

Liberty Holdings Limited

Thabo Dloti, CE: Investments and Group Businesses

UBS SA Financials Conference

21 October 2010





This presentation was produced solely by Liberty Holdings Limited. The opinions expressed herein do not necessarily reflect the views and opinions of UBS. UBS accepts no responsibility for the accuracy, reliability or completeness of the information and will not be liable either directly or indirectly for any loss or damage arising out of the use of this presentation or part thereof.

- Overview of the life insurance industry
- Update on our strategic journey
- Optimising returns on capital

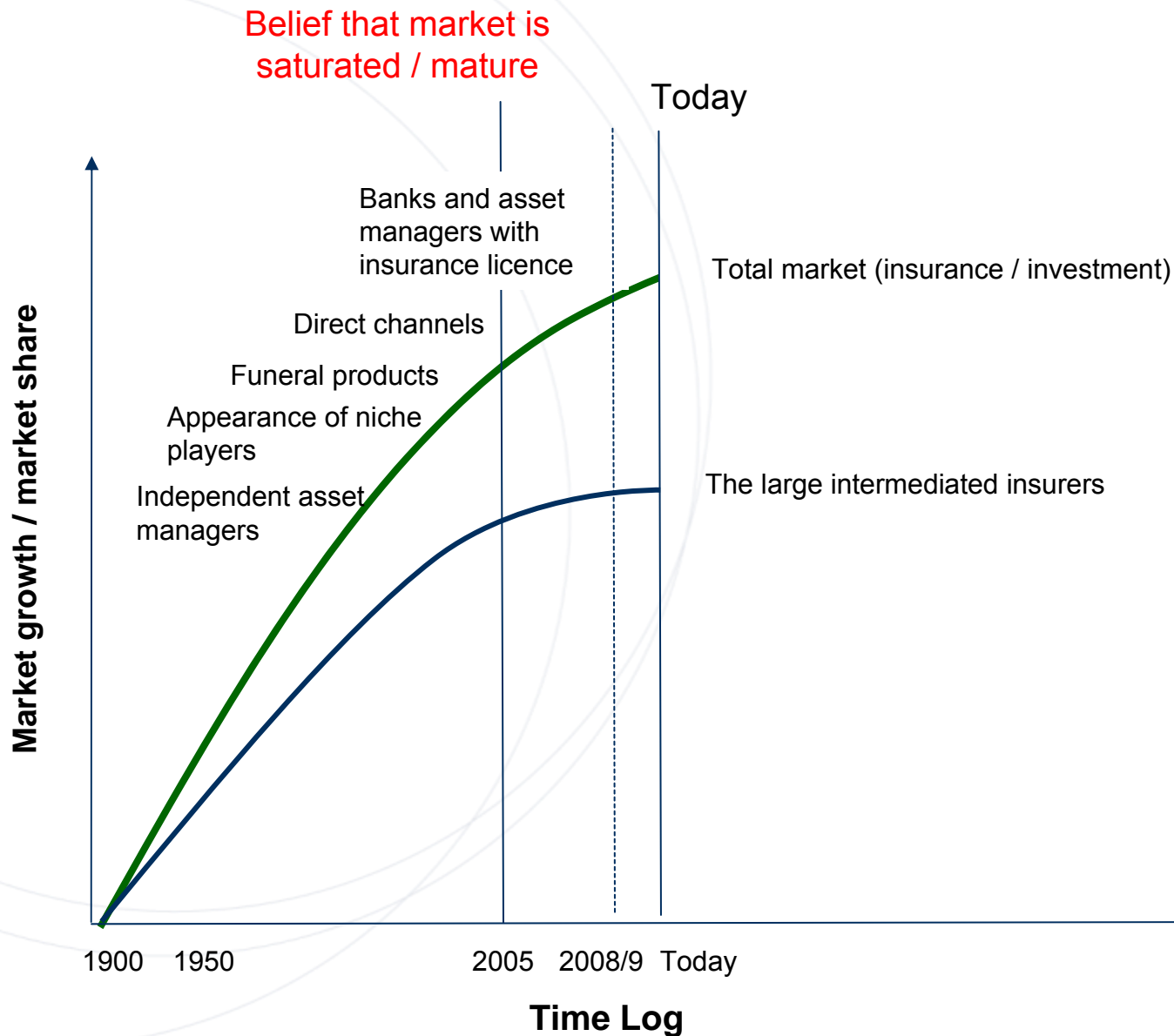
Overview of the industry

Overview of our industry ...



- Despite global financial crisis hitch, the industry continues to grow
- ... driven largely by changing SA demographics.
- Growth is across different sub-industries, but at different rates ...
- ... captured mostly by new players

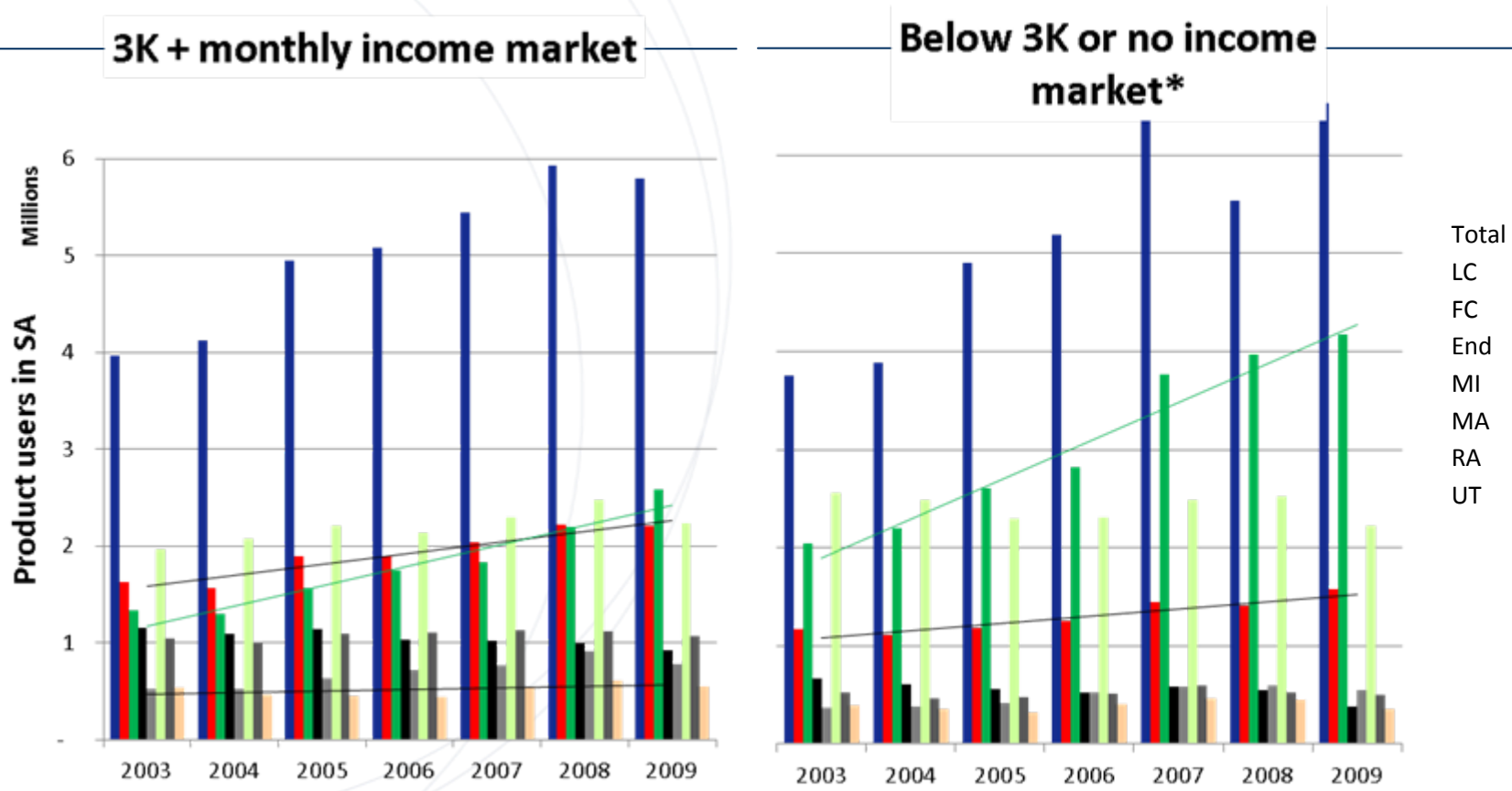
Over the past 5 – 10 years, contrary to the common view that the insurance/investment market was mature and saturated, it has continued to grow!



More recently: between 2003 and 2009, life cover users in SA overall have increased by 35% and funeral policy holders by 94%.



Higher income brackets (11K+ p.m.) saw growth in life cover users by 64% and funeral policy users by 163%.



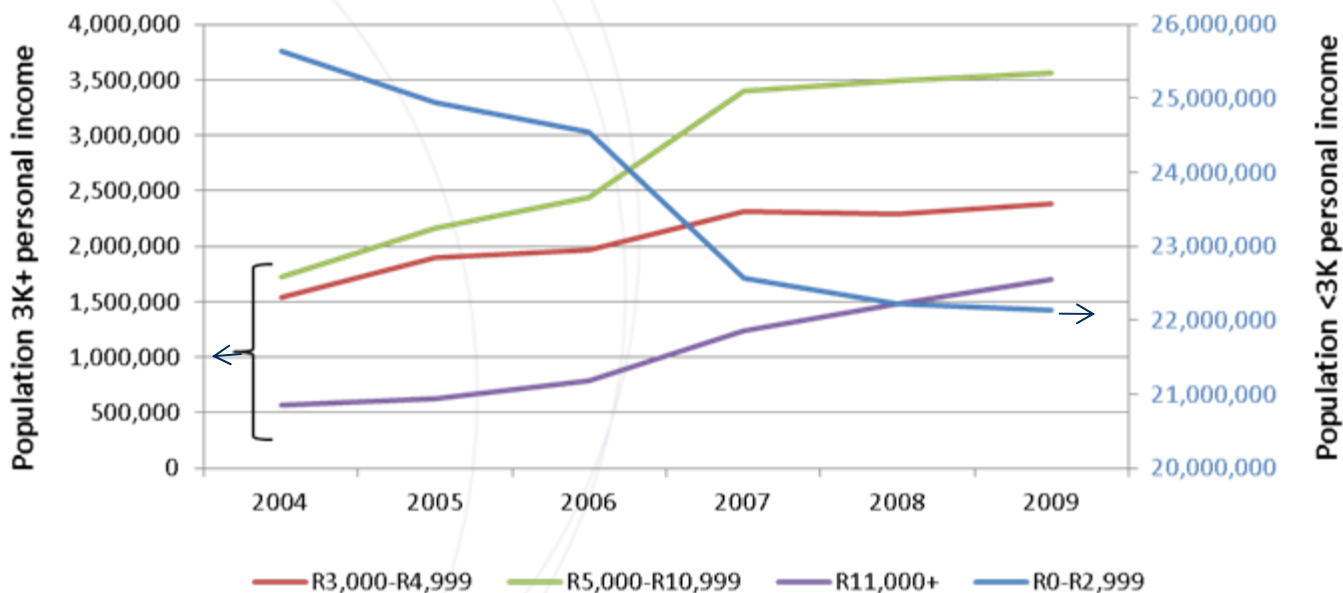
The demise of burial societies and stockvels

* Also includes younger than 18 years and older than 64 year old

Driven largely by the changing demographics ...



The Gini coefficient has been decreasing (for the employed!) over time, and hence South Africa is reflecting a more balanced income distribution. This resulted in increasing demand for insurance/investment products.

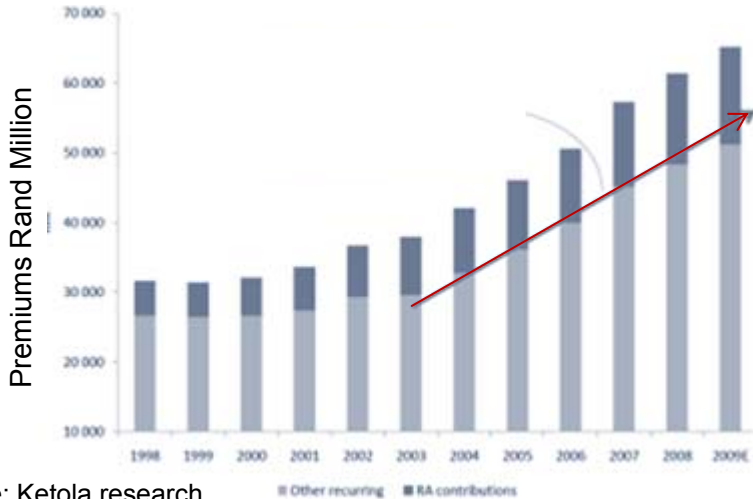


SA adult population	2004	2005	2006	2007	2008	2009	Growth (2009/2004)	Diff 2009-2004
R0-R2,999	25,637,996	24,946,107	24,540,383	22,574,426	22,222,167	22,128,555	-14%	-3,509,441
R3,000-R4,999	1,544,144	1,898,475	1,965,930	2,310,554	2,295,730	2,384,781	54%	840,637
R5,000-R10,999	1,719,908	2,163,735	2,442,890	3,405,777	3,493,545	3,562,317	107%	1,842,409
R11,000+	569,946	623,813	786,479	1,238,815	1,476,451	1,706,620	199%	1,136,674
Total population	30,310,340	30,655,694	30,903,001	31,109,075	31,305,018	31,524,550	4%	1,214,210

Growth is across the board but at different rates

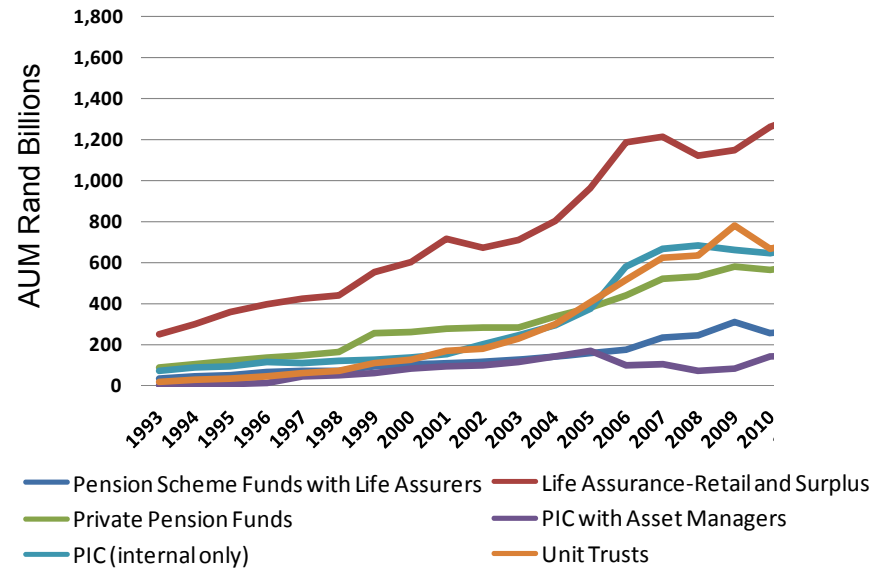


Recurring premium growth 1998 – 2009 all long term risk products and RAs



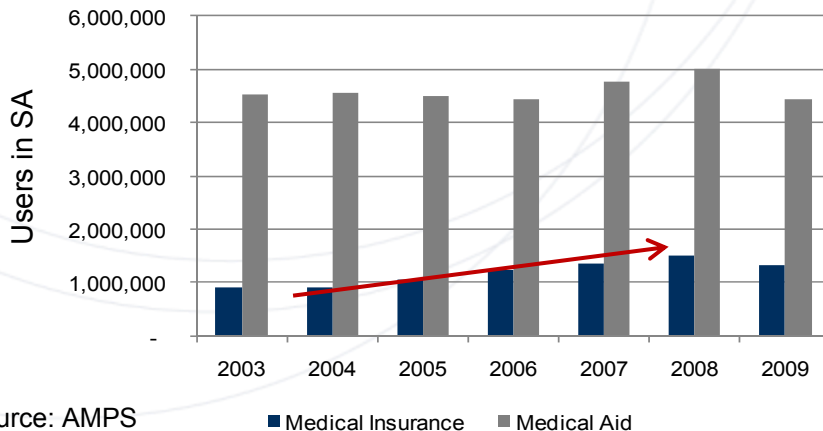
Source: Ketola research

Growth in Asset management 1993 – 2010e



Source: UBS, Alex Forbes & ASISA

Medical Aid and Health insurance growth in users 2003 - 2009



Source: AMPS

Key points

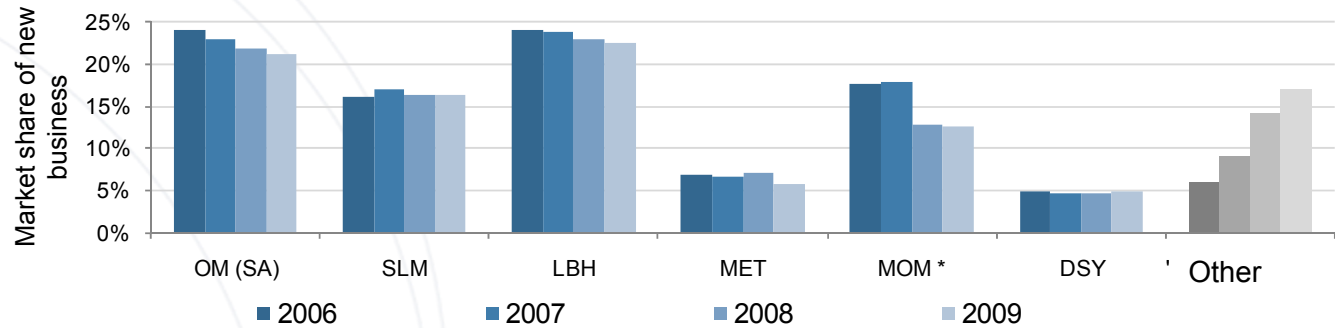
- Despite global financial crisis, all markets have shown significant growth over past decade – though margins have shrunk with increased operational effort
- Growth predicted to continue albeit at more moderate rates

With new suppliers and new channels as major beneficiaries



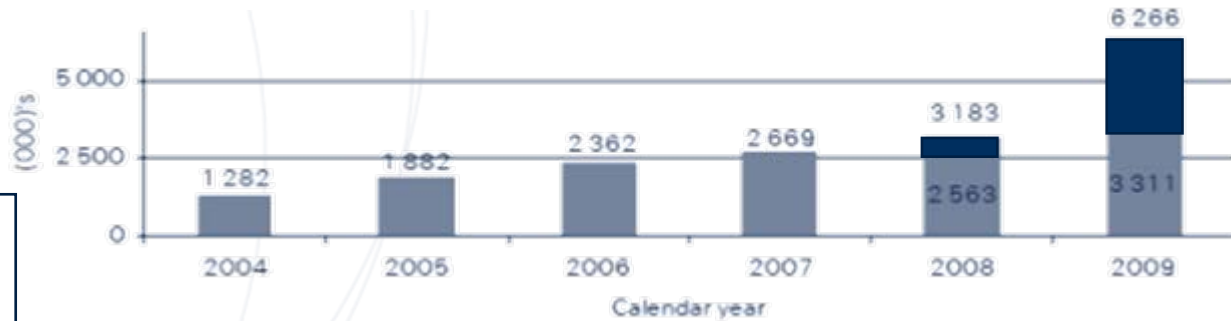
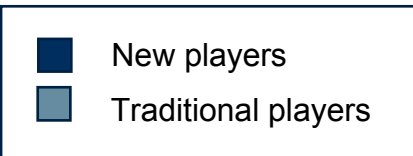
Retail life indexed new business

Source: company financials, ASISA



All long term risk products

Trends in number of policies (total per calendar year)



Trends by distribution channel (number of policies)

Source: Swiss Re, business volume survey SA 2009 (published August 2010)



Liberty's strategic journey

Update on our strategic journey



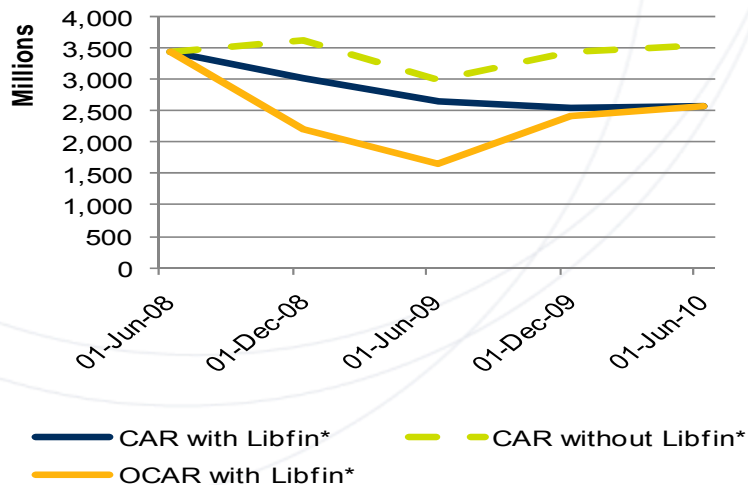
- Improve our balance sheet management capability
- Strengthen the insurance business
- Diversification

We are making good progress and finding new opportunities!



Solving balance sheet problems has developed group new expertise!

- Minimising exposure to written option and interest rate market resulted in potential for selling GCBs
- Maximise shareholder returns by leveraging long dated funding
- Provision of new investment product ideas
- Reduction in required capital to support market risk



Good progress in addressing retention issues

- A positive EV experience variance on persistency was achieved in H1 2010.

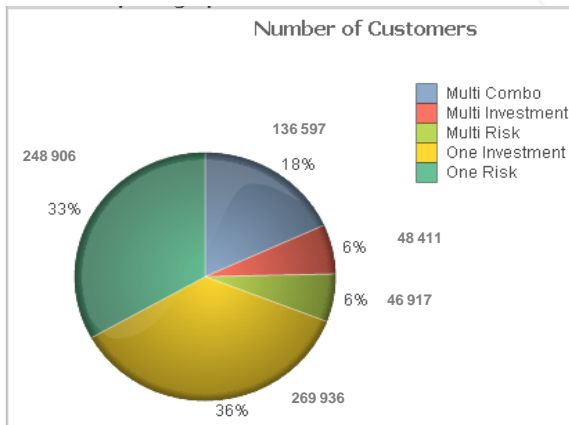


- Building customer insights and segmentation
- Sustainable intermediary proposition
- Re-intermediary capability
- Changes in ELM strategy and model
- Build MIS enabling differential pricing models

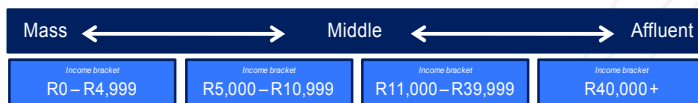
Developing incredible customer insights in the process ... e.g.



Customers with a multi product holding have a significantly longer average tenure than those with single product holding – **up and cross strategy**



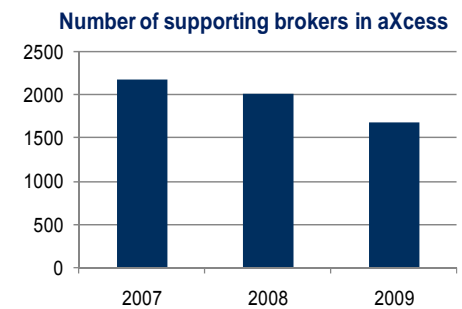
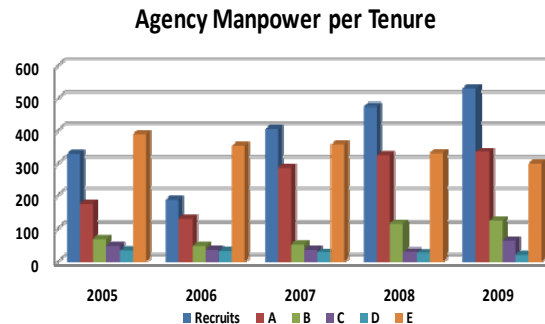
Different value propositions for younger customers at acquisition versus older customers for retention



Liberty "complex product" customer base

	Young Ones	Mid Market	High Income	Mature
Size	1.5 million	918,000	450,000	960,000
Age	21 - 34	35 - 54	35 - 54	55 - 64

Distribution challenges need addressing: Independent broker support has declined and high failure rates of new advisors, along with the loss of experienced tied advisors



The redeveloped proposition will present real innovation to long established tied distribution models in SA.

The sustainable proposition to intermediaries has three "cornerstone" concepts:

1. It is much **greater than just compensation.**
2. It is **dependent on the life stage** of the agent.
3. It is dependent on the **"profitability" of the agent**

- Improve our balance sheet management capability
- Strengthen the insurance business
- Making good progress on "growth strategies"
 - The Liberty growth cluster is on track to contribute around 15% of earnings in 2015.
 - Growing the rest of Africa reach
 - Building a Health business
 - Building a business for non-traditional channels
 - Continuing to leverage our Standard Bank relationship

Africa growth is mainly around Corporate and the Standard Bank's client base

- Maximising returns by focusing on countries where we already have a presence – ring-fencing CfC and delivering the business case
- Utilising the strong commercial partnership with Standard Bank to fully extract the value we see in bancassurance and corporate opportunities
- Aggressively converting first mover advantage in Health (12 countries / 30 000 lives currently) and Property space

The risk business opportunity in Africa sits primarily in the Corporate base and the Standard Bank's staff base, giving us scale to exploit the bigger corporate opportunity.

Health growth will primarily come from leveraging strategic partners' distribution reach in Africa

- Biggest opportunity is in the rest of Africa!
- In SA, National Health Insurance's aim is multiple schemes providing core benefits against government standards to all people who are employed. We believe this will lead to consolidation of schemes and administration providers. The legislation is likely to create a low cost compulsory option, which will mean lower fees. Scale will be important to remain profitable.
- We need to further develop systems capability for faster take-on of new admin books and further reduce cost structure to offer low fee administration.

The Health business, we need to ensure we remain one of the 5 big schemes in the market to leverage opportunity from the National Health Reform programme

DFS – part of developing new retail channels

- Designed to compete head-on with the new players taking market share from the traditional businesses
- Developed unique technology platform that can be leveraged in bancassurance, the low advice space and providing potential to move the new traditional intermediated business onto a new platform

Bancassurance – continue to leverage our strategic relationship with Standard Bank

— New initiatives aim to double the value of the current agreement —

Expanded business models

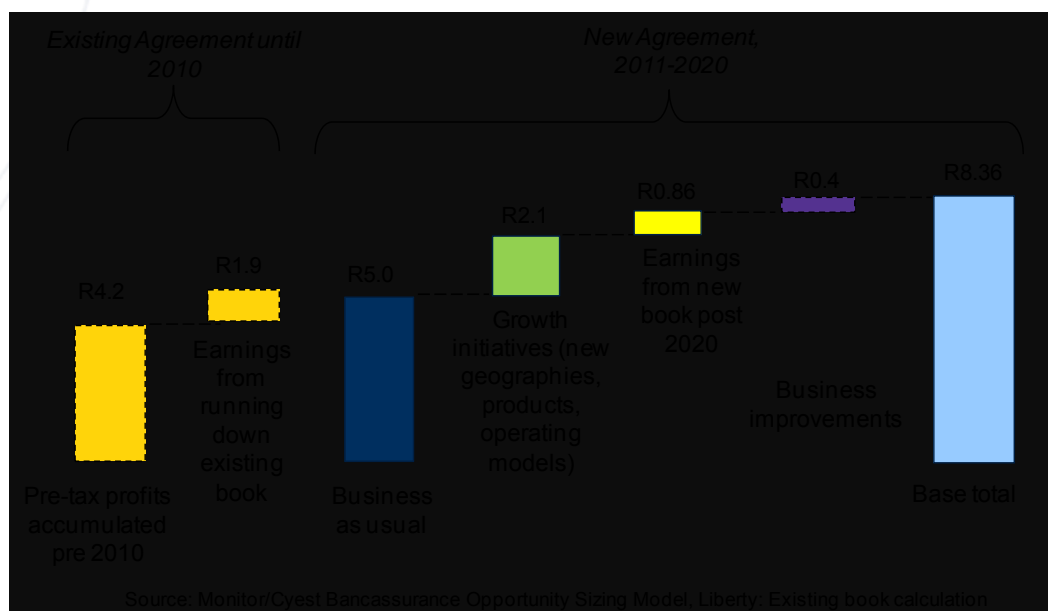
- No advice
- **Low advice**
- High advice
- **Corporate**/specialist advice

Expanded product range

- Life
- Investments
- Health
- Short term

Expanded geographies

- South Africa
- Africa
- New markets



Capital and Risk management journey so far

Objectives for Programme CARAT

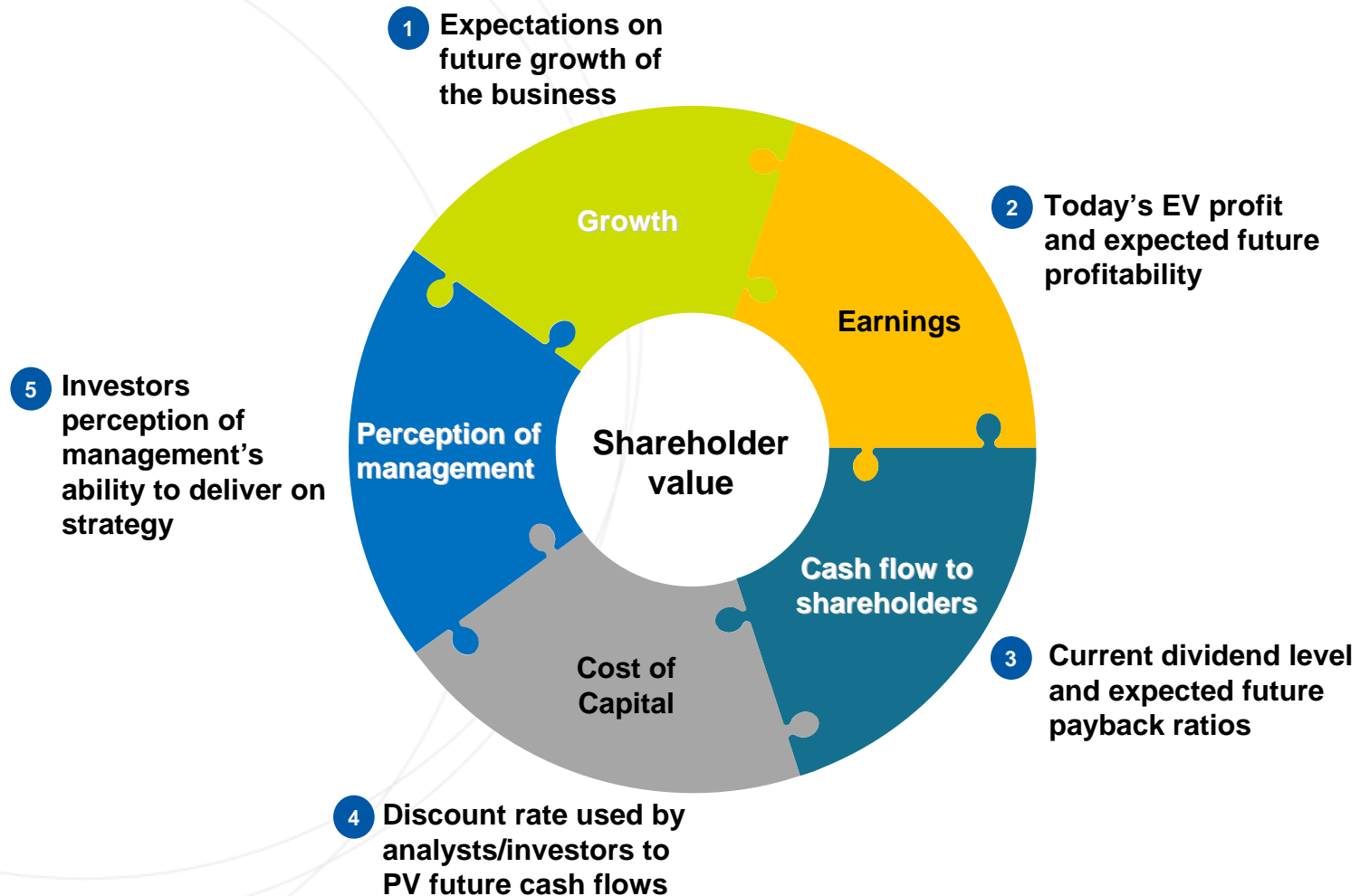
(Capital and Risk Analysis Transformation)



- **Drive value creation through improved risk and capital management**
- **Reduce the possibility of lapses in risk management**
- **Move towards Solvency II compliance**

Value creation was the primary objective

Driving shareholder value through CARAT



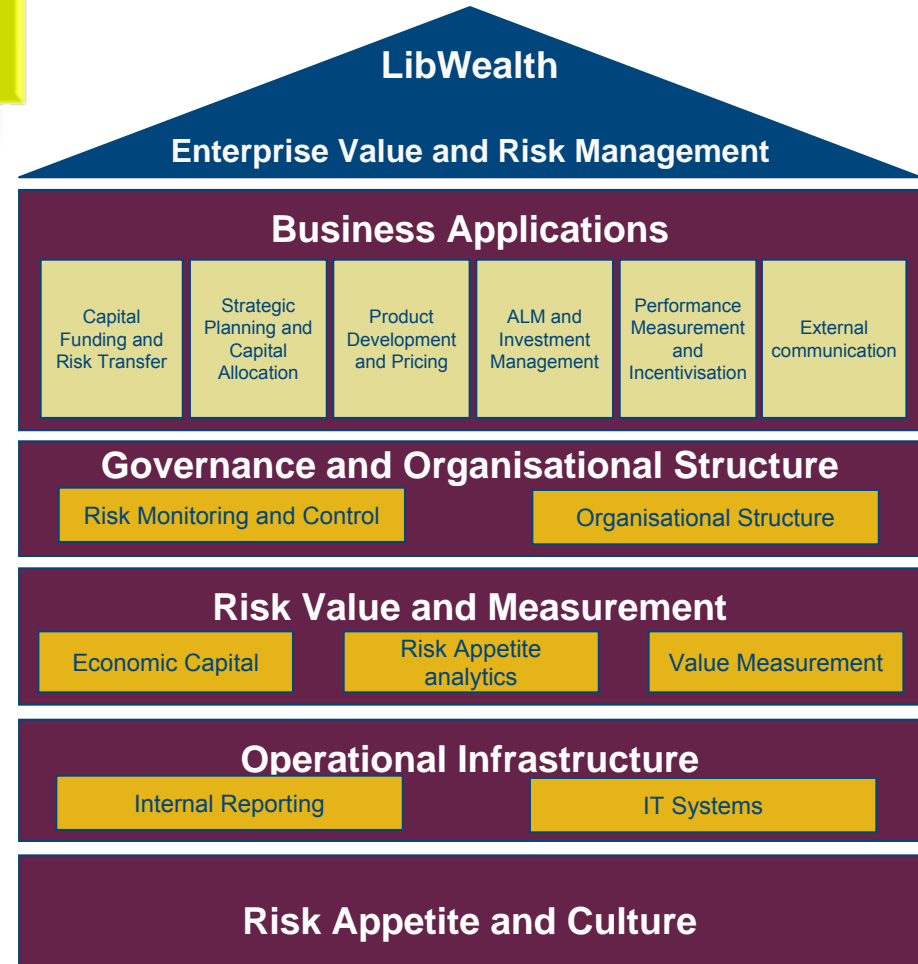
A fully developed risk and capital management framework helps you steer all drivers of shareholder value

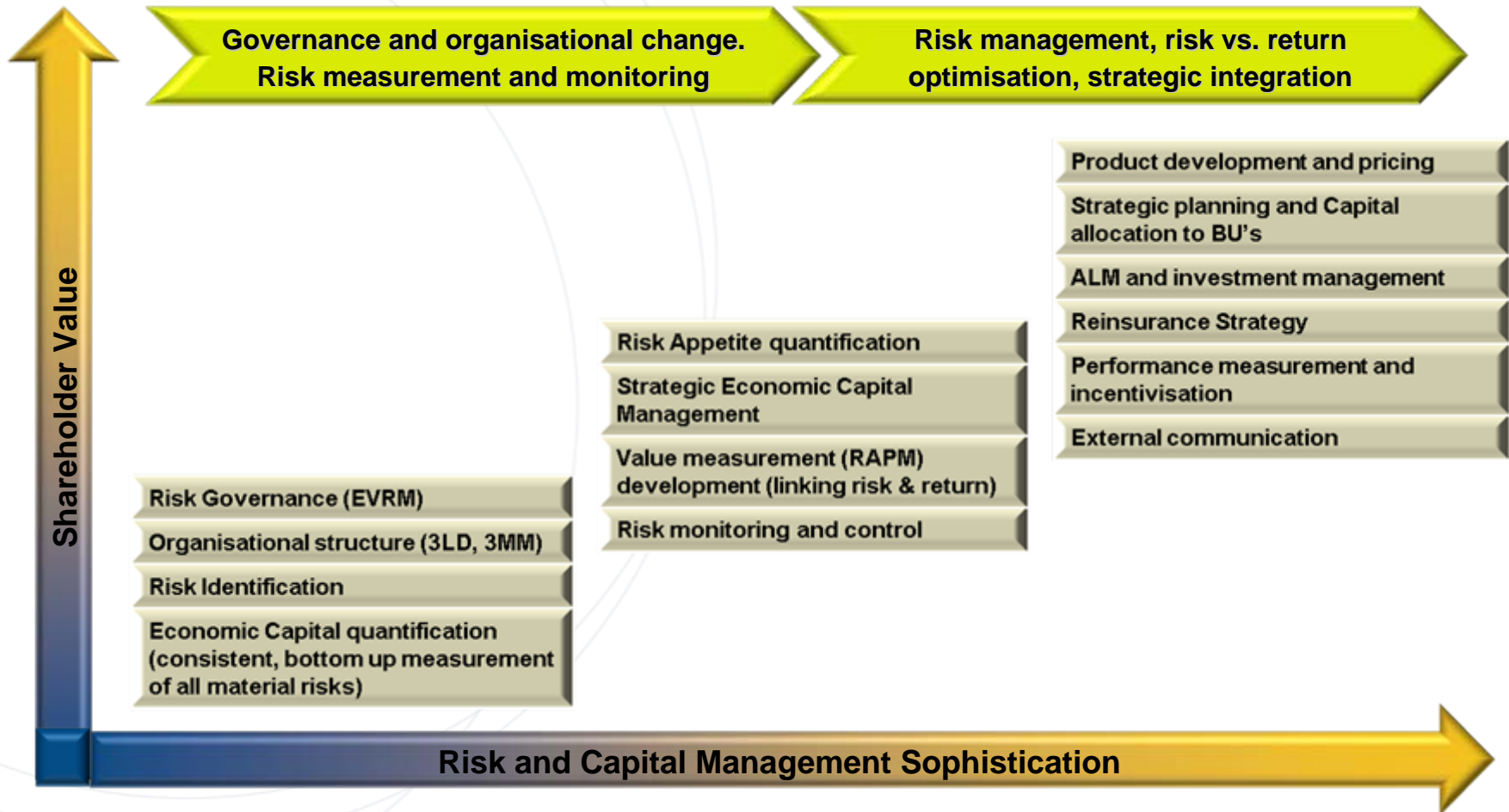
High-level overview of EVRM framework



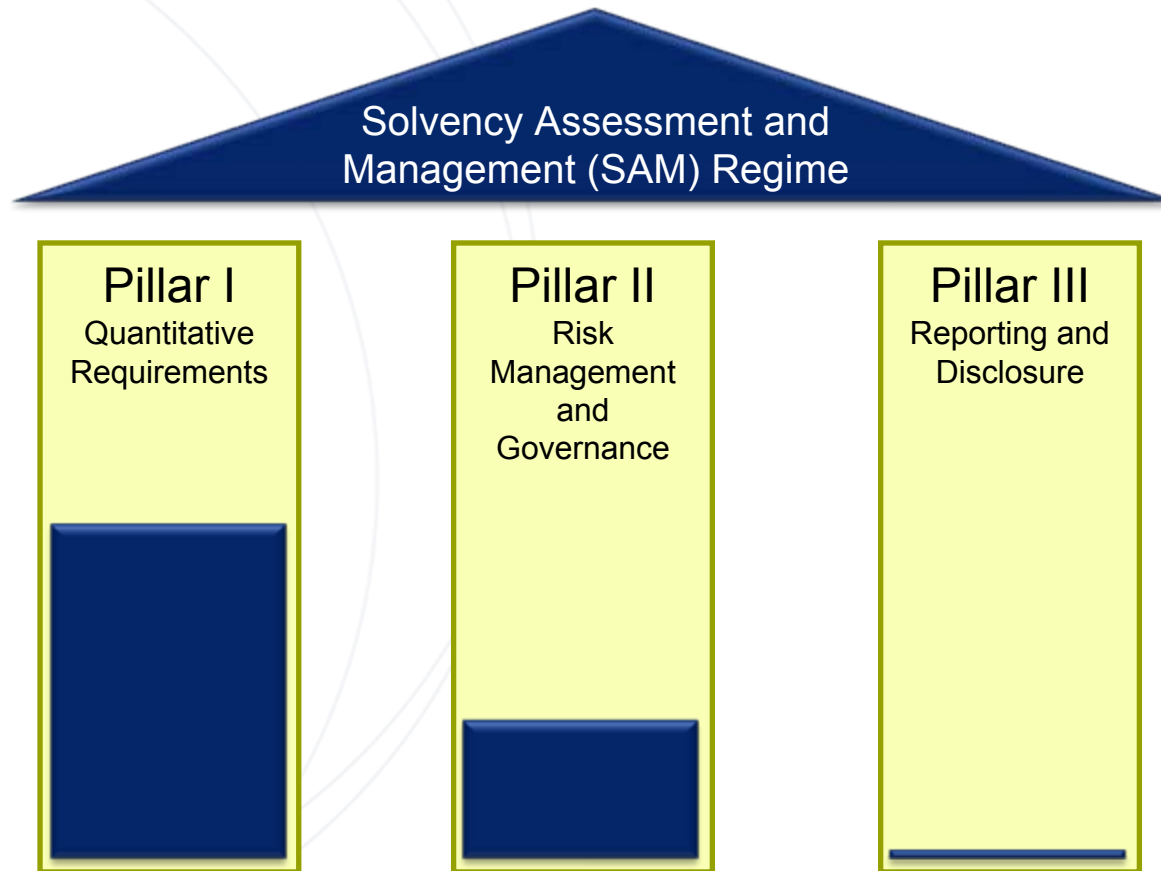
Core principles of Enterprise Value and Risk Management include:

- Clear accountability for management of risks arising from value creation activities
- Consistent risk-adjusted performance measurement across the group
- Risk appetite tracked at group level
- Three lines of defence risk; organisational and governance structure
- Identification and separation of risks to enable management
- Quantification and measurement of risks in business units
- Risk limits and monitoring by second line of defence
- Group-wide aggregation of similar risks and creation of centres of excellence to manage them (e.g. LibFin)





This capability build has already been in motion for over two years and is likely to take another 5 years ...



Liberty Holdings is at different levels of “minimum” compliance with each of the SAM Pillars

Liberty Holdings Preparedness for SAM



	Pillar I Quantitative Requirements	Pillar II Risk Management and Governance	Pillar III Reporting and Disclosure
What has been done	<ul style="list-style-type: none"> • Enhancement of data use and management (FRiD) • Consolidating and standardising actuarial valuation model • Development of a risk taxonomy and models • Risk appetite and economic capital models developed for majority of business 	<ul style="list-style-type: none"> • Development of EVRM framework • Risk appetite statement for LHL approved by Board and in use • Embedding in key processes e.g. ALM and formulation of strategic asset allocation • Introductory internal education on Solvency II concepts and principles 	<ul style="list-style-type: none"> • Annual risk-appetite position and risk reporting
Future Focus	<ul style="list-style-type: none"> • Documentation of models, processes, assumptions, etc. • Build required to meet ORSA requirements • <u>Continual development and refinement of systems and processes</u> 	<ul style="list-style-type: none"> • Build new business processes (e.g. Capital management, • Revise and enhance internal controls, frameworks and policies • Internal model approval and supervisory review • <u>Performing an Own Risk and Solvency Assessment (ORSA)</u> • <u>Ongoing Board and management education</u> 	<ul style="list-style-type: none"> • South African Quantitative Impact Studies (SA QIS) • Requirements not defined

The major effort going forward will be focused on Pillar II requirements

Thank You