

*This document serves to outline key messages extracted from the presentations on 30 November. The aim is to inform the market and elaborate on the developments within the Retail SA business over the last 3 years.*

**Strategy update – Steven Braudo, CE**

- Retail executive team has remained the same since 2008
- Combined financial services experience of more than 197 years
- 2012 Performance to October;
  - Continued positive momentum in the business reflected in good sales and operational performance
  - Strong sales of the guaranteed investment plan and living annuity products
  - Lower than expected claims and withdrawals due to the ongoing successful retention programme
  - Sustained improvements in policyholder persistency
  - Expense management remains good with cost saving initiatives implemented across the business
- The current operating environment has various challenges;
  - Uncertain economic conditions
  - Low interest rates
  - Consumer affordability impacted by higher service costs (fuel, rates, electricity)
  - Competitors adapting fast
  - Regulatory changes – TCF and RDR
- Retail statistics at June 2012
  - 2,5m policies in-force (ECM: 344 600) and approximately 129 000 new policies (ECM: 65,900)
  - Biggest contributor to earnings → 76% of Group normalised operating earnings
  - 2 447 permanent employees as well as 2 312 tied agents
  - Largest areas are; Retail Operations and Sales and Distribution
  - Critical skills areas → Retail Actuarial Solutions; Product Development
- Market share movements at June 2012 – Total new business market share 19%
  - New recurring premiums were up 20%
  - Single premiums up 27% across all investment product lines
  - 35% increase in annuities
  - Risk new business 23%
  - On an indexed basis, Liberty's market share was up by 1.3%
- All market segments have grown since 2005, with the emerging middle market (R3,000 – R10,999) growing by 33%
- Population projections for the emerging middle market (R3,000 – R10,999) segment show continued growth of 46% from 2012 to 2020
- The product set for Retail is fairly diversified across the business;
  - Embedded products sold through the Bancassurance arrangement with Standard Bank – Funeral plan, Home Loan protection, Credit Card protection, Personal and Micro-Loan protection, Vehicle finance protection
  - Risk products sold through independent and tied brokers include – Death, Disability, Dread disease, Income protection, Education
  - Investment products sold through independent and tied brokers include – Investment builder, Investment Plan, RA Plan / Preserver, Life Annuity & Flexible Annuity, Evolve

- ECM products sold through call centres and worksite agents – Funeral plan, Life Cover plan, Accident plan, Investment plan
- The Bancassurance relationship with Standard Bank is a key contributor to the bottom line with Liberty's share of value-in-force contracts at June 2012, R1,2bn – 3 channels include;
  - Embedded business – Liberty's life licence is used, products are integrated in bank's systems and processes. Profit share 90/10 for the Bank/Liberty
  - Advisory business/ SBFC – Bank appointed consultants sell Liberty's insurance, investment and health products through personal engagement. Profit share 50/50.
  - Transactional business – Launched November 2011, sale of insurance product on a single sale basis, not linked to a bank product. Administration provided by Liberty, branch infrastructure and staff are used to access customers. Profit shares range between 50:50 and 65:35 depending on sales and amount of work done
- 2013 focus areas
  - Market and consumer
    - Continue development and delivery of the Investment roadmap
    - Continue to innovate in risk space
    - Deliver innovative digital solutions
  - Growth
    - Increase penetration in ECM
    - Continue growing our market share in traditional markets
  - Earnings enhancement
    - Manage costs
    - Improve operational effectiveness
  - Distribution
    - OYL Rewards – start build of next phase of the programme
    - Capacity, productivity and quality

#### **ECM – Lindi Dlamini, CE**

- Performance for the first 10 months of 2012
  - Indexed new business increased 54% compared to 2011
  - Pleasing sales performance benefited from;
    - Improved distribution channels
    - Enhanced productivity in the call centre
    - Increased manpower in tied channels
    - Good contribution from supporting brokers
- Strategy review
  - The ECM strategy aims to position Liberty as a credible competitor with a significant presence in the emerging middle income segment
  - Key milestones have been reached in executing strategy with significant improvement in value of new business
  - The growth of the emerging middle segment continues to be fuelled by demographics presenting an opportunity for ECM to grow in the future
  - The ECM team has been challenged to at least double market share in the medium term
- Market overview
  - All market segments have grown since 2005, with the emerging middle market (R3,000 – R10,999) growing by 33%
  - Population projections for the emerging middle market (R3,000 – R10,999) segment show continued growth of 46% from 2012 to 2020
- The ECM segment is relatively young and living in metropolitan and rural areas

- The ECM segment has varying attitudes and behaviours
  - The varied needs of these consumers can be satisfied by developing distinct value propositions
- What is the current formula for success in the industry
- Effective participation in ECM financial services is based on certain general qualifiers
  - Trusted and visible brand
  - Innovative and flexible solutions
  - Extensive customer touch points
  - Reliable and consistent service
  - Money collection Systems
  - Tangible value-added services
  - Strategic partnerships
- Regulatory update
  - Industry players will need to develop strategies to respond effectively to potential risks to growth resulting from potential reforms
- Strategic path for growth
  - Invest in distribution
    - Increase number of tied sales agents
    - Invest in sales training academy for Financial Advisers and Sales Management
  - Invest in brand and marketing
    - Develop a distinct ECM brand positioning
    - Invest in strategic partnerships with key stakeholders and affinity groups
    - Implement controlled local market initiatives
    - Implement regional CSI programmes
  - Invest in customer service capability
    - Increase number of client servicing centres
    - Review servicing model and customer experience design
    - Design distinct financial services and lifestyle-oriented solutions that address life-stage needs
- Conclusion
  - Liberty intends to invest in additional resources in the next few years to develop a significant presence in the emerging consumer market
  - Establish an extensive distribution footprint and product range
  - Develop a highly visible and trusted brand that resonates with emerging market consumers
  - Differentiate by adapting products and services to evolving needs of customers in the segment
  - Adopt practices that will ensure growth of a significant base of quality customers
  - Increase ECM profitability resulting in a meaningful contribution to the group

## Capital – David Jewell

- Liberty participated in the FSB's second quantitative impact study (SA QIS2) solo entity and group submissions (for all life entities)
  - QIS2 is more closely aligned to Liberty's internal economic capital model
  - Areas we believe require more work are:
    - Treatment of transfer tax
    - Credit risk (e.g. requirement to hold capital against credit risk in exchange traded instruments)
    - Treatment of insurance participations at solo level
- Conclusion
  - Journey to increased sophistication of risk and capital management well advanced
  - Enhanced actuarial capability central to this:

- More frequent and timely management information
  - Stronger actuarial analytics
- Life license rationalisation should strengthen capital position, and will reduce complexity and realise operational efficiencies
- Well positioned to meet future SAM requirements

## Sales & Distribution – Johan Minnie

- Sales and Distribution strategies are centred around creating value
  - Sales Capacity + Sales Productivity + Product Mix + Cost of Distribution + Quality of new business = VONB contributing to the Value of in-force book
- A Diversified Multi-Channel Distribution Model
- Highlights of 2012
  - More than 50% of growth in complex risk cases from intermediaries who sold no risk in 2011 in the first six months
  - Pleasing performance from higher risk business sales, and strong guaranteed investment plan and annuity business ~ at October 2012
    - Indexed new business up 19%;
    - Recurring new business up 23% to R3 billion;
    - Single premium new business up 12% to just under R12 billion.
  - Market first product innovation including;
    - Whole of Life disability and Flexible Annuity with unique “income enhancer benefit” launched in 2H11
    - Liberty Evolve launched in September 2012
  - 2H11 was a record half, therefore focus on sales productivity and product innovation was key for 2012
- Liberty has a diversified multi-channel distribution model
  - Customers have different purchasing preferences; RDR legislation may change historic trends; Channels have different cost structures & operational leverage
  - **Independent Brokers;** Liberty employees (Broker Consultants) who service independent financial advisors
  - **SBFC;** Independent financial advisors employed by Standard Bank on Bank infrastructure
  - **Entrepreneurs;** Tied financial advisors within a Franchise infrastructure
  - **Agency;** Tied financial advisors within Liberty infrastructure
- Introduction of RDR in SA
  - FSB intends performing a detailed review of Retail Distribution before amending remuneration in isolation
  - Some of the anticipated changes include:
    - All commission on retirement and savings business to be banned and replaced by client negotiated advice fees
    - Commission on risk business to remain largely upfront
    - Changes to commission on replacement risk business
    - Introduction of definitions of “independent” and “restricted” advice
    - Closer alignment of remuneration between IFA’s and Tied agents
- Focus Areas 2012 -2014
  - Focus on Quality of Broker Support base – AQC Average and above. With an increased Broker base writing better quality business will lower cost of acquisition
  - Focus on Level of Support, 80% Retention and Strategic Acquisition deals
    - In 2012; focus on the Broker support base, 2200 Supporting Brokers

- 2013 & 2014; Focus on Retention of Supporting Brokers – 80% Retention, 2000 IFA's 500 SBFC Supporters

### Innovation @ Liberty – Frank Schutte

- Innovation is aligned to Liberty's strategic framework
- The development of the QlickView system was in response to the requirement to manage customer data, intermediary data and policy data for an Integrated Business Intelligence platform
- The system helps the management of intermediaries through the Advisor Dashboard (AQC), which rates advisors according to the size of their book, new business, lapse rates and regulatory scores
- The system has dramatically improved lapse & withdrawals rates because of the granular ability to view current and day to day intermediary information
- Customer segmentation is possible by region
- The Financial Advisor Value proposition is designed to attract and retain the desired quality of FA; Dependent on the Life-stage of the FA; Holistic – not just about remuneration; Value of proposition received is aligned to the value created (AQC)
- **Excellent & Good Intermediaries: 710**
  - More competitive product pricing; Preferred access to limited capacity product; Monthly 'profit share' based on the size of their in-force book (tied only); Priority Servicing
- **Average & Marginal Intermediaries: 4 800**
  - Small profit share payment based on the size of their in-force book (tied only)
- **Poor Intermediaries: 530**
  - Managed 'up or out'
- Liberty wants to attract profitable market share, and dispose of unprofitable market share
- Product innovation
  - Liberty has been the leading innovator of insurance product in the past 36 months;
  - Products are informed by customer needs, so aligned to TCF
  - Flexible annuity product launched to mitigate against longevity risk
  - Evolve product launched to provide cost effective solutions in a low interest rate environment
  - Continually working to improve product margin, attract profitable market share & dispose of unprofitable market share;
- Customer experience
  - First in SA to offer finger prick HIV tests & Urine cotinine tests, rather than full bloods;
  - Reduced the length of our risk application form by 40%. Reduced the length of policy document by 80%
  - Tele-underwriting, Nurses on the Road
  - Welcome call to new customers – gives rise to a massive increase in persistency in first year;
  - Improved customer self service capability online;
- Technology enablement can be a key differentiator if applied well
- Liberty launched the iPad application in November 2012
- Marketing and activation is key to engagement with the sales force

### Own Your Life Rewards – Johan Coetzee

- Reasons for the rewards programme
  - Attract and Retain Intermediaries
  - Attract and Retain Clients
  - Reduce Churn
  - More Compelling Product Range
  - Liberty Health inclusion

- What is the programme about;
  - Lifestyle Programme
  - Discounts and savings
  - Relates to current spending and easily accessible and beyond instant gratification
- Fees: R129 for a single member, R189 for a family (2 adults & 2 children), R70 additional child dependant
- Partners include benefits in; travel, shopping, fitness, leisure, education, living and family time
- Successful launch to 3700 Tied and independent advisers and staff in September 2012
  - 8 871 new beneficiaries (4 673 principle members) as at 16 November 2012
  - 2 373 advisers have registered
  - 80 active partner benefits – good pipeline of future partners
  - Operations running well
  - Mobile application released in December 2012

### **Retail IT & Ops – Leon Diest (presented by John Maxwell)**

- There are five operational areas within IT & Ops that underpin the support of the Retail business
  - Product operations – 19% of total staff
    - Medical services, underwriting, claims, reinsurance
  - Customer operations – 23% of total staff
    - Campaigns, retention, service, engagement, assurance
  - Intermediary operations – 13% of total staff
    - Regional operations, new business, servicing, processing
  - Technology solutions – 19% of total staff
    - Strategy execution, programme management, technology build, operations
  - Supported by the shared operations – 26% of total staff
    - Collections, disbursements, administration, contact centre, IT services, managed services
- Areas of focus
  - Outside-in aligned product operations
    - Open for business as a benchmark in the insurance specific disciplines
  - End-to-end accountable customer service
    - Able to compete against non-traditional competitors
  - Empowered regions & intermediary servicing
    - Leverage closer relationship with sales & distribution
  - Innovative IT solutions delivery
    - Move the business engagement upstream
  - Managed services and shared operations
    - Cost of operations as a differentiator
  - Strategically managed legacy products
    - Reduce the business and systems complexity of the legacy environment
- Customer strategy – access – connect – deliver
  - Access
    - Our customers can get hold of us whenever they want through their communication channel of choice
  - Connect
    - Connect with our customers through meaningful interactions that goes beyond a transaction
  - Deliver
    - Listen carefully, respond to the customer's need, and follow through until it is done
- Shared infrastructure

- Co-locate; core contact centre staff in the same location.
- Consolidate; integrate business processes per logical flow of business.
- Integrate; process and technology to better enable the agents.
- Looking ahead
  - Outside-in aligned product operations
    - Focus more on the service side of the value chain
  - End-to-end accountable customer service
    - Implementation of our access-connect-deliver strategy
  - Empowered regions & intermediary servicing
    - Migrating remaining channels into the new model
  - Innovative IT solutions delivery
    - Technology as a source of simple innovation
  - Managed services and shared operations
    - Next phases of our managed services and contact centre initiatives
  - Strategically managed legacy products
  - Drive select product migration of legacy platform