



New management information allows us to segment and manage our intermediaries profitability, rather than only their sales volumes

Sales and Distribution – 5 Focus areas



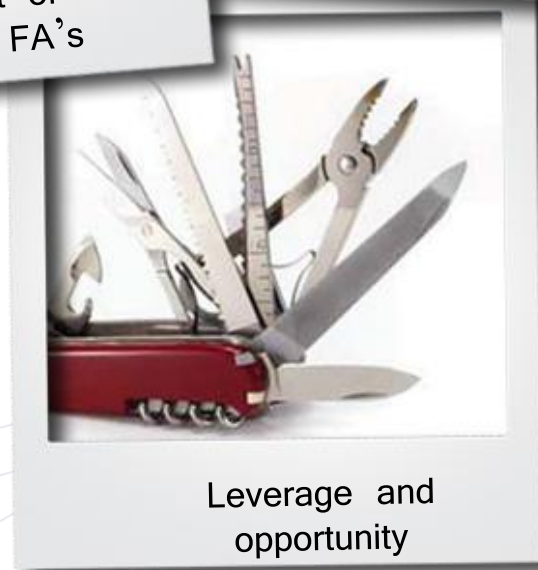
Recruitment of high quality FA's



Efficiency



Optimal growth



Leverage and opportunity



Leaving a legacy

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Reconnecting our brand with the consumer

'A business philosophy'



Enhancing business practices and communication

Customer Perspective

- ✓ Investment products renamed
- ✓ Completed the first phase of the on-line/ website rebuild
- ✓ Completed the simplification of our policy documentation (90 pages to 6 pages) as well as electronic delivery and storage
- ✓ Completed identification of “proof points” for factual customer engagement on the “brand promise”
- ✓ Implement PR communication that will roll out until November

Financial Adviser Perspective

- ✓ Implemented a new financial planning tool (Wealth Connexion), roll-out into 2010
- ✓ Rebranded documentation and related communication
- ✓ Completed a financial advisor road show, regional managers forum and implemented ongoing communication

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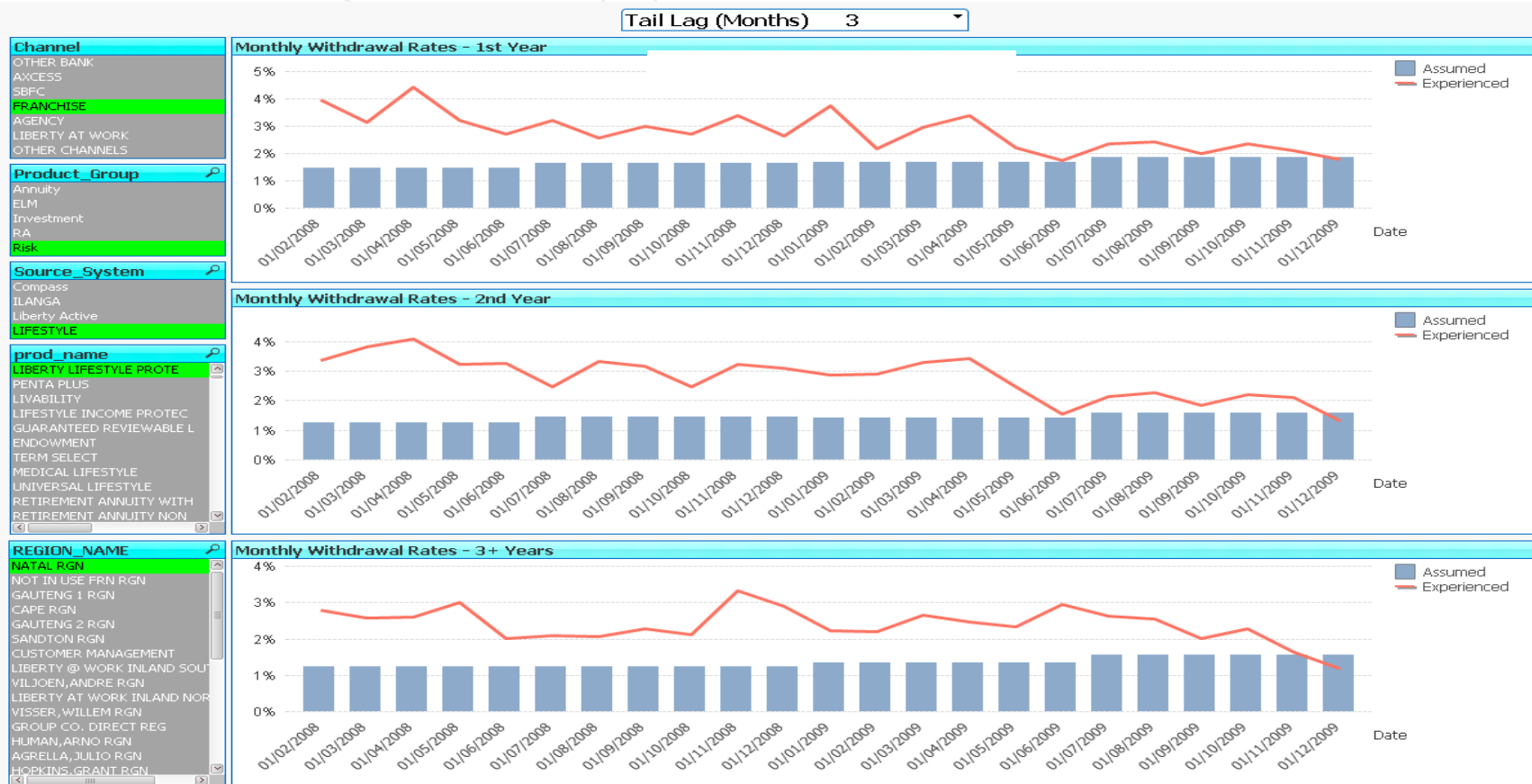
Defence

7.

Management information

Enhanced management information (MI)

In addition to financial advisor dashboards, tracking product lapse rates in detail:



We can track lapse rates per product, channel, region, branch and intermediary. The table shows the lapse rates on Lifestyle Protector, in the KZN region of the Franchise channel

Our direction – Customer segmentation

Liberty will drive to achieve a targeted position within clearly defined new target market segments, in addition to maintaining its traditional market

Main regulatory policy drivers

- Fair treatment of consumers, with special focus on protecting vulnerable consumers
- Reducing poverty and inequality by improving access to financial services for all South Africans
- Improved market efficiency and competition
- Global integration and competitiveness

Liberty recognises that regulation is in the interest of the consumer and therefore will embrace regulatory change as an opportunity to align ourselves with customer needs and customer management practices.

Consumer research highlights

Negative perceptions of mistrust regarding the industry prevails

- Stories bad claims experiences, etc (even when the customer may be at fault)
- Category is seen as complex and hard to understand (e.g. “fine print”)
- Non-users see a lack of value (don’t want it)

Understanding of the industry differs by income

- Need to simplify products, especially for emerging market and first-time buyer

Propensity to go ‘direct’ depends on perceived complexity and risk

- Higher complexity and risk => more likely to seek advice

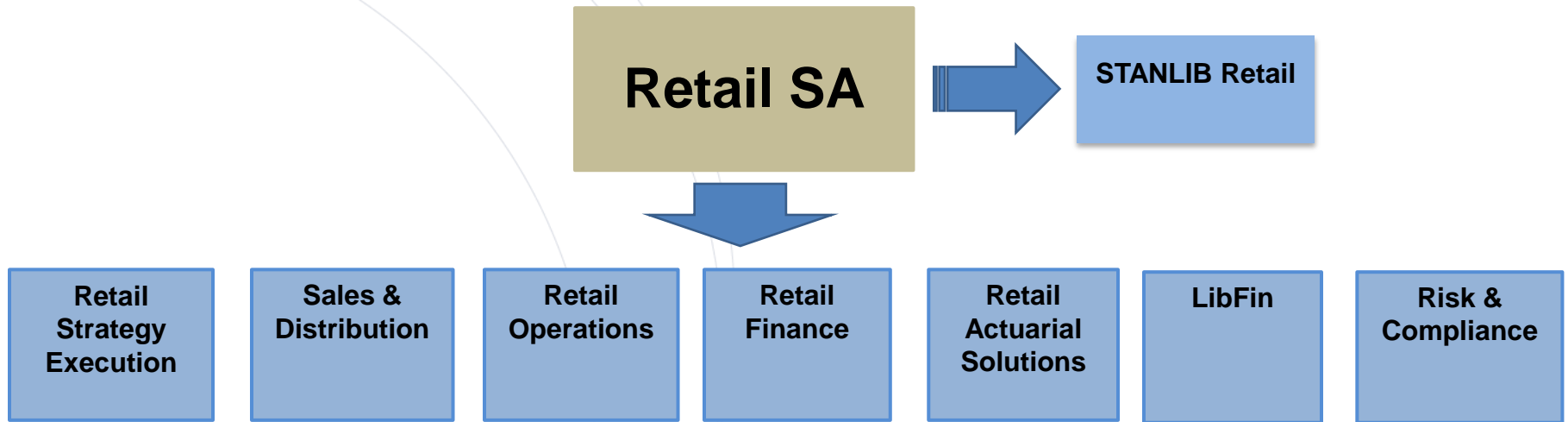
Difficult to compare long term insurers – rely on perception of trust!

- Brand needs to convey stability, security and trust

Liberty is investing in its customer insights, customer value management and customer management practices, in addition to enhancing the role of the intermediary as a “partner” but not as the “customer” in the business

Our structure reflects such...

Restructured our separate business units to create a single Retail business



Resulting in:

- Deliberate market segmentation
- Enhanced customer focus
- Deep channel competence

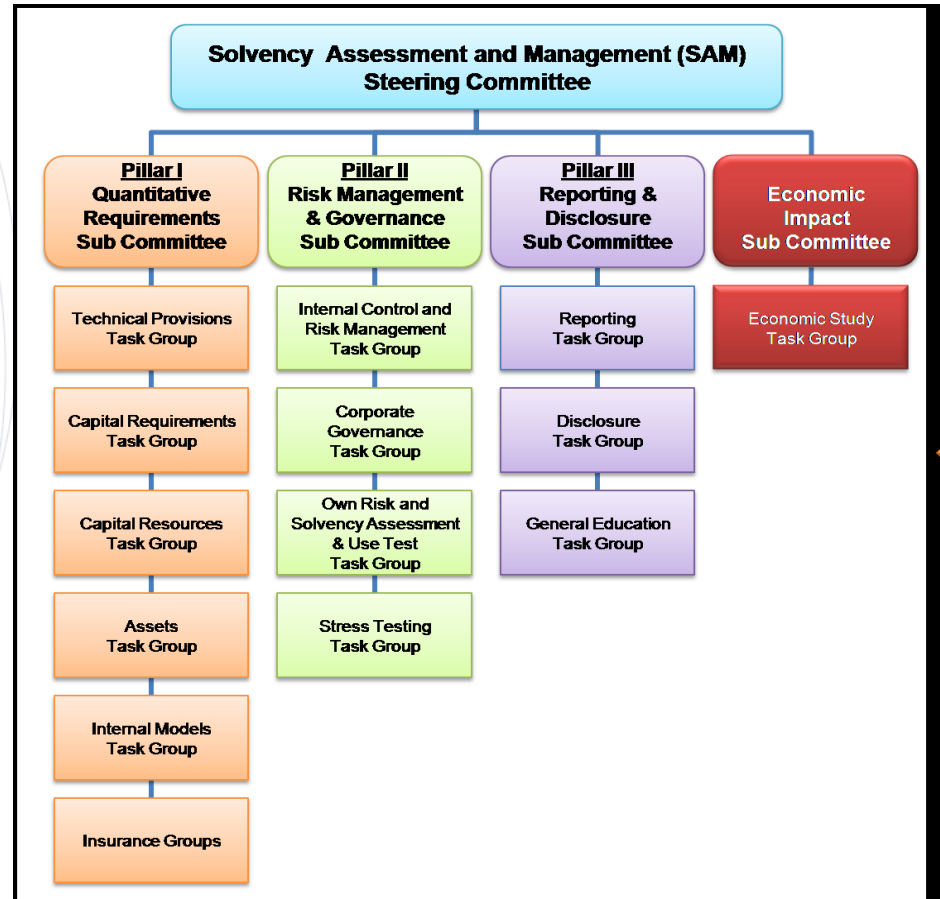
Whilst being cognisant of the different economics of the businesses

Risk and Capital Management developments

Solvency Assessment and Management (SAM)

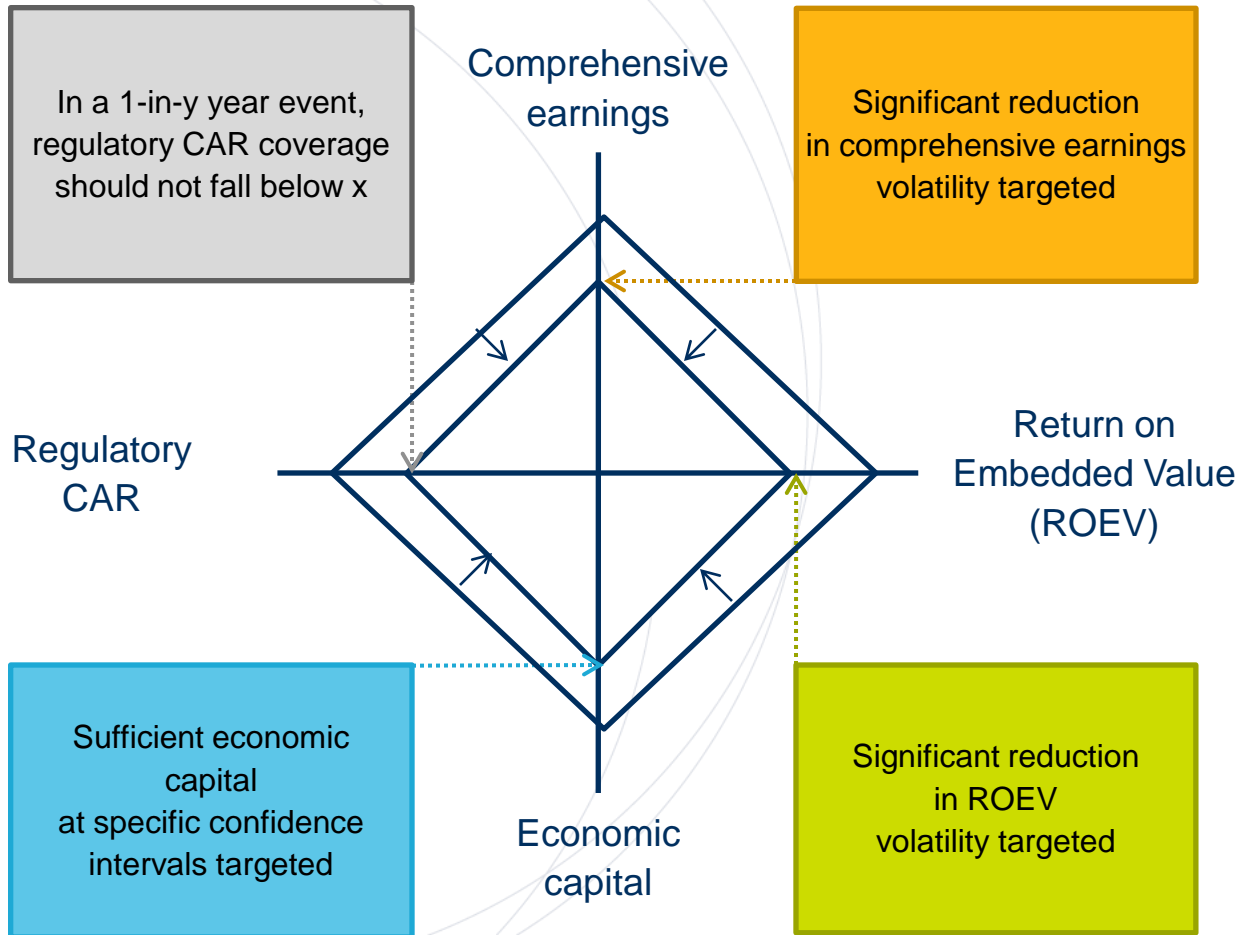
The FSB is in the process of developing a new solvency regime, namely SAM.

- As an overarching principle, the FSB wants to ensure that the SAM regime will meet the third country equivalence assessment requirements under Solvency II
- Intended implementation by January 2014 with proposed implementation of certain Pillar II requirements in terms of governance, internal control and risk management targeted for 2012




Liberty is currently participating in many of the task groups set up by the FSB tasked with putting forward recommendations for the SAM regime

Risk Appetite statement formulated and position regularly measured



The quantitative risk appetite statement was originally approved by the Board in May 2008 and defined across four dimensions shown in the 'diamond'

 Approved risk appetite boundary

Liberty actively manages its risk to remain within appetite across all four dimensions

Liberty – a diversified group

Liberty – a diversified group



Balance sheet management

STANLIB



Liberty Corporate



Liberty Africa



Liberty Health



Liberty Properties



Bancassurance



Business Development

Establishing alternative business lines

Business line	Rationale
<p>100% STANLIB Acquisition (2007)</p>	<ul style="list-style-type: none"> › Capture off balance sheet product drift › Focused investment performance capability
<p>Liberty Health Acquisition (NHA/VMed, 2008/2009)</p>	<ul style="list-style-type: none"> › Build scalable operating model in SA › Pioneer Business Line for African expansion
<p>Short-term Insurance</p>	<ul style="list-style-type: none"> › Most developed business line in Africa › Markets for composite Assurers
<p>Private Banking Solution (2009/2010)</p>	<ul style="list-style-type: none"> › High net worth product line bundling private banking, investment, life and fiduciary services

Moving forward with Standard Bank

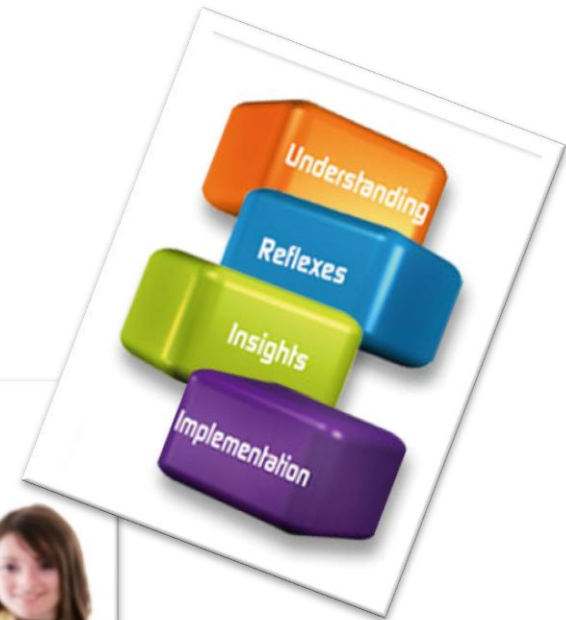
- Liberty sees the Standard Bank relationship as a key differentiator
- Need to maximize value within the current joint venture construct
 - Embedded products working well for both parties
 - Intermediated business via SBFC needs to be optimized
 - Utilizing the transactional/ branch infrastructure is still an opportunity
- In addition to the above group senior management are working closely with Standard Bank executives to craft the strategy for the future relationship

Standard Bank has given strong commitment for the 'Wealth pillar' as critical to its future success over

Conclusion

Conclusion

- The world continues to change ... **FAST**
...We are changing too and making bold decisions
- Segmentation across customer, intermediary and products is **KEY FOR SUCCESS**
- Execution excellence is **CRITICAL**



Questions?

