



**PRUDENTIAL**

# **THE UK AS A GROWTH MARKET - CAPTURING OPPORTUNITIES FROM DISTRIBUTION**

**Philip Broadley**

**Group Finance Director**

# PRUDENTIAL PLC OVERVIEW

---



UK & Europe

USA

Asia



# IS THERE SIGNIFICANT GROWTH POTENTIAL OR IS IT JUST A SUBSTITUTION EFFECT WITHIN THE IFA MARKET?

## DON'T BANK ON RETIRING AT 65

Daily Mail 13 May 2005

Pension poll finds people don't realise how long they will live

Money Marketing 24 March 2005

## Moves to combat mis-selling

Daily Mail 18 May 2005

RETIREMENT PROVISION

## Scheme switch hits pension savings

Financial Times 18 March 2005

## New rules on equity release

Financial Times 17 May 2005

## THE PENSIONS CRISIS

(Or everything you need to know about your future but may be too scared to ask)

# £57bn

A report for the Government today identifies this figure as the total gap between how much people are saving and how much they need to save to ensure a comfortable retirement

## £110,000

The amount a non-smoking female needs to have saved at age 65 to buy a retirement income of £100 a week

## £500,000

Amount a non-smoking male needs to have saved to retire at 55 to provide an inflation-proof annual income of £20,000

## £30,000

The average pension pot at retirement age, buying an income of £30 a week

The Independent 12 October 2004

## 1m

The number of UK pensioners living below the poverty line

## 22%

How much of your earnings you need to put aside each month if you don't start saving for your pension until 40 years old

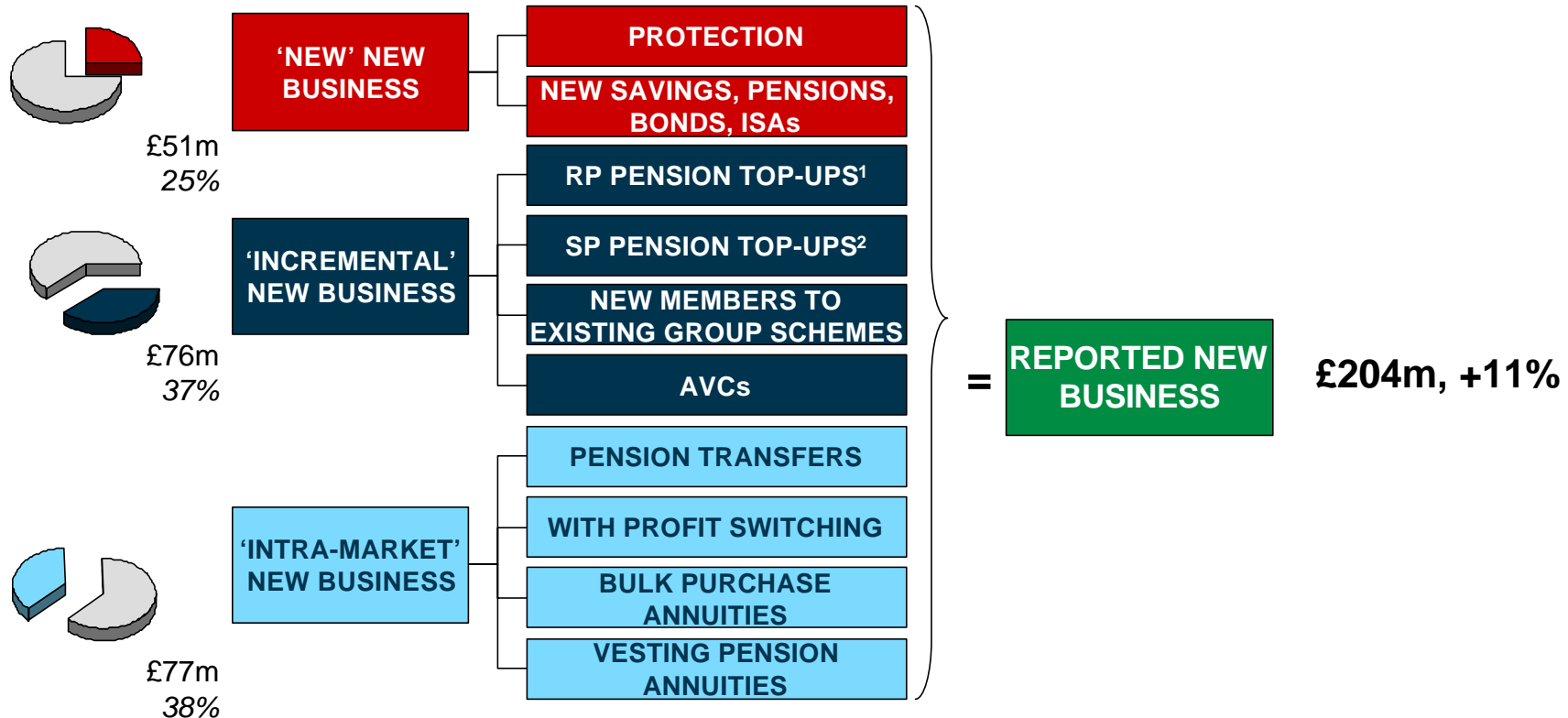
## £70,000

The gap between how much people think they need to save for retirement and the reality



# IS THERE SIGNIFICANT GROWTH POTENTIAL OR IS IT JUST A SUBSTITUTION EFFECT WITHIN THE IFA MARKET?

## OPPORTUNITIES ARE NOT JUST DEPENDENT ON THE DISTRIBUTION SHIFT AND THE SAVINGS RATIO



**Market growth:** “Overall Q1 2005 sales were up 2-3% year-on-year, the fifth successive quarter of moderate (1-4%) sales growth, when the one off Royal London deal is excluded from Q4 2004.”<sup>3</sup>

<sup>4</sup> Source: Prudential Analysis. 1. RP - Regular Premium. 2. SP - Single Premium. 3. Bernstein Research call, May 31 2005. UK Insurance: Q1 UK sales fit our modest growth thesis - which is sufficient for a positive stance. Note: UK Sales 1Q2005, excludes European Insurance Operations.

# ARE PROVIDERS HAVING TO PAY UP FOR THE OPPORTUNITY TO SIT ON MULTI-TIE PANELS?

---

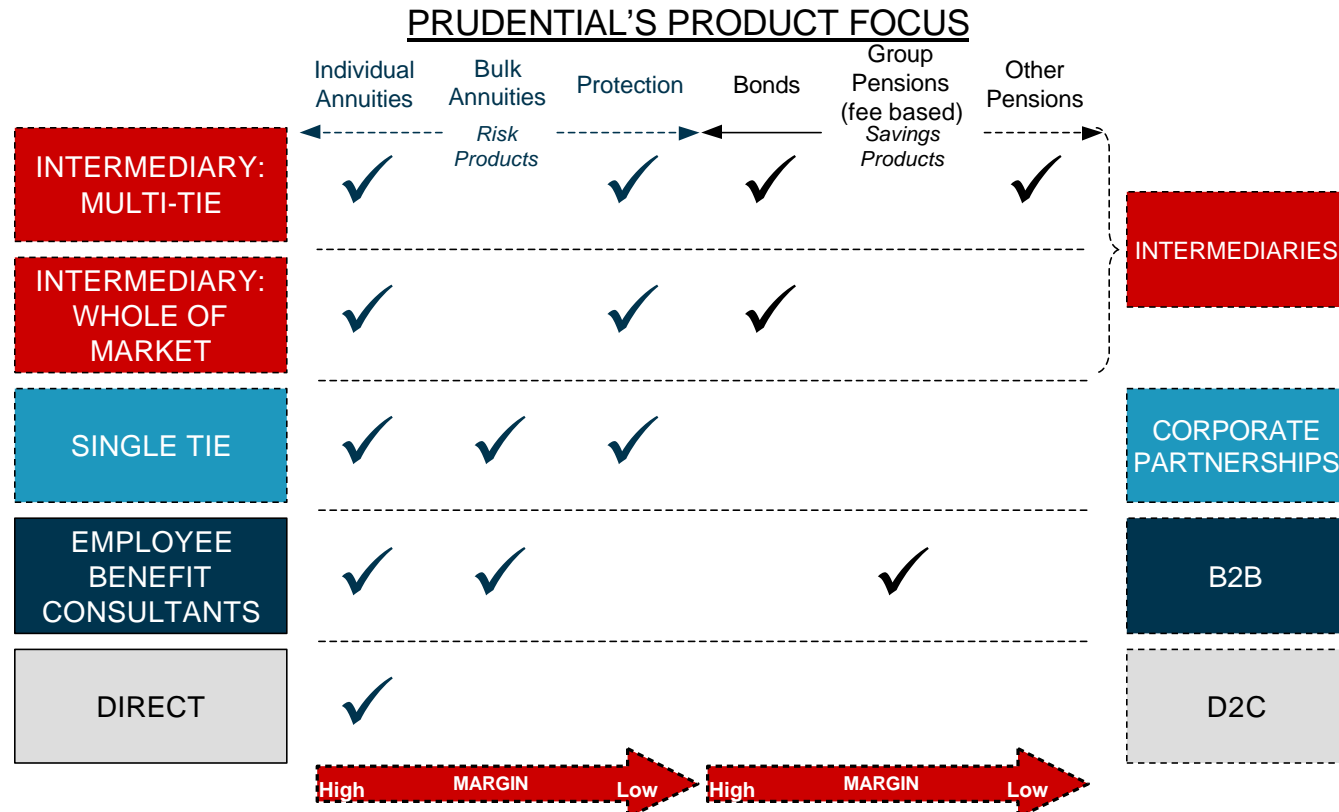
## INCREASED COMMISSION OFFSET BY IMPROVED EFFICIENCY. STRONG BRAND, PRODUCT AND SERVICE OFFERING ESSENTIAL

- Multi-ties require strong brands, products and service offering
- Panelling occurring within regulatory framework
- Step change in product and service offering to intermediary and customer
- E-commerce: upfront systems investment and training
- Approximately 10% increase in commissions
- However reduced administration costs and increased volumes
- Enhanced consumer proposition should lead to market growth

# WHAT WILL 'BEST IN CLASS' PROVIDER'S DISTRIBUTION LOOK LIKE?

## NEED FOR BALANCED DISTRIBUTION WITH FOCUS ON HIGH MARGIN PRODUCTS

- Access to all opportunities: new, new business, incremental business and intra-market business
- Focus on high margin products. Lower margin products only used to access distribution



# WHAT WILL 'BEST IN CLASS' PROVIDER'S DISTRIBUTION LOOK LIKE?

---

## ... AND HAVE A LOW COST MODEL AND A HIGH QUALITY SERVICE OFFERING

- Targeted approach to market:
  - Top 4 EBCs control over 80% of the market
  - Top 350 IFAs write 84% of the business
- Top accounts are cheaper to service per £ of sale. Therefore must have focused account management, and continued development of service proposition.
- Current service offering
  - Dedicated freefone number with callback
  - Dedicated and experienced teams
  - Single correspondence address
  - Dedicated fax and email processing
  - Online self-service through our award winning web-site
  - Client-specific illustrations
  - New business submission and tracking
  - Valuation and top-ups
  - Delivering consistent service to agreed service levels



# Why Sesame believe Prudential can win

- Pursued multi-tie opportunity early and with clear strategy
- Building capability whole of market and multi-tie by:
  - Consolidating traditional strengths:
    - Consumer brand
    - Financial strength
    - Excellent track record annuities and bonds
  - Delivering new capability:
    - Service
    - Technology and process
    - New product (especially protection)
    - Relationship management
- Understand distribution:
  - Relationships – strong balance corporate and field
  - Willing to differentiate and truly back partners
  - Bold in approach market – a leader not follower
    - Seek “top 3” in product sectors play
    - Looking “strong” not at “market” growth

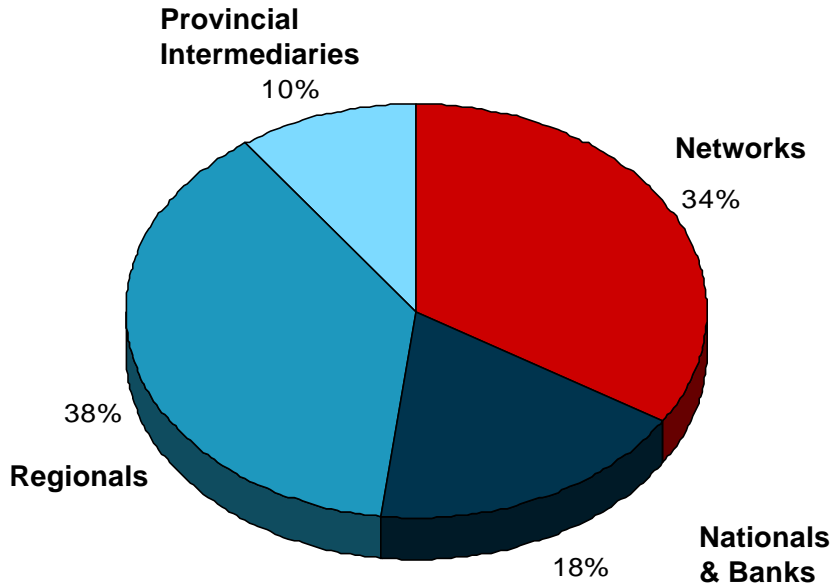
sesame



# HOW HAS DISTRIBUTION AFFECTED COMPETITION ? ... FALL IN PRODUCT DIVERSIFICATION ?

**PRODUCERS ARE CHASING SOME OF THE SAME CLIENTS. PRUDENTIAL WILL BE A NET BENEFICIARY FROM DEPOLARISATION**

% of Intermediary Channel by APE, 2004



	<u>NO OF RIs</u>	<u>CONFIRMED PANEL MEMBERS</u>
Bankhall	8,500	
Sesame	7,600	<b>PRUDENTIAL</b> <sup>(1)</sup>
Tenet	5,500	<b>PRUDENTIAL</b> <sup>(1)</sup>
Burns Anderson	610	<b>PRUDENTIAL</b>
Millfield	1,890	<b>PRUDENTIAL</b>
Barclays	940	<b>PRUDENTIAL</b>
ThincDestini	830	<b>PRUDENTIAL</b>

# HOW HAS DISTRIBUTION AFFECTED COMPETITION ? ... FALL IN PRODUCT DIVERSIFICATION ?

		DIRECT <i>Direct marketing costs</i>	SINGLE-TIE	MULTI-TIE	WHOLE OF MARKET	EBC <sup>3</sup> <i>Fee based</i>
			←-----Commission based-----→			
'NEW' NEW BUSINESS	PROTECTION	✓	✓	✓	✓	
	NEW SAVINGS, PENSIONS, BONDS, ISAs	✓	✓	✓	✓	✓
'INCREMENTAL' NEW BUSINESS	RP PENSION TOP-UPS <sup>1</sup>	✓		✓	✓	✓
	SP PENSION TOP-UPS <sup>2</sup>			✓	✓	✓
	NEW MEMBERS TO EXISTING GROUP SCHEMES				✓	✓
	AVCs					✓
'INTRA-MARKET' NEW BUSINESS	PENSION TRANSFERS			✓	✓	✓
	WITH PROFIT SWITCHING			✓	✓	
	BULK PURCHASE ANNUITIES		✓			✓
	VESTING PENSION ANNUITIES	✓	✓	✓	✓	✓

# HOW HAS DISTRIBUTION AFFECTED COMPETITION ? ... FALL IN PRODUCT DIVERSIFICATION ?

---

## SCALE OF GROWTH OPPORTUNITY VARIES

- Upside potential varies for each provider
  - existing share of IFA network or multi-tying bank sales differs significantly by provider
  - panel providers will be looking for differentiation on more than price. We have moved to simpler products.
  - different positioning in intra-market business
- Focus on genuinely trying to satisfy customer needs - this will increase the growing trends of product differentiation

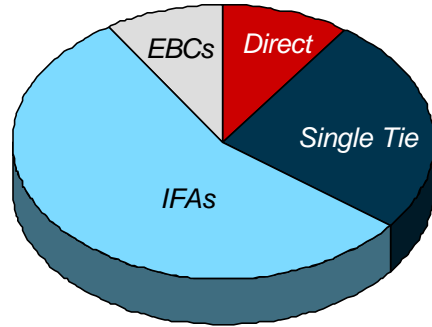
# HOW HAS DISTRIBUTION AFFECTED COMPETITION ? ... FALL IN PRODUCT DIVERSIFICATION ?

WE HAVE REACTED WITH A NUMBER OF KEY PRODUCT LAUNCHES TO MEET THIS OPPORTUNITY



# HOW HAS DISTRIBUTION AFFECTED COMPETITION ? ... FALL IN PRODUCT DIVERSIFICATION ?

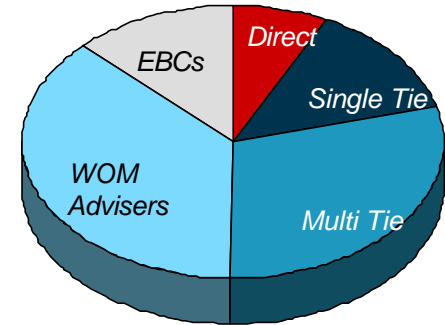
2004 ACTUAL



## THE MARKET BY CHANNEL

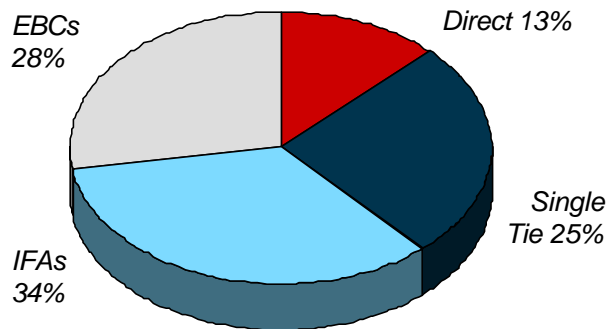
CAGR  
5% p a  
→

2007 FORECAST

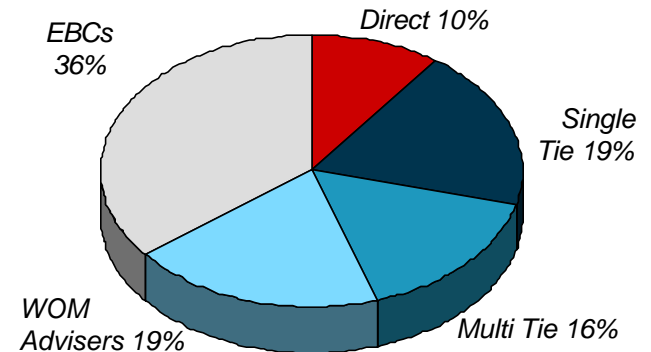


## PRUDENTIAL BY CHANNEL

2004 ACTUAL



2007 TARGETED



NO MATERIAL CHANGE TO DISTRIBUTION MIX IN 2005

# PENSIONS COMMISSION

---

## KEY MESSAGES

- Ageing means that to enjoy a comfortable retirement we have to choose a mix of solutions
- The Commission's First Report states that the solution could involve (1) voluntarism, (2) the state scheme (3) private funded compulsion
- Some fundamental questions are raised: (1) the state's role in pensions (2) the market's ability to serve all income levels (3) how should risk be spread

## OUR VIEW

- Revitalised voluntarism: a series of options:
  - a higher state pension of up to 25 per cent of national average earnings (£120 per week) to reduce means-testing
  - a fair rebate structure for contracting-out to reflect the risks; and grow funding of future pensions
  - the workplace is key - need to incentivise employers to make contributions and expand auto-enrolment
  - PISA - a new savings vehicle to encourage savings among low to moderate earnings;
  - understanding risk and reward - especially the risk of not saving and of outliving your savings.

# IN AN UNCERTAIN WORLD WE MAKE IT POSSIBLE FOR EVERYONE TO ENJOY A SECURE FUTURE

---

## IMPROVING UK MARKET

- Stable economic environment
- Signs of savings market regaining confidence
- Regulatory environment favours scale players
- Pension market set to become attractive
- Prospect of market concentration

## POSITIONED TO OUTPERFORM

- Unrivalled combination of brand, financial strength and investment performance
- Product mix biased to high margin products with high barriers to entry
- Well balanced multi-channel capability
- Operational growth capacity
- 10% growth in 2005 (assuming 5% market growth)
- 14% IRR by 2007