

A new playing field - what is the game plan for growth?

LIBERTY HOLDINGS LIMITED
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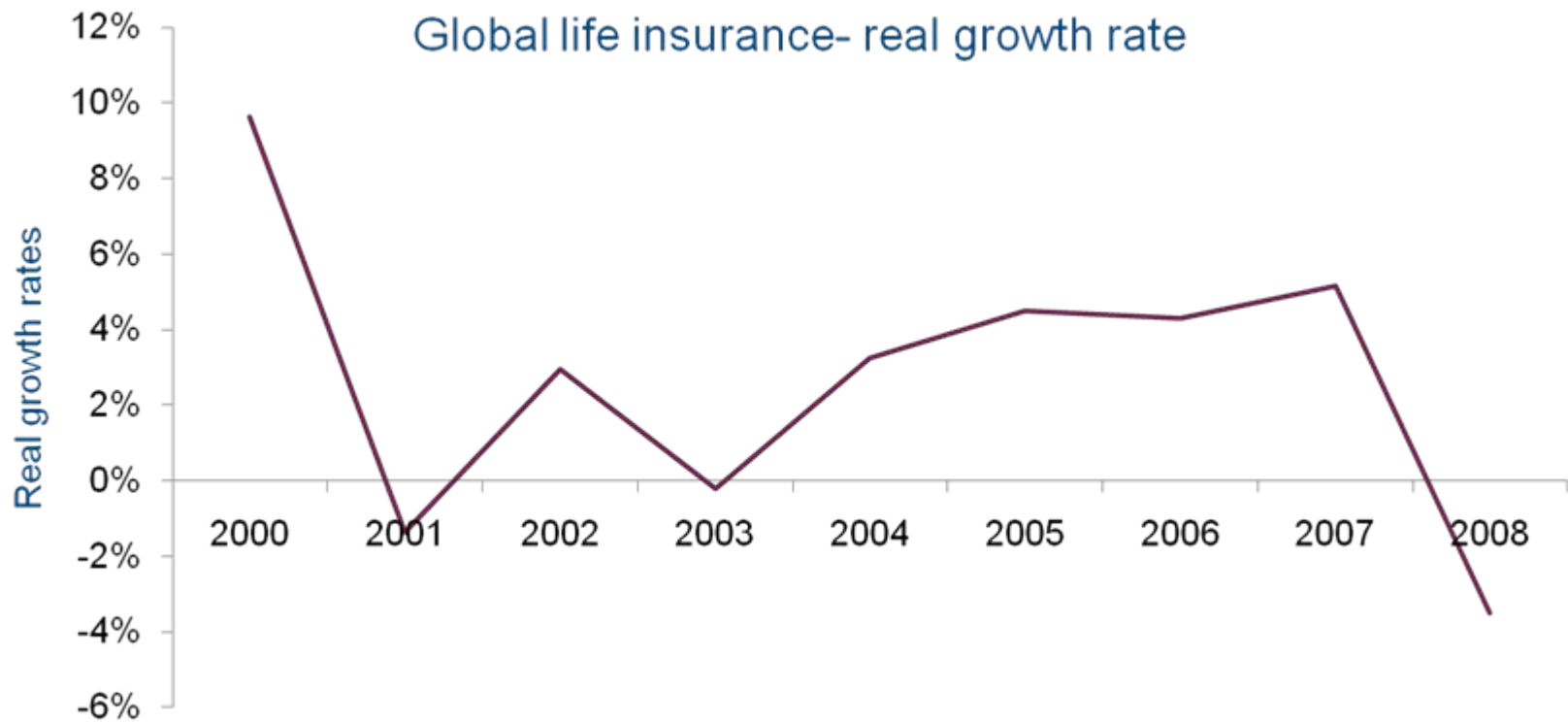
Points of focus

- Global overview of the life insurance industry
- Africa and emerging markets - the new playing field
- Liberty - rising to the challenge

The new playing field – Global overview

- Global market overview
- Growth differs in different markets
- Global market down turn and impact on insurers
- Customers - a clear shift in behaviour
- Distribution
- Regulatory environment

Global insurance premium volume growth - developed markets



The current economic crisis led to a 3.5% decline in global life premiums in 2008, due to the sharp fall in the sale of unit-linked and single premium life insurance products in the industrialised countries

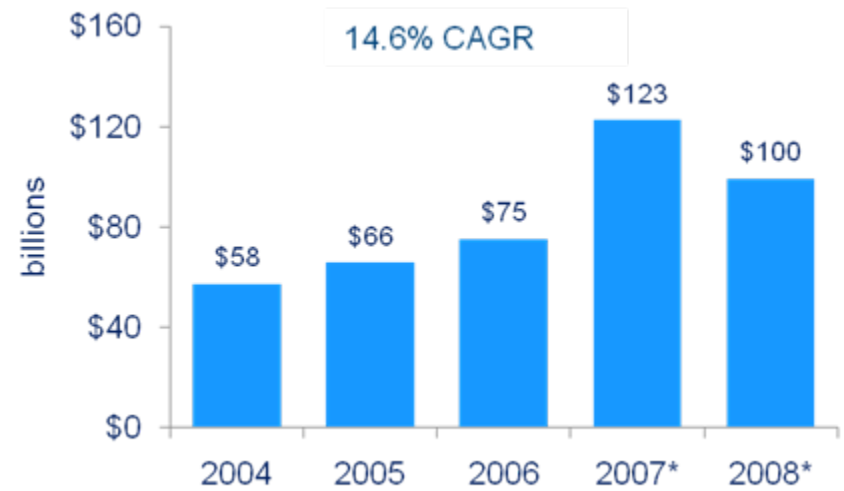
Growth differs in different markets

- developed markets over the past 5 years

Australia's total life insurance premiums



UK individual life insurance premiums



USA individual life insurance premiums



Key points

The charts look at **total life insurance premium volume growth** over the last five years. Global markets have shown mixed growth.

- The US individual life market has stagnated at under 3% annual growth.
- The UK (despite its high penetration rate) and Australia recorded double digit compound annual growth rates from 2004 to 2008

Source: Swiss Re, Deloitte and S&P

¹Values are US dollar denominated for comparison purposes; ² UK increased maximum contribute to Self Invested Person GDP3,600 to GBP 215,000 CAGR: compound annual growth rates as measured by total premium income

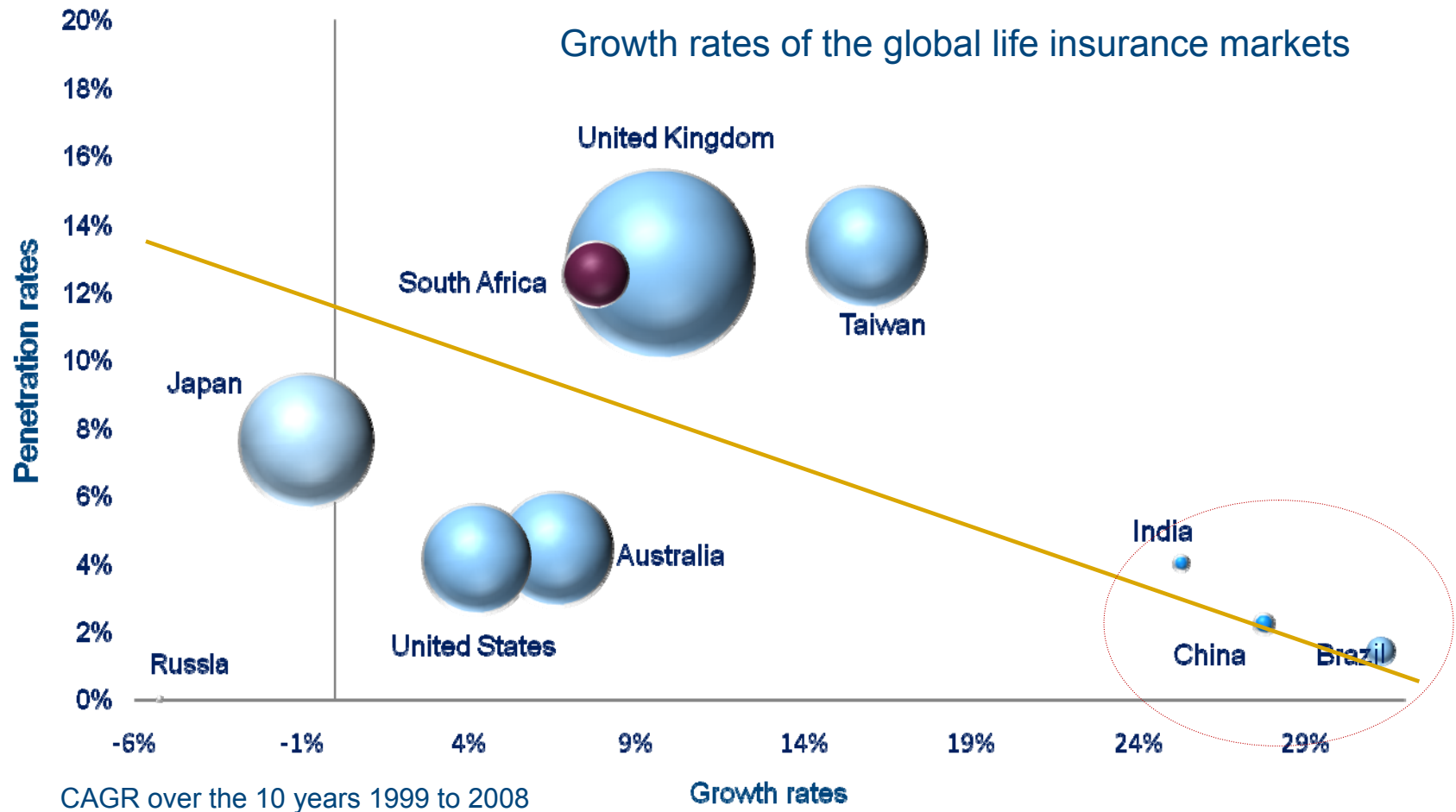


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Growth differs in different markets

- higher growth rates generally seen in the low penetrated markets

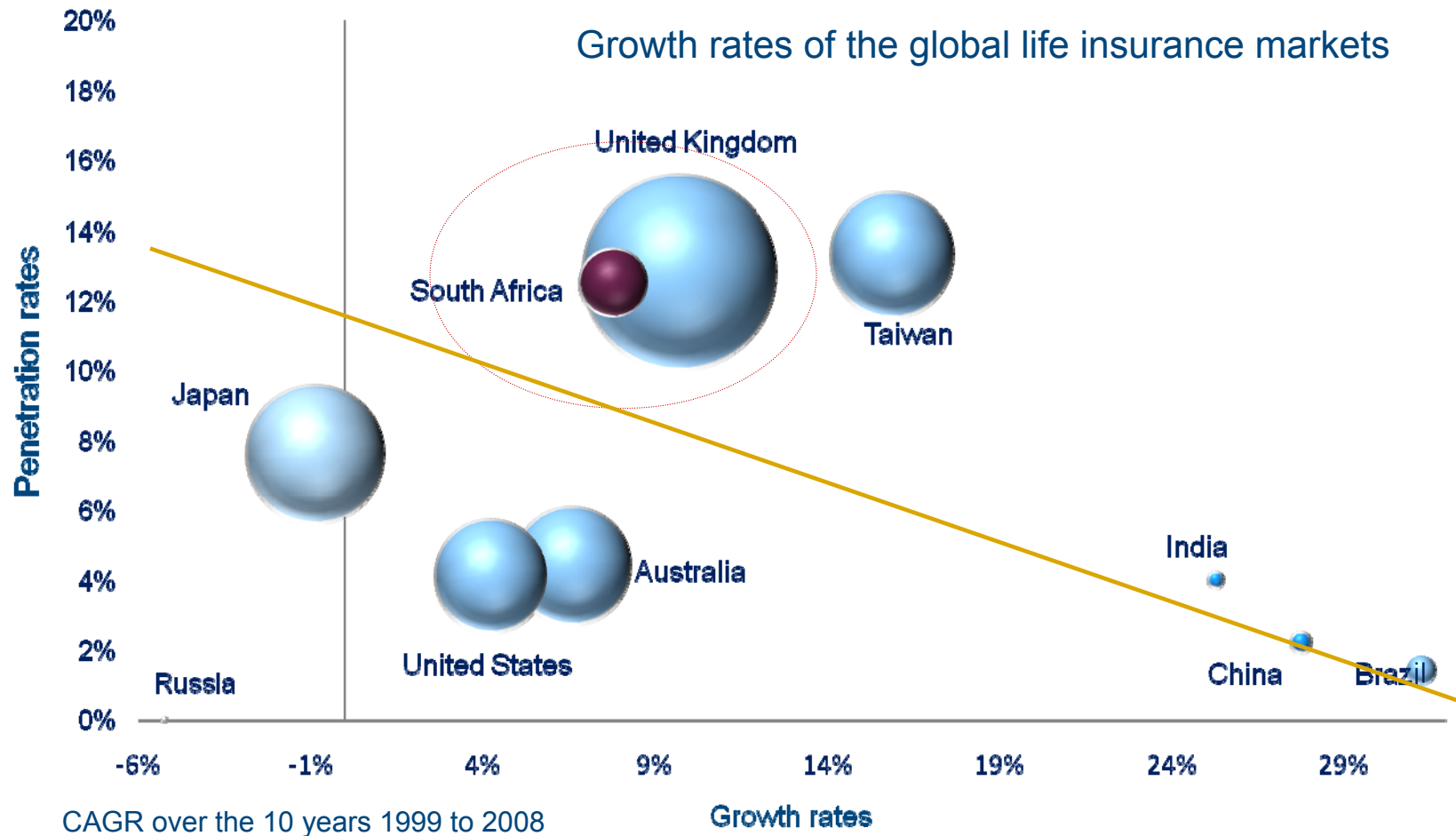


Under-developed¹ markets – India, China and Brazil have experienced phenomenal growth rates in recent years ranging from 25% to 35%

¹ Based on density and penetration levels
Penetration : total premiums as % GDP

Growth differs in different markets

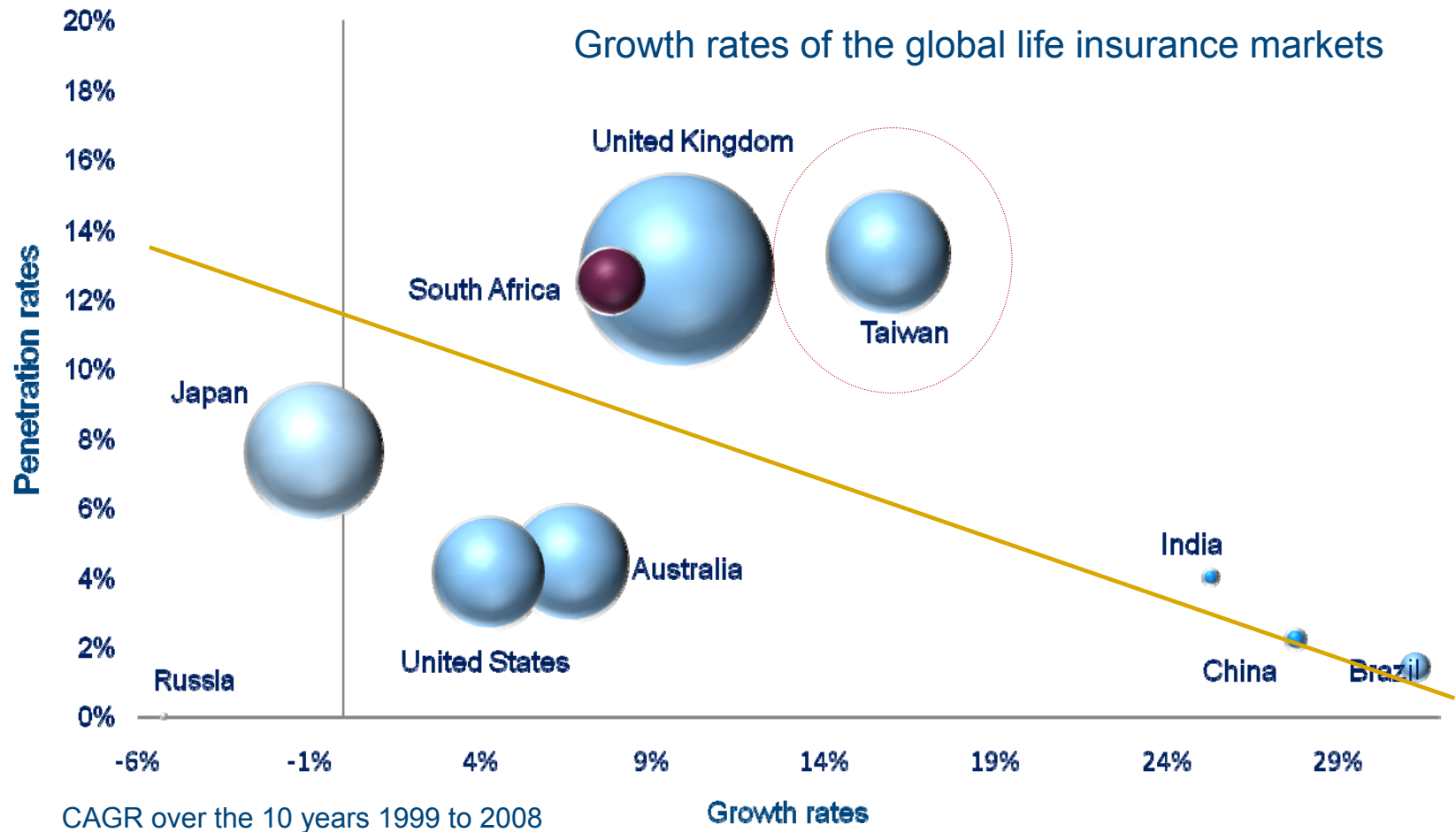
- generally lower growth rates seen in saturated and mature markets



UK and South Africa, despite high penetration levels, reported higher growth rates than Australia and the USA

Growth differs in different markets

- generally lower growth rates seen in saturated and mature markets



... despite being highly penetrated, Taiwan managed to record 16% growth rates i.e. a high penetration rate does not necessarily suggest market saturation

Global markets – impact of the economic downturn

Issues/ risks	Life insurance industry response/ impact
Deteriorating Operating Results	<ul style="list-style-type: none">• Implementing initiatives to improve risk management practices and operational efficiency by cutting discretionary expenses including workforce reductions.• Limited access to capital was exacerbating difficult trading conditions
Capital Depletion	<ul style="list-style-type: none">• Exploring alternative structures to provide capital support for capital intensive products. E.g.: selling off of under-performing businesses, use of reinsurance and hedging programs.• As financial markets stabilise, some insurers are withdrawing TARP applications. Some banks continued to acquire insurance firms
Declining sales of investment products	<ul style="list-style-type: none">• Market volatility and economic weakness have significantly impacted investment sales• Life insurers are striving to restore growth in traditional life insurance products, targeting GenX and GenY demographics.• Since 4Q08, many life insurers shifted focus from variable annuities to fixed annuities

Global customer behaviour trends

- a clear shift in customer behaviour

Traditional insurance customer	New insurance customer	World Insurance Report, 2008 customer survey results
Customers used one insurer for all insurance policies	Customers moving to use many different insurers for insurance policies	Mature-market customers hold on average 5.2 policies. On average only 1.1 to 1.5 policies are with any one insurer
Long average duration of life and non-life insurance products	Customers are switching products more often	Average length of policy moved from 9 years to 5 years
Use single source of advice	More information is available on the internet	1 in 10 customers use the internet to research or purchase insurance. 1 in 3 wants to use it to purchase insurance in 3 years
Customers tend to remain loyal	Customers are more price sensitive. Use of on-line aggregators now used to make price comparisons	28% of customers consider price as the first criterion when buying insurance and only 11% consider brand as the most important
Customers see value in advice	With increased distribution options perceived value of advice is declining	10% of customers say that professional advice is key when purchasing life cover

The insurers' customer base is changing and insurers need to be aware of this and shift to at least maintain market share

Global customer behaviour trends

- Technology : an increasing driver of purchasing behaviour

- An 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

- 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

Insurers must leverage off technology to influence customer behaviour

Global customer behaviour trends

- customer segmentation becoming critical

Some insurers have developed new best practice approaches to customer management:

- 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.
- A number of life-co's are using technology to provide improved usability, access, and choice to customers and brokers alike.
 - E.g.:online wrap platforms and fund supermarkets allow users to tailor make bespoke solutions in real time.
- In the US, *New York Life* and *Met Life* have built specific capabilities around serving the Asian and Hispanic market segments, including hiring native language speakers.

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 percentage 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

- Challenges for global insurers: the need to manage multiple distribution channels
 - Multiple channels increase market share and customer access BUT is complex too
 - Need best practice solutions per channel for multi-distribution channel model. E.g.:
 - Detailed tracking of performance to provide preferential service to top brokers and closely manage and penalise under-performing brokers.
 - Direct channel: automation and straight through processing

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
- Local government regulations will impact how global players operate in specific market jurisdictions.

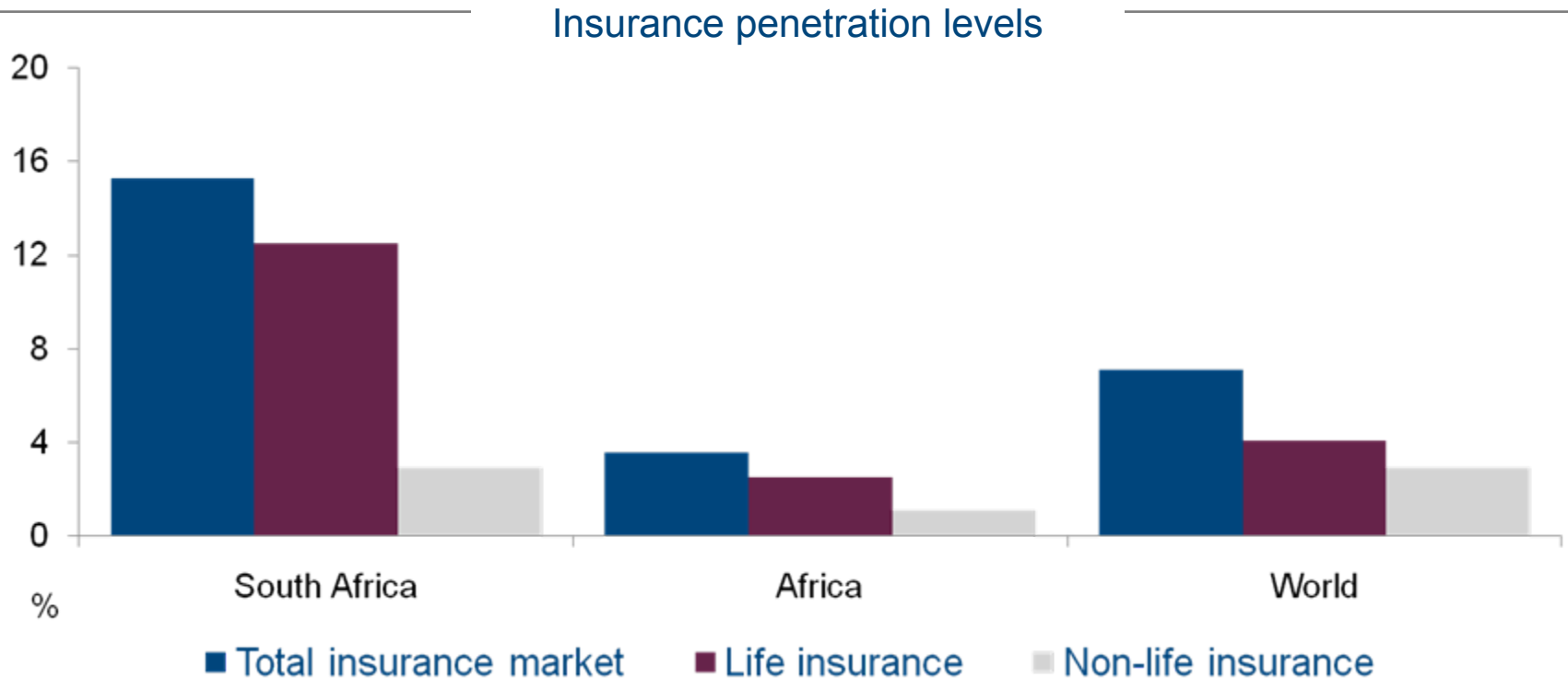
While the full extent of regulatory change is unknown signs are that revisions to regulations have the potential to be dramatic

The new playing field – Africa and emerging markets

- Growth differs in different markets
 - Low penetration rates
 - High growth opportunities

Growth differs in different markets

- Low penetration rates in an untapped market

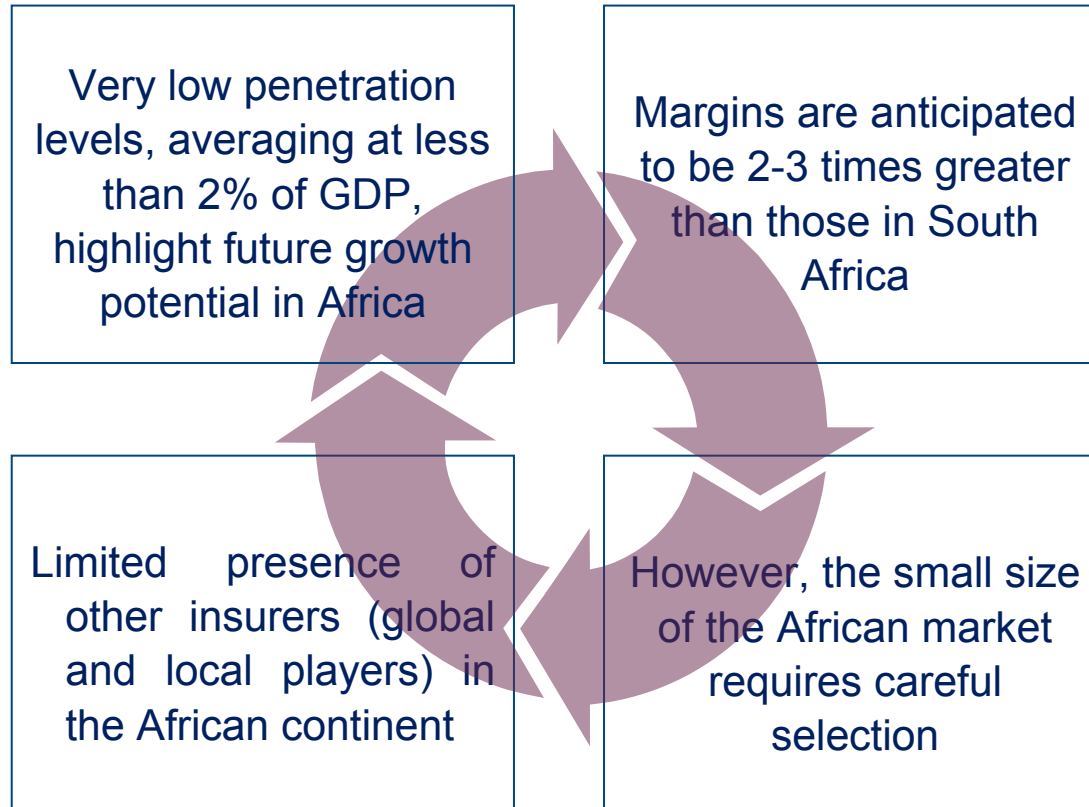


Key points

- High penetration levels are largely driven by the life insurance market, a global trend
- The rest of the African market remains largely untapped
- South Africa has one of the highest insurance penetration levels - above the world average

Growth differs in different markets

- High growth opportunities exist in Africa



High growth opportunities prompting increasing interest into emerging markets

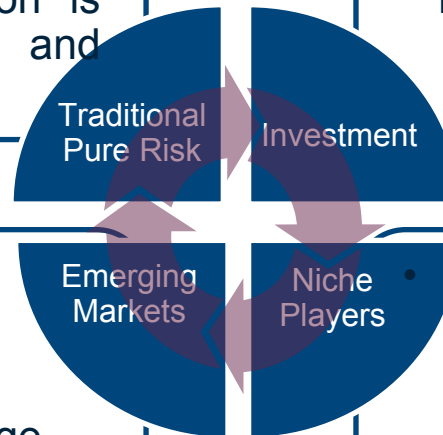
South Africa - the changing landscape

- Competitive dynamics changing - evolving target markets, products
- Distribution profile
- Customer dynamics changing - opportunities from under-serviced markets
- Deteriorating 'real' economy
- Persistency challenges : the customer under pressure

South Africa - changing competitive dynamics

- Pure risk products have become effectively 'commoditised'
- Players compete mainly on price and distribution in the risk space
- Product innovation is rapidly copied by competitors - although perceived product innovation is still valued by brokers and customers

- Life companies are being outcompeted by wealth managers in the investment space
- Lower cost base due to regulatory benefits
- Perception of enhanced asset management ability



- Growth in the SA market is primarily in the emerging or developing markets
- Brand perception plays a large role in customer uptake

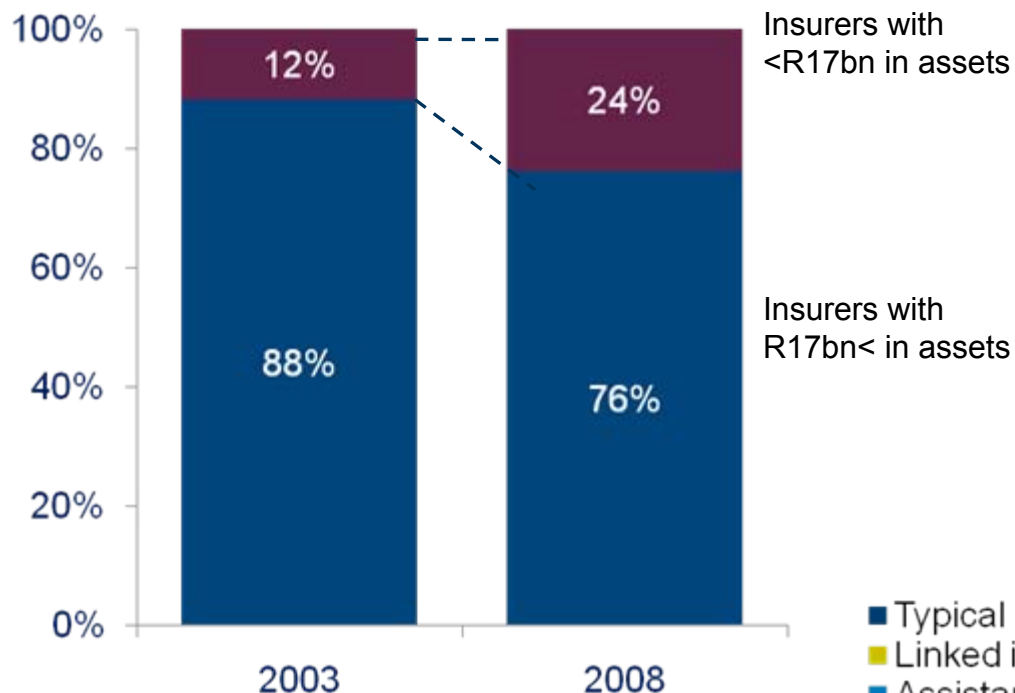
- Smaller operators find niche areas of competence in which they can outcompete larger life companies

These smaller operators:

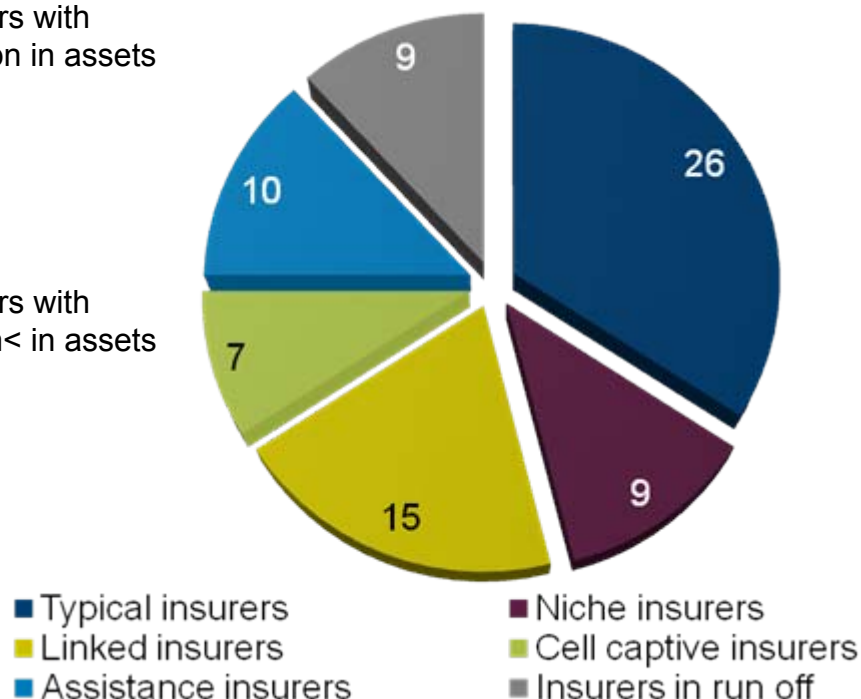
- Capture niche channels
- Capture niche customer segments
- Have perceived product and brand innovation

South Africa - changing competitive dynamics

Individual long-term premiums between large and small players



Breakdown of long-term insurers in 2008 (Total = 76)



Smaller players are rapidly gaining market share from traditional insurers - large insurers can not just focus of the large competitors and ignore the smaller, niche players

South Africa's distribution profile

- In South Africa, distribution of life products follows a similar mix as seen in other countries:
 - Independent brokers: 61%
 - Tied agents: with 31%

- Independent brokers are particularly dominant in the single premium and retirement annuity recurring premium business

- Tied channels play a far larger role in the ordinary recurring premium business

- Direct channel:
 - Small portion of the total life markets, but a far higher proportion of the total risk market (9% of premiums; 26% by number of policies).

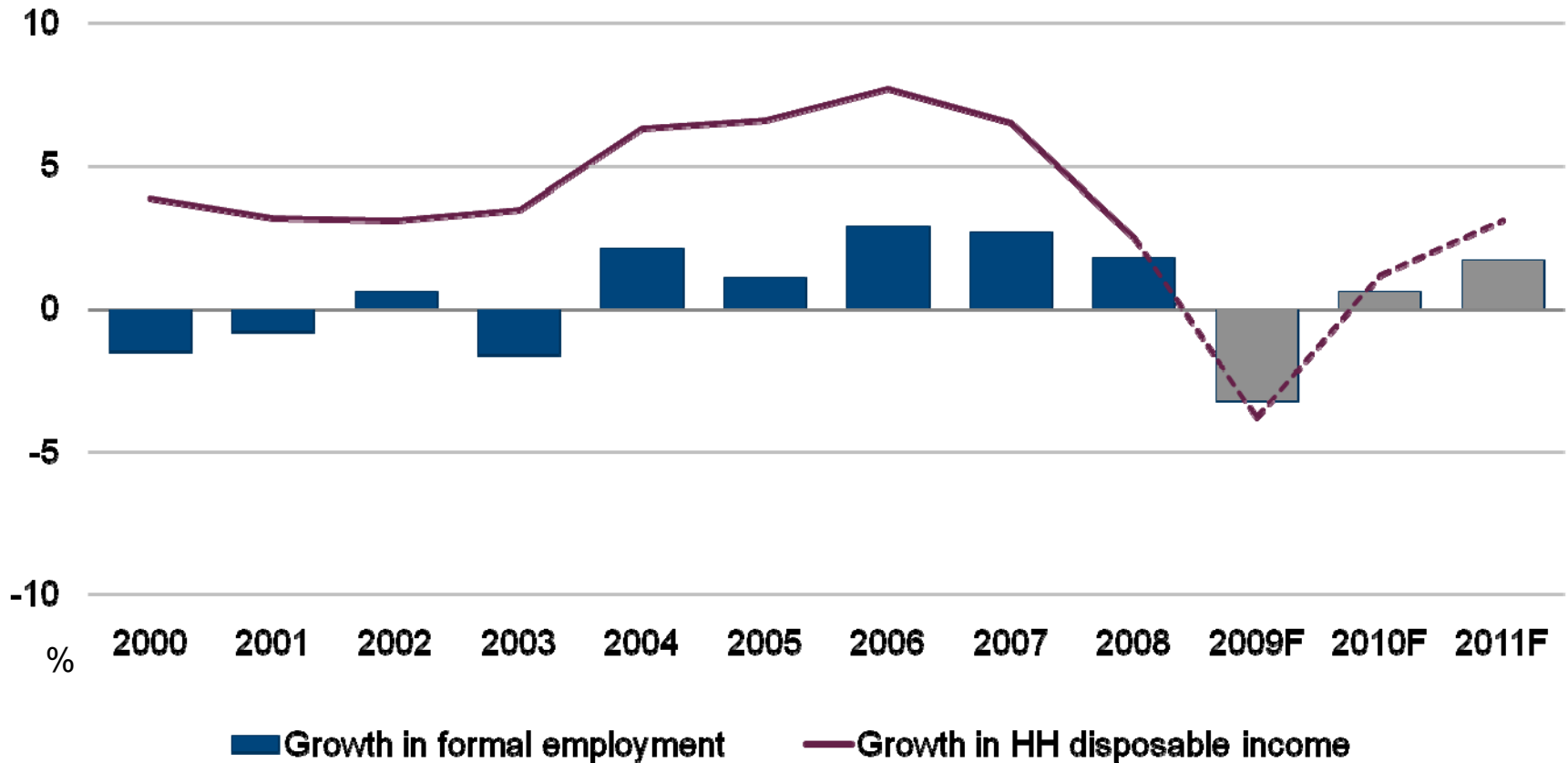
South Africa – changing customer dynamics

- The customer is more informed and wants products that meet specific needs
- Improved education and employment is leading to an increase in relative wealth in SA
- 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
 - There are 3 million '*Black Diamonds*', an increase of 1 million since 2005, representing a reported spending power of R250 billion.
 - This provides an opportunity for insurers to serve this market which is currently under-serviced.

The explosion of the 'Black diamonds' market, however, has not yet translated into product sales other than in the growth of funeral products

South Africa – the deteriorating ‘real’ economy

Growth in total employment and HH disposable income



South African's are currently seeing high household debt rates which is resulting in a reduction in spending on savings and investments products

South Africa - Persistency : the customer under pressure

Main factors contributing to persistency concerns:

- Resulting from pressure on consumer – affordability impacting retention
 - Over 475 000 South Africans have lost their jobs since the start of 2009
 - 35% of correspondents¹ interviewed were struggling to meet monthly financial commitments and did not have enough to save
- 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: means it is often cheaper to replace older risk products with newer generation products.

It is affordability and not mis-selling that causes most lapses

(AS/SA 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.



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Liberty – rising to the challenge

- Strategic review
- Tackling persistency challenges

Strategic review

Current state

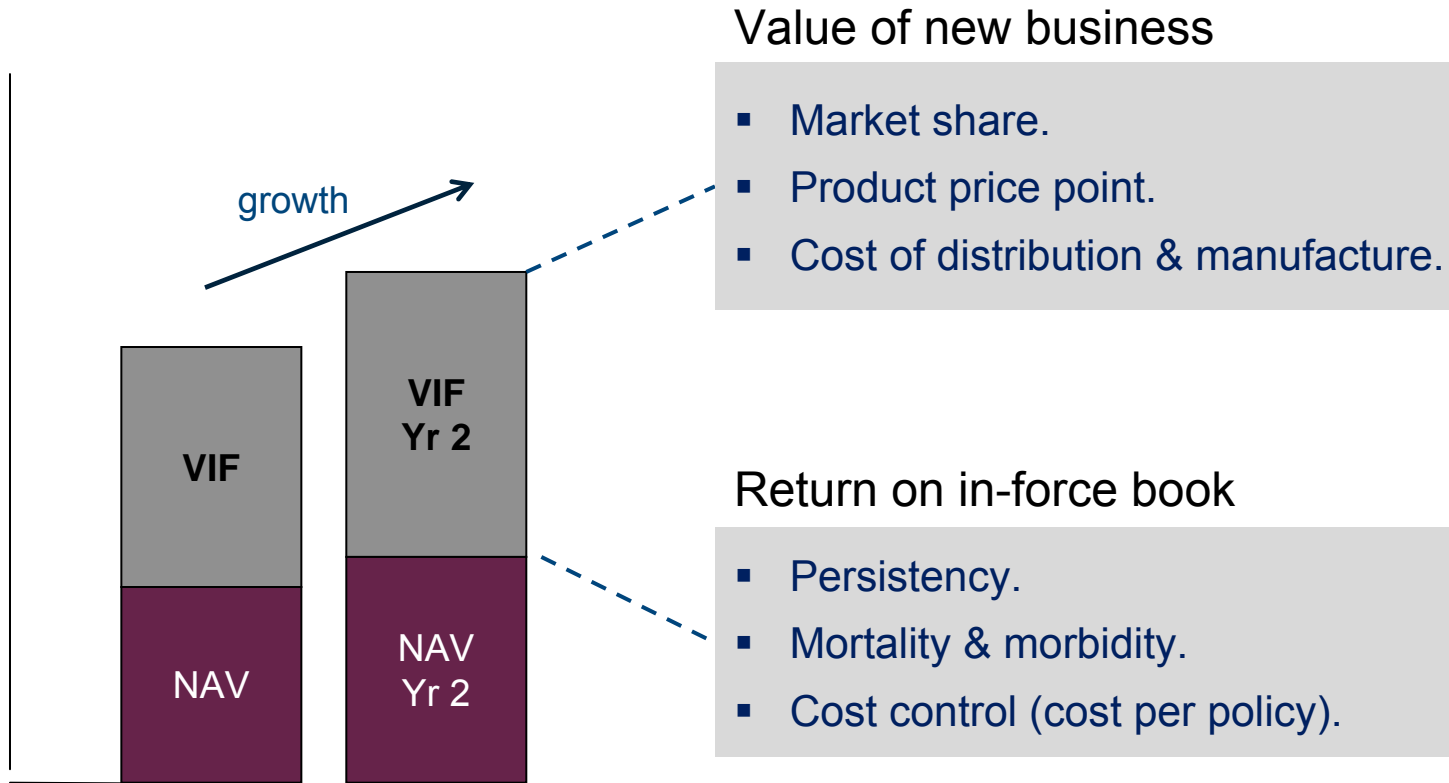
- South African life insurance market is heavily intermediated by agents/brokers
 - Highly skilled and effective sales engine
 - But this means we're not as close to our customers as we'd like to be

What we at Liberty are doing

- South Africa strategy changing to strengthen customer relationships
- Covered target customer segments, propositions, distribution, marketing and branding
- Will result in implementation of changes to the SA operating model required to deliver this strategy
- African expansion via Liberty Africa

We aim to segment our target markets and focus on the customer

What we want to achieve



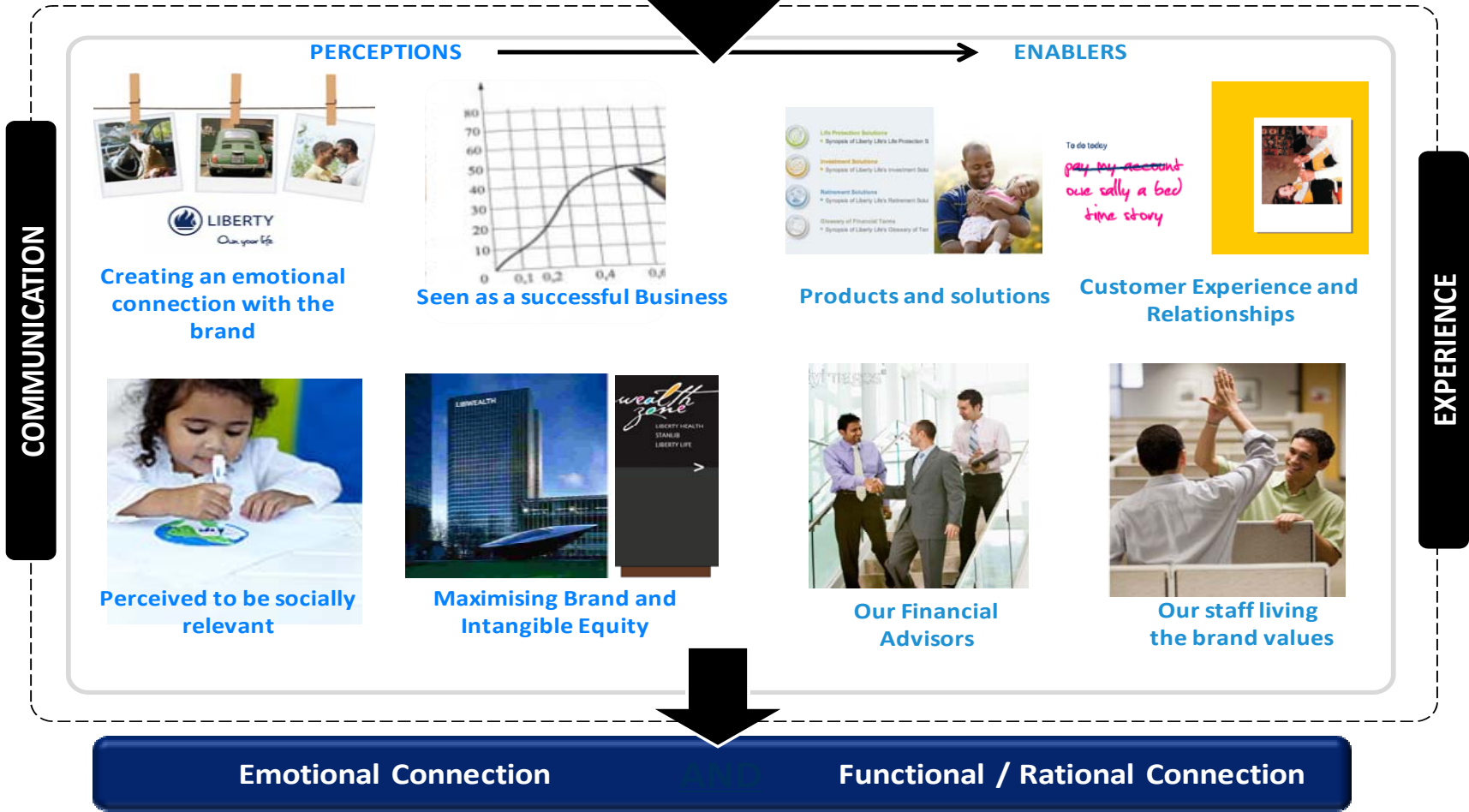
Link between operational performance metrics and Return on Embedded Value

How we will achieve this

- Market share - Liberty will drive to achieve a targeted position within clearly defined new target market segments, in addition to maintaining its traditional market
- Product price point - products have historically been priced within the market range
- Cost of distribution (cost of acquisition). Liberty is:
 - investing in its management competencies, models and structures within each of its sales and distribution channels
 - conducting a fundamental review of distribution channels to ensure cost is appropriately aligned to the potential of the markets being served
- Persistency - Liberty is investing in its customer insights, customer value management and customer management practices
- Mortality & morbidity - Liberty has traditionally had good mortality and morbidity experience which needs continued focus on underwriting and claims management
- Cost control (cost per policy) - Liberty is driving a back-to-basics strategy and have a strong focus on all business disciplines of its core operations

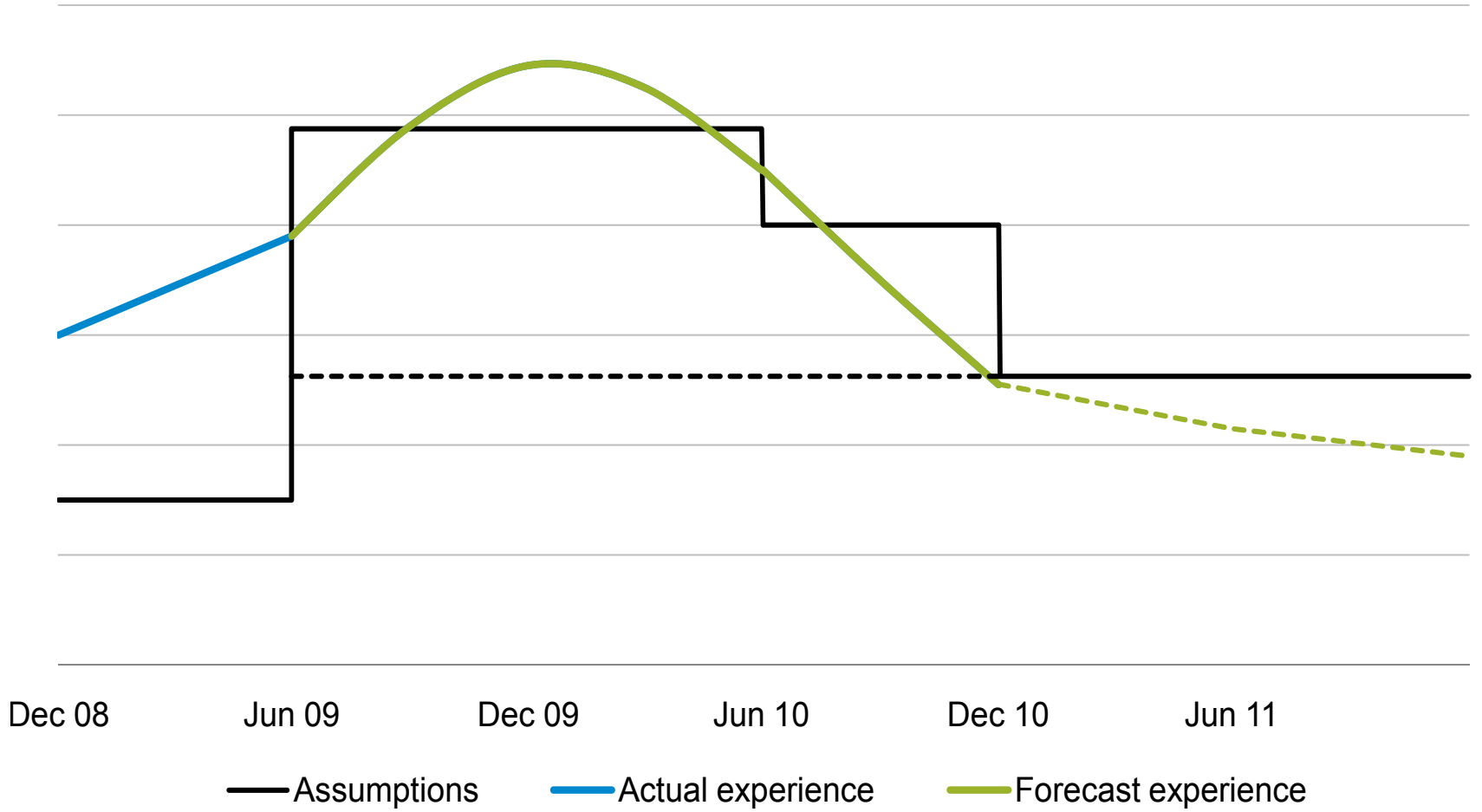
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Tackling persistency challenges

- assumption changes



Rapid mobilisation – further actions taken

- Dedicated team

- Range of initiatives implemented and in the pipeline:
 - Enhanced management information
 - Defence team set up
 - Retention leads actioned
 - Enhanced premium collection practices
 - Increased premium flexibility on investment and risk products
 - Enhanced underwriting to minimise not-taken-ups

All staff KPIs aligned with retention

Summary - the game plan for growth

- Sales growth per client segment key
- Big focus on retention of clients
- New market opportunities

Thank you