ISI Summit East 2016; NYC , May 18, 2016

LIFE INSURERS IN THE 21ST CENTURY – THE WINNERS, THE LOSERS AND THE LAGGARDS

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THE BOX - WHAT ARE WE TALKING ABOUT?

- Focus point on insurers in developed life markets
- Mostly with a European perspective in mind
- Prospective view - no ‚blame game' for the past
- Time horizon: 20 years into the future

THE OVERVIEW :
WHAT WILL BE COVERED AND WHAT NOT…

YES

- The collapse of the traditional life insurance model
- The Evolution of new business models
- The Disruptors - The ‚Enemy‘ from inside and outside the industry
- Role models - First movers and ‚Early Birds‘

NO

- Big Data / Smart Data / New insurance technology
- Arrival of InsuranceTechs for distribution purposes
- M&A trends

WHAT CONSTITUTES THE FUTURE WINNERS AND LOSERS?

Winners	Key Performance Indicators (KPI´s)	Losers
Up	Market share of New Business	Down
Stable/Up	Value of New Business	Down
Up	Managing value of in-force business	Stable/Down
Up	Persistency of in-force business	Down
Less than 12m	Duration gap on asset/liabilities	Higher than 12m
Yes	Smart investments in low-interest world	No

… and the Laggards …

… somewhere in between …

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THE LOSERS - EASY TO IDENTIFY

Core Thesis and Proposition

Losers will be all life insurers in developed markets which try to **extrapolate the experience of the last 150+ years** into the 21st century with minor, incremental, sometimes microscopic adjustments

Current size or marketshare does **not offer downside protection** - big insurers may even collapse quicker under their own gravity than smaller ones

Stock companies will collapse quicker than mutual insurers - ‚shareholders' are less loyal than ‚members'

THE CRACKS AND THE COLLAPSE OF THE TRADITIONAL BUSINESS MODEL 1/2

In the late 20th century, the weaknesses (‚cracks') started to emerge on various levels and became part of the public awareness and regulatory scrutiny

Level 1 - Life insurance products

- Scope of coverage and benefits difficult to understand
- Incomprehensible policy language and ‚small print'
- Claims procedures on morbidity covers

Level 2 - Marketing and Distribution

- High commissions, with a temptation to ‚oversell'
- Sales driven by tax benefits, not intrinsic policy values
- Weak or insufficient ‚needs analysis'

THE CRACKS AND THE COLLAPSE OF THE TRADITIONAL BUSINESS MODEL 2/2

Level 3 (Corporate) - Balance sheets of life insurers

- Opaqueness - nobody could understand the numbers
- Corporate attitude of ‚Not Treating Customers Fairly'
- Duration mismatch on ALM - Asset/Liability Management

Level 4 (Macro) - Regulators, Rating Agencies, Consumer Organizations

- Financial strength reviewed
- Customer relationships reviewed
- Reputational risks revealed

Fair to say: Life insurers responded since the 1980s and tried hard to improve (on products, on value, on expenses, on communication) but ...

generally too little, too late ... and the fundamental flaws of the model could not be eradicated

THE ULTIMATE KNOCK-OUT BLOW FOR THE TRADITIONAL BUSINESS MODEL

.... arrived 1995 in Japan and - with delay - from 2008 onwards in all mature markets like the USA, UK, France, Germany, South Korea, Taiwan etc.

killing the vital ‚spread business profitability' as margin between interest earned on investments and interest credited to policyholders

FIVE WINNING STRATEGIC MODELS FOR THE 21ST CENTURY - EVOLUTIONARY AND DISRUPTIVE

Evolution:

- The Emerging Market Play
- The BancassurancePlus Play
- The Knowledge Play

Disruption:

- The Reward Play
- The Middle Market Play

A SHORT DESCRIPTION OF WINNING MODELS

1. **The Emerging Markets Play:**
   Life Insurers from mature markets which focus their new business attention on large emerging markets through more traditional distribution models
2. **The Knowledge Play:**
   Life insurers which leverage their expertise and core competencies to systematically generate fee income as additional source of profits (beyond spread and risk income)
3. **The BancassurancePlus Play:**
   Life Insurers which strategically connect with banks active in the retail and SME space through long-term, exclusive partnerships
4. **The Reward Play:**
   Life Insurers which treat their policyholders (!) as partners and consistently create rewards for desirable behavior and long-lasting, loyal relationships
5. **The Middle Market Play:**
   Life Insurers which are able to develop an efficient model to reach middle-market customers and distribute their products

A SHORT DESCRIPTION OF THE LAGGARDS

1. **The Mutual Play:**
   Life Insurers which are part of a larger mutual / cooperative non-life / health insurance group capitalizing on economies of scale, distribution efficiencies of non-life / health and brand strength of their parent organization
2. **The Consolidation Play:**
   Life Insurers which specialize to ‚remove' undesired blocks of in-force business from other life insurers, either in the form of a reinsurance transaction or in the form of buy-out/asset deal

PRUDENTIAL PLC - A ROLE MODEL FOR THE EMERGING MARKET PLAY

Company

Established in 1848 in the United Kingdom, they now serve 24 mio. insurance customers under four dedicated business segments : Asia, US, UK, M&G asset management

Evolutionary Moves

- Prudential Corporation Asia was formed in 1994 to develop existing (Malaysia and Singapore date back to 1923) and new business in Asia
- In 2008, Prudential expands its long-term bancassurance alliance with Standard Chartered Bank, now covering 10 markets in Asia and in 2010 enters a long-term strategic partnership with United Overseas Bank (UOB) for Singapore, Indonesia and Thailand
- In 2014, Prudential acquires business in Ghana and Kenya, marking its entry into Africa and in 2015 opened a life company in Uganda

THE RESULT: GROUP PREMIUM FRANCHISES ASIA VS. US VS. UK

Group
Premium franchises

PRUDENTIAL

Asia

PRUDENTIAL 英国保诚集团 eastspring investments

Leading pan regional franchise

In Asia since **1923**

14m life customers

Top 3 position in 9 out of 12 life markets[1]

Leading Asian asset manager with **+20 years** operating history

Over **£89bn** funds under management[4]

US

JACKSON

Premier retirement income player

Founded in **1961**

4m life customers

18% market share Variable Annuities[3]

$199bn of statutory admitted assets[4]

UK

PRUDENTIAL M&G INVESTMENTS

Well recognised brands with strong track record

167 years of providing financial security

6m life customers

Over **£16bn** PruFund funds under management[4]

£246bn funds under management[4]

Source: Based on formal (competitors results release, local regulators and insurance associations) and informal (industry exchange) market share data. Ranking based on new business (APE or weighted FYP depending on availability of data).
Based on assets sourced from the region. Excluding Japan, Australia and New Zealand as at Jun 2014. Source Asia Asset Management September 2014 (Ranked according to participating regional players only)
Source: Morningstar Annuity Research centre. 3Q 2015
FY 2015

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SWISS LIFE - A ROLE MODEL FOR THE KNOWLEDGE PLAY

SwissLife

Company

Established in 1857 as a cooperative organization in Switzerland and demutualized in the late 90s, Swiss Life now operates with ca. 7,600 employees in five business segments : Market Switzerland, Market France, Market Germany, International Business, Asset Management (SLAM)

Evolutionary Moves

- The acquisition of a large network of financial advisors in Germany in 2007, with a new concept : to make this network available to external life insurers. Today operating under the label ‚Swiss Life Select', it generates commission and fee income from many European markets including UK, Austria and Slovakia.
- Since decades, a large investor in Swiss property assets (10+ % of invested assets) to become the largest non-government owner and manager of private and commercial property in Europe, with AuM and AuA at some CHF 60 bn in 2015, with a new concept:

  To offer their expertise and advice to 3rd parties like pension funds in central Europe and retail clients looking for purchase of private property

SWISS LIFE 2015: PROFIT BY SOURCE

Swiss Life

Quality of earnings and earnings growth

Profit by source driven by improved savings and fee result

CHF million (IFRS basis)

	FY 2014 adjusted		FY 2015 adjusted	
Savings result	656	55%	773	56%
Risk result	**380**	**32%**	**395**	**28%**
Fee result	**252**	**21%**	**342**	**25%**
Cost result	-109	-9%	-132	-9%
- *Thereof admin cost result gross*[1)]	*99*	*8%*	*115*	*8%*
Others & eliminations	16	1%	14	1%
Segment result	**1 196**	**100%**	**1 393**	**100%**
- Unallocated corporate costs	-66		-70	
Profit from operations[2)]	**1 129**		**1 323**	

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TARGO LEBEN –
A ROLE MODEL FOR THE BancassurancePlusPlay

TARGO•VERSICHERUNG
Schutz und Vorsorge

Company

Established in 1985 as ‚early bird' of German Allfinanz approach, later owned by Citibank Germany as ‚in-house life insurance' manufacturer, separated in 1996 from Citibank ownership to become independent - now owned 100% by Talanx AG., Hannover

Evolutionary Moves

- Mid 1990s: Departure from conventional bancassurance model where bank owns insurer (or vice versa) on a consolidated balance sheet - ‚Zero-Sum' games - and selling 100% equity to trade purchaser from European non-life/reinsurance arena (HDI Mutual, now Talanx AG)
- Early 2000s: Long-term, bilaterally exclusive distribution agreement to year 2025 through 300+ retail bank branches in more than 200 German cities
- Now: Seamless integration between banking front-office and insurance manufacturing - one brand identity, POS risk assessment, socio-economic underwriting, immediate policy issue

TARGO LEBEN – KEY FINANCIAL & PERFORMANCE FIGURES 2014

TARGO•VERSICHERUNG
Schutz und Vorsorge

- Gross Premium Revenues : EUR 1,025 mio.
- Invested Assets : EUR 4,147 mio.

- In-Force-Policies Dec 31,2014 : 1.69 mio.
- New Business policies 2014 : 0.39 mio.

- Authorized Capital Funds : EUR 95.0 mio.
- Paid-In Capital Funds : EUR 23.75 mio.
- Equity Funds (Statutory) : EUR 33.7 mio.
- After-tax profit (German GAAP) : EUR 43.0 mio.

VITALITYLIFE –
A ROLE MODEL FOR THE REWARD PLAY

Company

British life insurer headquartered in London, established in 2007 as a Joint Venture under the brand ‚PruProtect' and since late 2014 fully owned by Discovery Group of South Africa

Disruptive Moves

- Creating a new protection player in the UK life insurance market via JV (50/50) arrangement with Prudential plc, with Discovery team managing the operations and using the brand identity of the UK partner
- Introduction of Vitality Program to the UK : a sophisticated encouragement and reward system for well-being and keeping healthy during the lifespan of the policy. The program entertains a network of partners including fitness clubs, hotels, airlines, retail stores and food stores providing reward benefits to members of Vitality

SUCCESS OF VITALITYLIFE – KEY DATA AND INFORMATION

VitalityLife

R1 079 million

New business annualised premium income in 2015.

318 000

Number of lives covered by **over 250 000** VitalityLife policies.

73.5%

The percentage of the UK population that are within three miles of a UK Vitality partner.
On average, members engage with a Vitality partner **every six seconds.**

12.6%

VitalityLife's share of the intermediated protection market.
In the final quarter of the financial year, the business became the **second largest player** in the UK intermediated market for the first time.

£8.24 million

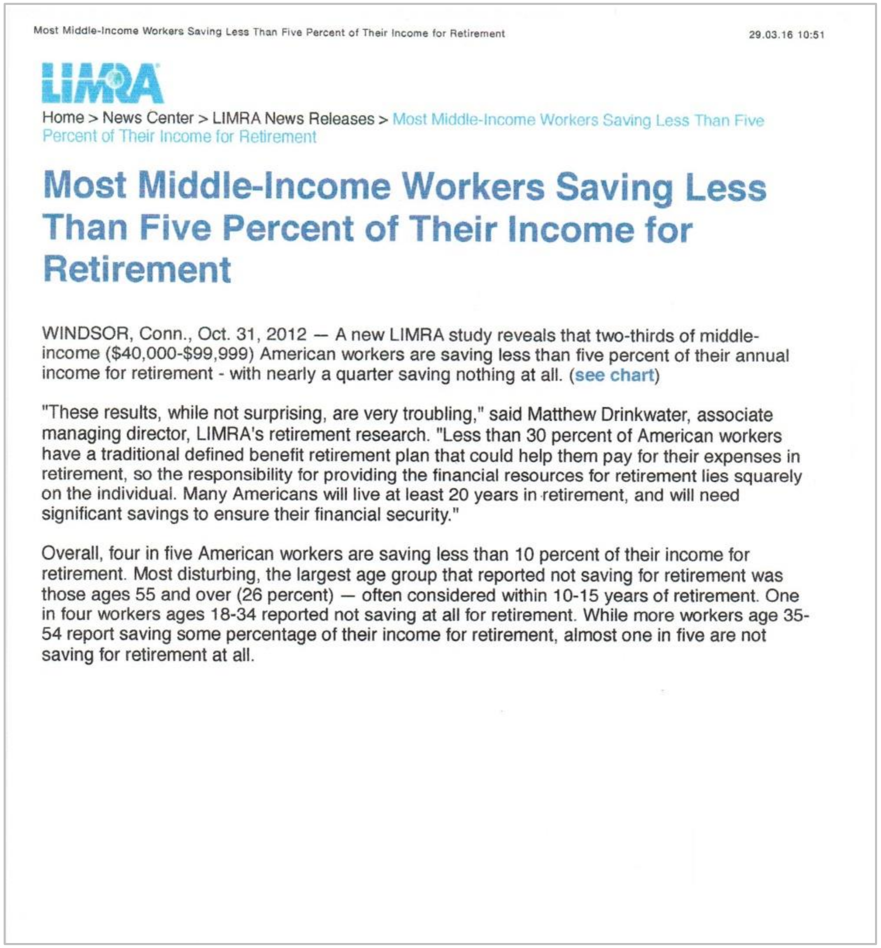
(R119.48 million at the average exchange rate over the same period)

Cumulative positive variance in claims (i.e. in lower than expected claims ratios) since 2009, supported by the integration of Vitality with life protection products.

LIMRA 2012 : MOST MIDDLE-INCOME WORKERS SAVE LESS THAN FIVE PERCENT OF THEIR INCOME FOR RETIREMENT

Windsor, Conn., Oct, 31, 2012

This battle has been lost - will life insurers ever regain the ground?



Most Middle-Income Workers Saving Less Than Five Percent of Their Income for Retirement 29.03.16 10:51

LIMRA

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Most Middle-Income Workers Saving Less Than Five Percent of Their Income for Retirement

WINDSOR, Conn., Oct. 31, 2012 — A new LIMRA study reveals that two-thirds of middle-income ($40,000-$99,999) American workers are saving less than five percent of their annual income for retirement - with nearly a quarter saving nothing at all. (see chart)

"These results, while not surprising, are very troubling," said Matthew Drinkwater, associate managing director, LIMRA's retirement research. "Less than 30 percent of American workers have a traditional defined benefit retirement plan that could help them pay for their expenses in retirement, so the responsibility for providing the financial resources for retirement lies squarely on the individual. Many Americans will live at least 20 years in retirement, and will need significant savings to ensure their financial security."

Overall, four in five American workers are saving less than 10 percent of their income for retirement. Most disturbing, the largest age group that reported not saving for retirement was those ages 55 and over (26 percent) — often considered within 10-15 years of retirement. One in four workers ages 18-34 reported not saving at all for retirement. While more workers age 35-54 report saving some percentage of their income for retirement, almost one in five are not saving for retirement at all.

XXX LIFE - A ROLE MODEL FOR THE MIDDLE MARKET PLAY

Company

? (to be founded)

Disruptive moves

- New business approach and new technology needed to develop middle market - customer-friendly on-line life insurance
- Simple, easy-to-understand products
- Full utilization of social media like facebook, twitter, instagram etc. to identify life situations which are suited for an insurance solution
- Convenient delivery within 24 hours

A BIT OF BRAINSTORMING:
HOW COULD XXX LIFE LOOK DISTRIBUTION-LIKE?

To close the ‚trust gap': Recurrence to Japanese system of part-time sales ladies (= housewives) in the mid-20th century

High school teachers, community college professors, semi-professional sport coaches as enablers/ champions/ ambassadors building the trust element

‚Event marketing' to bring the enablers and potential customers together and provide ‚after-sale' support

SUMMARY AND OUTLOOK

The next 20 years will result in a new landscape of life insurance and mean massive changes for the actors and stakeholders involved - life insurers, customers, regulators and distribution channels alike - a survival of the fittest!

Change will be the only constant

and a Great Future for some, a Not-so-great Future for others ...

OPEN FOR ANY QUESTIONS AND COMMENTS!

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