Old Mutual – Skandia Group

Investor Day: The new model and our winning formula
Introduction to the UK platform business

Presenters: Bob Head, Nick Poyntz-Wright, Peter Mann, John Tomlins and Simon Lloyd

---

12th and 19th May 2009

Johannesburg & London

A Member of the OLD MUTUAL Group

Bob Head – Old Mutual & Skandia Group

Slide: Agenda

Good afternoon ladies and gentlemen. I'm Bob Head and I'm the CEO of the Skandia Group and what we're going to talk about today, I'm going to set the context of where Skandia sits in the group and that's really quite the easy bit; and then Nick Poyntz-Wright, the Chief Executive of Skandia UK, who has 20 years service now, will be introducing the UK platform business. Peter Mann who is our Chief Development Officer which is basically sales and marketing will be talking about how the UK financial services market is evolving and why we're actually well set within that evolution. Then John Tomlins, our Chief Operating Officer will actually talk about the platform, then we'll demonstrate the platform to you outside. Then we'll come on the financials with Simon Lloyd, our Chief Financial Officer; and then we will wrap up with why we actually think Skandia is going to be a winner and then at the end of the session we'll do questions and answers.

Slide: Old Mutual: Five strategic priorities

So Julian announced the Old Mutual strategy back in March and Skandia UK is a key part of it. The left hand block there talks about conserving capital and liquidity. Skandia UK is a great business in terms of capital efficiency and actually throwing off cash. It's also a key part in terms of the long term strategy and actually leveraging our scale. We believe we actually have a model that we can actually replicate and have done around the world and actually take that further. I think the other thing really is about the platform and why it would be a winner, which Nick will explain is really around the clear pricing, the functionality and range of choice, everything in one place and also making it a hell of a lot easier for IFAs.

Slide: Old Mutual & Skandia

Skandia sits in what is now the long term savings division and Skandia UK sits within the European part of that. Skandia is actually an important part of the Old Mutual results now so in terms of adjusted operating profit is 37% and if we actually take the UK funds under management as a percent of the group, it's around about 9% of the group. Skandia UK enjoys good positive net client cash flow which gives us confidence as long as the markets come back as well that that percentage will grow quite fast.

So without further ado I shall hand over to Nick. Thank you Nick.

Nick Poyntz-Wright – Introduction to the UK platform business

Slide: Skandia UK: part of Skandia Group

Thanks very much Bob and good afternoon everybody. Thanks for giving up your time to come and listen to our briefing about our UK business. It's interesting times to talk about the business obviously with the market conditions. What we are finding like many other players in the space is investor confidence is low, so of course people are less ready to commit new money to their savings pot. It's difficult these days to find that safe harbour or the right place for those investments and IFAs of course are challenged from that point of view too. So I think two things about that, first of all that if the first part of the conversation is not really confident to commit new money, then most of the customers we serve, and I'll come on to talk about that a bit in a moment have existing savings of one variety or another and many IFAs now are beginning to turn to that and to see how they can help customers, clients of theirs to actually improve the returns, to tune the investments contained within those savings products so that they better suit the individual and their financial objectives. So this concentration on where the money is now and how we make that work smarter for the individual investor is quite an important theme. The second thing about the prevailing trend and the difficulties is that if the tide is against you then the important thing is to make sure that you are moving back more slowly than everybody else. So a lot of our concentration at the moment is looking at those relative positions and making sure that as the difficult conditions prevail, how are we gaining share on the competition. We released some information yesterday which came out of the first quarter platform results. Now, the data that emerges from the platform businesses is nascent, it's not perfect and some of the newer entrants are a bit shy in explaining exactly what they are doing in that area. The four bigger ones do share the data and we published our position there which was number one in terms of the gross flows. And we also, as Bob was indicating, we concentrate very much on net flows which again is not widely reported by the sector but we think is a real measure of our success in actually moving forward and building funds under management. So I just want to open up before passing on to other members of the team to do three things, to talk about who we are, and obviously many of you will be familiar with the Skandia business, but who we are, what we do and who we serve and a little bit about each of those just so you've got that in your head.

Skandia itself clearly originated in Sweden it started in Sweden in 1855, it was one of the first companies to be listed on the Stockholm Stock Exchange, at about the same time interestingly that Old Mutual was starting up in South Africa, so it has a long heritage and a waterfront business really in the Swedish market. In the UK, it's considerably younger, but it did start 30 years ago as a unit-linked IFA operation beginning very much as a niche player and growing and we'll see a growth curve in one of the slides that comes later on, so concentrating on that IFA channel. One of the suggestions that we'll make to you today and my view is that actually 30 years old is exactly the right age, it's exactly the right place to be at the moment, the right level of maturity between being too old and too encumbered by history and other strategic priorities and too young and too new and not having the capability or the capital to develop in the way that they need. So we'll come back to that as we go through.

What are we doing in the UK? We've got around 1 million customer relationships in the UK business so it's quite a substantial business. If you measure it across all channels in the market, and clearly we are operating only in the IFA channel, all channels probably a market share of about 5% and in the IFA channel that would go up to something like 7% or 8% and we would probably rank about sixth out of the various providers in the IFA channel. I think one of the ways in which we regard that today and I certainly believe this strongly, is that that league table is the wrong league table, that actually the industry is in an evolution here and Peter will speak to that in a moment. This means I think we're going to see a very different league table in a few years time, it's going to be focused in different ways and we're going to give you some clues about that. We have £24 billion funds under management, obviously that has moved up and sometimes down in sympathy with markets, that sort of stuff happens, but overall we've been building that over time. We have about 2,000 employees, so interestingly although the front-end of our business, the place where we interact with customers and advisers is increasingly online and there a lot of people, skills and added value coming from those people behind the system and the screens and the technology. So, if that's about us, what do we do? Many of you will be aware of this already but our position in the value chain is something we will highlight later on. We don't own our own distribution, we have benefited from the support of the IFA channel and we have substantially built our franchise, our brand equity, if you like, with the IFAs over many years, but we don't own our own distribution, we have to get up every morning and earn it all over again. What we also don't do is we don't pick the stocks in the funds that our customers have access to. We do offer blended multi-manager solutions where we select and manage the managers who pick the stocks, but we don't do the stock picking ourselves. In the middle of that chain then, what have we got? We've clearly got the life and pension capability, we can make those tax wrappers which actually continue to be important in helping the customers to get the tax optimised outcome that they need but are no longer the main event. So I think one of the things we would say is they are more commoditised these days but you do need to have those tax wrappers available to you. Clearly we have this strong platform capability we've been developing for a number of years. We will have talked to many of you about it in the past but it's now got to a stage where it's highly operational and we're beginning to see adoption take off, and we have this capability to build funds. So, where the adviser is concentrating on adding value through tax planning, for example, and less so through the investment selection, there are simple routes we can offer to help to take that burden away from them. So that's the place we occupy within the value chain.

Slide: Skandia UK: customer segmentation

Who are we serving? We've got customer data here which is UK population data which is showing the different customer segments with wealth on the Y axis, and Life stage, the stage of life they have reached on the X axis. Highlighted in green and pictorially are the areas where we would be concentrating our efforts in the more affluent parts of the market, although clearly we have a range of customers across the million or so relationships we have. We highlighted there probably the area where we are overweight the population data so where we would be strongest in terms of our penetration and that's this category which we call Gilt-Edge Lifestyle. 50-60 age group, probably got children off their hands or they are seeing them through the last years of college, they've paid down all their personal debt, they probably don't have a mortgage, a relatively high level of disposable income and they've suddenly realised that actually they haven't put enough away to provide for their retirement. In that kind of situation they have quite a high propensity to invest and to consider their personal provision because they understand the state isn't going to provide. We would like to capture those people earlier and a lot of what the FSA is doing in raising awareness and information for people is trying to facilitate through their retail distribution review whereby the customers become more confident, more trusting and appreciate what they need to do for their private provision sooner in life.

Slide: Skandia UK: customers v. UK population

A picture then of how our customer base looks compared to that population data. So the takeaways from this slide really are first of all, we are overweight in those more affluent segments, so in that Gilt-edge Lifestyles, 15% of our customer base will be there, probably 4% of the UK population would be in that category, and so on as you move across. So, we do have that exposure, we imagine that as the IFA channel becomes more professional and acquires more qualifications as required by the regulatory changes, that actually they will concentrate more and more on those affluent segments, which I think suits us very well. And you can see the average investment size on the right hand side. ISAs clearly limited allowances but what we do see is that people actually are repeat buying as they build their allowances over time and obviously, the allowance there has recently been announced it's going to go up, so that's good news.

Slide: Skandia UK: winning formula

That's a profile in terms of the customers we serve. In terms of what we're going to cover, Peter's going to step up in a second and talk about the financial services arena and how that's changing. We are going to take a look, John's going to talk to the platform model, what it does, what it's designed to do and I think an important thing to have in your mind there, is that sometimes people look at a platform and say well that's just another product, it's something else to look at alongside the other products, and really it's a business solution and this is the big difference I think in terms of how it's deployed and adopted, so we'll talk to that.

We need to look at the financial dynamics and the message there at headline level is that we believe, and I don't think we're the only ones, but we believe that actually gross margins, the price that the customer is prepared to pay is going to come down. We are seeing that, we think that the kind of insurance and pension arrangements of the past have been too pricey especially in a low inflation, lower investment return world and how do we respond to that, how do we actually continue to make money and continue to defend and improve our net margin if those gross margins are under pressure. This is not something that's just for us, the whole industry is going to see this coming through we believe. Finally, why do we think that we're in pole position to exploit that particular emerging trend?

So I'm going to hand over to Peter now who is going to talk to you about the financial services arena.

Peter Mann – Evolution of UK Financial Services

Slide: Evolution of financial services

Thank you Nick. Good afternoon. In the next 15 or 20 minutes, what I'd like to do is to recap a little bit on some of the points that Nick has made and expand them, but really to set the scene for my colleagues who follow after with more Skandia specific type material, whereas mine will be more market generic deliberately so to give some kind of context.

The contention is that Skandia's product offering, product range and approach to market is in sympathy with the prevailing mood in that market place itself, and you will be sitting there thinking well that's an entirely sensible thing to do but actually it's counter-intuitive to what many people in the market place today actually do. So what I'll try and do is I'll try and describe the evolution of financial services from a product perspective, and then overlay that with how the distributors themselves are reacting to that kind of movement. I've called the slide and the evolution of financial services, but actually relatively speaking it's more of a revolution than an evolution, because if you look back to the start of those phenomena, it's really early-to mid-80s that with-profits really began to gain the foothold in the product market place that it retained for period of time and, thankfully, is now losing to a significant degree. And it moved through unit linked, multi manager, fund supermarket to the future which is open-architecture or what some people would call a wrap, and I'll try draw and the definition there in a little but more detail. Two things about that, first of all, Skandia are – I have a phrase or we use a phrase which is - restlessly innovative, and during those periods we kind of disturbed the market by being restlessly innovative, and if you look at that multi-manager and platform space, in 1983 we began the first disturbance by creating the first multi-manager facility and very quickly the market place followed, and in 1993 we reiterated that process and reinforced our innovation criteria by developing the first fund supermarket. That is a journey that the industry has gone on and that is a journey which, at its key points, Skandia have been catalytic in changing the direction of travel for product markets and product sales. My contention is two-fold.

First of all, John will develop the argument that a lot of the money still sits on the left hand side of that particular equation, so whilst the product development has been quite acute, and the IFA and the distributor development has worked alongside that, a lot of the money has stayed where it is, so there is still a world of money which John will describe later on or quantify later on, that sits in a place ready, I would contend, to transfer to a different place, a perhaps more efficient and certainly more diversified place. The most important thing about that slide I think is, that if you look at products as being defined as old products, opaque, confusing, bundled, kind of mysterious and high margins buried in the depths of them somewhere with some high margins which you couldn't quite get to the bottom of, but you realise they were there, to a more clear, bare, not misleading, service based type of environment, that's the journey that the adviser has been on as well. So he or she has tracked that product migration by moving from a product based solution to a business based solution, and our contention, our hope and indeed our avowed intent, is that those advisers on that journey will complete that journey pre and to some degree post RDR by completing their migration to a business and service model rather than a transaction and product based model. That is one of the developments upon which platform dominance is predicated.

Slide: New definitions in financial services

There is a new language emerging, a language largely or in many cases Skandia's creation, but the fund supermarket that we talked about so inevitably in the late 80s and early 90s is really now seen as a relatively functional transaction engine and it becomes the place where funds are aggregated. Innovative though it was 10 or 15 years ago, passé it now is. It is just a vehicle for aggregation and lots of people, in fact most product providers play to one degree or another in that space. When we began to overlay that functionality with tax wrappers sitting on top allowing the client differentiated tax outcomes depending on the vehicle that they chose or was chosen for them, you begin to develop a richness and that's kind of where we are today. Most of the people in this space operate platforms. A number call them wraps and a number are moving to, and we are one, an open-architecture environment where you can truly embrace a lot more of the tax efficient differentiated tax and underlying differentiated products for the end consumer, so you can bring in ETFs, you can bring in tracker funds, you can bring in structured products. You can begin to incorporate in your platform a universe of differentiated investment products and when we get there, and it might be 2010 or 2011 before we get there, then you will have a truly open architecture product and therefore you will be able to have a single view of a broad range of investments. The market place is clearly moving in that direction. John will give you statistics very shortly of the high proportion of advisers who produce a high proportion of their business in this arena. It's efficient, it makes sense but most importantly it accords with the way that their customers are moving.

Slide: Forces of change

So what are these drivers for this change? If the appetite has been there for a period of time and we're now very clearly seeing the action, what are the forces of change? Well the first force of change has been there long before the platform market really began to get to any sense of maturity. We talked a lot about it in different contexts for different reasons, in the last five or six years I certainly remember doing a lot of presentations going actually back to things like the long term care market, becoming evolved and various other things, the two primary contentions are the economics or demographics are changing, we are living longer and we are becoming less dependent upon the benefits that are provided to us by the state, largely because the state are having difficulty funding those. What I think is changing is that those demographics are becoming more appreciated by the constituent elements rather than the originators, so if you have the demographics changing, largely people like us used to talk about them. What I think is now happening is that people who are affected are beginning to feel affected and they are beginning to think, "Ok, what am I going to do about it".

The other thing that is changing markedly and is a huge force for change is regulation. Many of you will know that way back in 2006 the FSA started about fixing the things that they perceived, at that time I think incorrectly but perceived to be broken, by implementing a process which has now become know as the Retail Distribution Review, or the Retail Distribution Implementation Plan. It's not within the scope of this presentation to talk about the fine detail, but what it does is provide two things; one of which is, it provides something to blame for a lot of things which were going to happen causally anyway and secondly it provides a distinct and discrete drawbridge of the 31 December 2012 at which point a number of things that are current practice stop. So it gets blamed for a lot of things that have got a finite end point. What it sensibly does and what it aims to do is to provide the customer with two important things, one is clarity and secondly is trust. It hopes to be able to provide clarity by this process of advice stratification, unfortunately the current proposals are anything but clear, but hopefully when we get the document on 29 June we will see clarity, so that a customer can sit in front of a person and understand their motivation for making the sale or making the recommendation, their method of remuneration and who they represent, whether they represent the customer or the financial services organisations they work for. That clarity hasn't existed before and I think it will be greatly beneficial to the customer because most financial services distribution is inherently sensible as long as you understand where it's coming from. The FSA believe there is a direct link between professionalism and quality and, to a certain degree, that's true, not necessarily in the rather draconian way they want to apply it but nonetheless there is a distinct and discrete link, and they believe people trust people more who have professional qualifications. So they are setting IFAs along this tortuous journey for many them of sitting a prescribed set of examinations by a pre-defined period of time and that's producing a lot of people tripping off to the CII building but also it's producing a significant interest in literature of a certain kind, a different kind actually for the IFAs. Also we're moving into an adviser charging regime which is seeking to reduce the influence of commission. It's absolutely clear that if the FSA has their way and indeed they put it in their interim statement, if they could they would ban commission. The commission by way of fee from the product is a perfectly sensible and logical way of remunerating for the adviser process so it will continue, certain elements of it will disappear.

So, what's behind the regulation is good intent, somewhat clumsily executed in certain areas but nonetheless seeing through the adviser to the consumer is an absolute desire to deliver that consumer with trust which we have ill deserved in the past but I think we now deserve quite clearly. The endowment scandals and the other scandals have tarnished the reputation of the advice giving community but I think we are now on a march towards professionalism, and clarity. I'll come back to that on my final slide.

The distributors themselves react to the demographics, they react to the regulations so they have to provide compliance solutions, so what that means is a change of mindset but also a change in working practice. Precious little of an IFA's time is spent in the A bit now, in the advising, the split is probably 80/20 and yet the bit they're good at is the advising thing, the bit they need help and support with is the compliance thing. They are very clearly building long term relationships and the RDR gets blamed for a number of things that I said but one of the things it will do is encourage people to take remuneration on a more passive basis, i.e. a longer basis. When John comes and talks about our platform, you'll very clearly see it's a trail commission based entity and that's sensible because people are building up the value in their practice and reflecting their own practices, i.e. ongoing advice with their remuneration stream. People will move to larger firms, which is an FSA intent, if you can legislate at fewer points then it's a perfectly sensible way of conducting yourself. Technology just delivers efficient processes, it allows the intermediating community to spend more time doing what they are supposed to be doing which is intermediating rather than completing documentation. The platform, in fact it's interesting actually, in the Retail Distribution Review interim document that came out two and a half months ago it's the first time that the FSA have referred to the platform as a service, because that's precisely what it is, it's a tool that enables the IFA to do their business more efficiently, and so provides them with an end-to-end solution and they are embracing that. In an arena where the historic IFA has been a technology luddite he is now beginning to think this can help me, this can help me do two things, get a better relationship with my customer and get more money when I sell my business. So they are being motivated to embrace technology and you'll see how they are doing it when Michelle and the guys do a demonstration after John's finished speaking.

I'd like to conclude by looking at the person who is most important in all of this change for all of the constituent elements that contribute towards this chain and that is, the customer. The customer has been through an interesting journey in the last 20 years. They probably started off as being confused and they had every right to be confused because they didn't really know what they were buying, from whom they were buying or what was involved in the process; and then because of markets, because of endowment scandals and because of various other things they became concerned, they were worried about whether they were getting the most appropriate advice, the most appropriate vehicles for their particular solutions. What I think now they've morphed into, is a consumer base who are more cognisant, they know more about their investments, they know more about the arena but more importantly, they know what they want. What they want is clarity and confidence in the people that they purchase from and I think that chain of events gives them the clarity they want, they know what they're getting, from whom they're getting it, what they're paying and what it delivers. So I think we're in an environment where if we see a move towards platforms and platform centric advice, all the people who are on that chain will be more satisfied than they currently are. John.

John Tomlins – The platform model

Slide: New model: platform components

Thank you very much Peter. Good afternoon everybody. I'll pick up the story in terms of Skandia leading the market and indeed our full and complete and determined intent to dominate this market. I'm going to look at the platform components, what we all call the supply chain. I'm going to look at this relentless pursuit of creative things, and I'm going to look at our relative position to the competition and then we're going to take a look at the kit. As for Michelle I don't think you're going to be demonstrating, very sad, maybe we can come and get you to do that. But I think it is an important part of this to actually go and see what is going on with the technology itself and what is appealing and compelling to the IFA and indeed the client.

We actually live in this blue place, this is where our kit helps the IFA to be impressive with the client. This is where we provide the tools that you are going to see which allows, if you like, to bring institutional fund management to the retail market. This is where the client's interests are looked after on a holistic basis. That's where we operate, as Peter says, within these services and for us the things that we really get excited about are the things on the bottom of the chart. This is a genuinely online business and as an online business we have to start thinking about business really quite differently, think about it as e-bay would think about it or think about it as Amazon or whatever, because what we are determined and obsessed about here is that at this end of the slide, the distribution end, is what is the experience and how do we make this system used and usable and therefore the intuitive nature of it. So we've got to understand all the psychology that sits behind all of that and that's what drives people towards the machine. Obviously the stuff in the middle is where we are looking to be efficient and actually recognising in this lower margin world, this is vitally important to the IFA, so giving them data which they can use dynamically with their client to look after their needs on a proactive basis, is what we're doing in the middle here. Of course at the other end importantly, we want an electronic transaction going on where we're aggregating deals putting them to market and getting them back safely and just to give you an idea on that, currently the platform would trade at £12 billion assets of that back in a year so it's probably the largest trader of funds in Europe. So the whole of this thing is what we are obsessed about, getting this thing used and usable and the straightforward processing to really work.

Slide: New model: Skandia's history of innovation

I think if we link this to what Peter was talking about, this long history of innovation, so we've been on this journey now for 30 years, I really like the idea that Nick you think 30 years is good years, this morning he said that was middle aged and I got upset about that, because I believe 60 is the new 40, but you can see here lots of thinks going on and you can see that curve getting steeper. Now obviously I was involved in the founding of Selestia so coming into Skandia with this entrepreneurial spirit has been absolutely fantastic, so doing what we were trying to do in the Selestia world on a bigger stage has been uplifting. And working with the guys to go up this curve has what's been driving all of us and I think the other thing in here is that this is not just about the technology, this is about this, if you like, 30 years of learning where actually we're working on a model which really clicks with people, it's taken advantage of all our experience and bring us back into the market in a new and innovative way.

Slide: New model: platform adoption by advisers

So, what's actually happening with this adoption? These are a couple of points I want to make on this chart. What we now see and if you go back to 2001 you wouldn't have seen anything like this would we, so what you see here now is that 90% of all brokers are using platforms, it's really quite a remarkable number that has occurred in a very, very short space of time, and what you see here is 22% of those brokers, most likely the brokers at the higher end, the higher segment end are using it for 75% of everything they do. A really quite remarkable number and we'll just take a look at how that's working for us.

Slide: New model: Skandia UK's platform usage

So what you can see here is that what we are now seeing is this phenomenal increase in adoption of our platform, so you can see that we are moving up now to average transactions a day of some 53,000 peaking just before tax year-end at 70,000 odd, and this isn't just people coming in and browsing, this is people doing real work, this is people doing valuations, doing switches, ordering, looking at doing commission transactions and so forth, so this is real business being transacted. That's being driven, and Nick will talk about this more, about the way in which we've introduced really clean pricing at the front and obviously the volatility of the market with the amount of switching is obviously driving that and, of course, tax year-end. But, after tax year-end this hasn't really slowed down, this has continued. I think we can genuinely believe that we're going to see this adoption continuing at this accelerated rate, and that's why the point I was making earlier about thinking about this thing differently is critically important, we have to think about this business as a genuine online opportunity, and drive the work to the machine, creating really exceptional experiences both for the client and the distribution.

Slide: Platform: Size of the opportunity

So, Peter has talked about this, this bar on your left we think is worth about £1 trillion or £2 trillion in fact we don't think that, that's Standard Life's number, I think Michelle - Standard Life's number is at the higher end - I think AXA thinks that bar is worth £1 trillion, whatever, it's massive. What we can see and Peter has told us is that money is moving, is flying to efficient platforms to modern arrangements that work for the distribution but more importantly work for the client. So what you see here, already we've seen this phenomenon of growth so already the platform size is at £90 billion, and from our research and working with Navigant we see that at least going to £300 billion in five years.

Slide: Platforms: Competitive advantage

Now you would expect to see a chart like this with lots of ticks for Skandia and of course, we believe that, we believe that we've got all of these ticks and also the other thing that we believe is that obviously what we can see is our peer group trying to climb into this space with varying degrees of success. So obviously you see Cofunds, L&G, Standard, we have got Fidelity in there, I guess Nucleus, we have got Sanlam in there somewhere and now of course now we've got with AXA and with Standard Life both using the FNZ technology.

Slide: Platforms: Winning formula

Now just a point there, I think this is an enormous competitive advantage to us to own our own technology and to develop our own technology, we work with our parent company down in Cape Town to do that, and from my point of view, that's a really enormous advantage in delivering change at pace safely into the market, in other words keeping us at the forefront of the vanguard of the innovation curve. So, Nick's going to come on to this in a moment, but really what we're talking about here is Skandia in the sweet spot, the winning formula and obviously technology is important to that, you've got to have kit that works, that's scalable, and scalable to handle this level of growth. We saw this year a 400% increase in activity on the platform, we have got to be alert and capable of managing that level of growth. We're confident about that really because of our long term experience and our success track record. As I say, what you see here is that the market is now adopting to this model which is the new model for long term savings and its adopting and its adopting fast, and the reason for that is it works for all the constituencies. If you think about it from the client's point of view we've got simple, we've got transparent, we've got the ability to dynamically manage your money against changing needs, changing risk and market conditions. For the provider, clearly what we are giving them is a way to manage their margins, giving them access to data which they can then be impressive in the value chain with their client. So my IFA when there were issues with lion trust, on the phone immediately, and you will see that when we get to look at the kit how easy it is for them to access that data and to make buy and sell decisions or hold decisions on the portfolios. Of course, its good for us because what it does for us is it drives funds under management and funds under management in this world is critically important. Scale is important in this lower margin environment. As you can see what we are saying here is that we expect to see funds under management over this period growing at least by 27% and we do expect to see this flight of money from the traditional through to the platform and we expect to see the pace of that picking up really quite dramatically.

So I think now is the time to go and take a look at the kit, I think Michelle has disappeared so that's always a good sign. I think we're back in here, Nick, Bob in 30 minutes. Anyway, thank you very much for listening.

Break – Evolution of financial services and the platform concept

Simon Lloyd – Financials

Slide: Platforms: Key financial drivers for platforms

Welcome back and thank you very much. To start off I'm Simon Lloyd, I'm the CFO for Skandia UK and where I fit into all of this, I think what you've seen is you've heard what's happening in the industry, you've seen what we've done by way of creating the platform. I think what we've set out for you is something that is really compelling from a customer perspective as in the person who trusts us with their money, it's also been shown that it's quite a compelling proposition from an IFA perspective. What I'd like to do, it's actually quite a high level in terms of how it's a compelling proposition from an investor's perspective, so you're either investing possibly in Old Mutual or investing in Skandia and how this actually works and creates value, as I say for the investor. So I'll spend a short amount of time just talking through some high level financials, in terms of what the platform means for us and then Nick will come back and explain to you why we feel that Skandia will be the winning proposition in the UK going forward.

Now to start that process I'd just like to show you a formula, we've looked at it before but basically what I will be trying to do is show how we will optimise this formula in terms of the way we look at the platform so we will look at the various components of this in terms of the benefits or the funds under management, the scale that it got, the total level of assets that we're holding and how our current position in the platform is putting us in a strong position there but also how we in terms of as a management team look at this in terms of the control and the focus on net client cash flow, watching the funds as they are flowing in but also being very careful to watch the back door as well as we manage that particular component.

What I'd also like to touch upon the value chain, we're showing you the overall creation of value, supply chain and I'd like to relate that to where we're earning money and how we're trying to optimise that component. Now I'll end by talking about the capital position and what we've created I believe is a capital rights proposition which actually means as an investor although what I'll show is that we'll see the total level of fees that we'll be charging will be coming down and therefore the margin that we will earn will come down, the fact is that we've actually created a more capital light proposition and therefore something that is still giving a compelling return for investors.

Slide: Key financial drivers – funds under management

So let's just start by looking at what is happening with regards to funds under management and where I'd like to start here is that Skandia because of where it is at already has a head start. There's a slide that John showed which was looking at an architecture platform proposition by comparison to some of our competitors. And you will have seen that what we have – and this is looking back towards the end of last year we had some £24 billion of funds under management, we were looking then at other platforms where they've got £15 billion, £13 billion down to £6 billion of funds under management, we are head and shoulders above them in terms of the level of funds that we have at the moment and that means that we are already in a strong position and that enables us because of that level of scale that we've already achieved, it enables us to actually continue to refresh. The platform isn't the thing that we build once and use forever, it's something that you do need to be continually looking to invest in to make sure that you still have that compelling proposition, so I want to give financials to this. We need to be able to keep that level of investment going. We are able to do that because of the scale that we've already got and that does create a barrier for entry to others who are actually looking at it. The level of investment that's required is significant.

Looking at the virtuous circle itself, we talked about the technologies, it starts up there at about one o'clock. The platform technology is there, we have it, it's operating and you've seen that just now in the demonstration. What that means is that there's a level of easy processing. The IFAs that we are dealing with find that that is a very easy proposition to use and therefore what we're seeing immediately is increased usage. The chart that John was using where we saw that between March '08 and March '09 we saw a 100% increase in the transaction volumes that are going through on the platform and that therefore increases the volumes and therefore inevitably or fortunately it leads to a significant reduction in unit costs and what we're then seeing is also the increased volume, the increased usage of platforms, the increased level of funds on the platform and means that we move into this situation down at the bottom in terms of the level of funds being part of fund managers and therefore the improvement in the relationship with fund managers. So we've moved on there in that we talk about higher rebates, more competitive pricing. You can see how that virtuous circle is working and we are already on that circle and therefore moving in the right direction and as I've said already it is hard for others to just immediately step into that when we've got the scale already in terms of the platform.

Slide: Key financial drivers: industry value chain

Moving on I'm trying to look here at the value chain and where we actually or how we see things moving. The industry is in a state of flux and there is a blurring of those clear differentiators between the insurance providers and the fund managers and what is happening is a complete blurring of the situation between retail financial services, the life providers and the retail fund managers and that is creating two things I would suggest. One primary thing is that the level of charges that are being made in terms of the Life & Pensions proposition is blurring with that of the fund managers and people are looking at that greater level of transparency meaning that people are expecting to pay a premium for the life proposition or that kind of situation. So what we believe is that over time we will see a reduction in the amount that can actually be charged for these propositions. So currently we believe that we've got about 235 basis points and that will come down over time to about 160 basis points. So what we need to do is first of all look at how we are participating in that supply chain and also in doing that extend our participation in that and the level of fees that we earn through that part of the chain, but we also and one of the things that you'd expect us to be focusing on is management of costs and that's a continual journey as to how we actually manage our cost base and ensure that it's providing value for money.

Slide: Skandia UK: platform value chain

Moving on and developing that theme we can now see if we actually look at the value chain the various bits that we are operating in and this is the top part that's consistent with the slide that John was using earlier where you saw at the bottom, the various parts of the technology that sits behind that and what we can see from this is where we are participating in the value chain mentioned. So if we start on the far left hand side there through Skandia Investment Group which is one of our sister companies in the UK, this is where we're looking to provide value added services through the blending of funds and we're creating investment solutions and as a result of that we're able to receive additional margins through that investment assembly perspective. Also through the scale that we've actually achieved we're obtaining rebates for the sort of client level administration that we're providing on behalf of fund managers, so through the work that we're doing on behalf of fund managers we're achieving additional rebates and again the scale that we have in that area is significant.

The next part along there is in terms of the tax wrapper, so through the life company that we have in the UK then we are earning a small fee for the Life & Pensions wrapper. Finally right at this end the provision of the platform and the provision of that flexibility to IFAs and to customers we are able to earn a fee in that area. So we're playing in significant areas. We're not playing in distribution as Peter was explaining and Nick was explaining earlier and we're not in the pure fund management, not the stock picking so we're participating fully in the rest of the value chain.

Slide: Key drivers – net client cash flow

I mentioned funds under management earlier and a key part of that is clearly influenced by markets but the other key influence is net client cash flows and this slide shows us immediately that Skandia is head and shoulders above anybody else in terms of the way we are able to manage our net client cash flows. What we're showing here is the ratio of inflows to outflows and here we are showing that Skandia has got an inflow of 2½ times as much as is actually going out of the back door.

As a business on a daily basis one of the key reports that all of the team management receive is one which actually looks at net client cash flow, it's that level of importance. If we see distortions in it those are the sorts of things that we follow up because that is how important we actually see this as a measurable driver of our performance. I would suggest that historically the industry is very much focused on APE. The focus has purely been what has actually been coming in the front door. What we are trying to do and are doing is looking very much more at what's actually going out of the back door as well.

Further the platform will actually lead us into making this a sustainable situation because what we found is that with the platform there's an expectation that there's not a need to start to continue re-broking because what you can do with the platform is you can manage your clients' investments over their complete lifetime. You don't need to continually be looking to swap things around and therefore what we are seeing is that there's greater longevity in terms of how long we're actually holding onto customers' assets which is clearly of significant benefit.

Slide: Skandia UK: capital efficient

Now just to wrap up the bit that I wanted to talk about in the context of financials, I just wanted to briefly touch upon how I would present this as a much more capital efficient model and a capital light model. We've seen that we believe margins will be coming down and therefore what we've created is a more capital light proposition and what I'm showing you here is three profit signatures of three of the products that are actually sitting on the platform. The collectives sits in the mutual fund offering Skandia Multi-Funds and the bonds and the pension are on Selestia Life & Pensions.

Just in terms of the scale of difference that we are actually seeing here, the onshore bond at the top here has got an initial strain of about 5% which compares with more traditional bond of about 11% in terms of that initial strain. The pension proposition that we've got down here, we've seen situations of probably about 15% more capital is actually required in those situations than some of the other products that you've looked at; and the collectives over on the far left, there the IRR for that over 10 years is giving you a 30% return. So compelling in terms of the comparison with the more traditional products. Also the other thing is we're getting much more rapid payback. We're looking here at everything is less than five years in terms of the payback on these products and that again compares clearly depending on the product that you're looking at it could be anywhere between 7-10 years and we had even one situation which we looked at which was as long as 19 years.

So I think what we've created here is something that although the margins are going to come down we are seeing something that's more capital light and therefore actually delivering that component return.

I will end there, I will take questions later and I will pass back to Nick who will explain further about the winning solution.

Nick Poyntz-Wright – Why Skandia will be a winner

Slide: Skandia UK: Winning formula
Slide: Skandia UK: Key attributes
Slide: Skandia UK: In the 'sweet spot'
Slide: Skandia UK: Leading proposition for advisers

Thanks very much Simon. Yes, I think what we'd encourage you to do is think about the best financial assessments for this kind of business. It's tricky because clearly it spans what we call covered business which is the Life & Pensions business where better value accounting is obviously much under discussion at the moment and then also it embraces the non-covered business, so if you look at the platform capability outside, the ability to be able to have within that unwrapped mutual funds, maybe mutual funds in a tax shelter within an ISA and then also within a Life & Pension wrapper and from our point of view all of those are good. All of those are equally good in terms of the potential for making sure the funds stick with us over a long period of time, the revenue streams are very consistent and very similar, the work we need to do is very similar so we need to think about that. Also the capital intensity as Simon says is very low, so the drivers from my perspective for profitability are around persistency, it's about winning the support of IFAs, getting them integrated to our business process and then repeatedly winning the business of their clients and keeping it. It's about the terms of trade that we have with our key suppliers which are the fund management companies and the difference there between discounted retail pricing if you like and institutional pricing which is an area we seek to try and get more of; and also it's about unit costs at the end of the day. It's making sure that efficiency counts and obviously that is contributed to and assisted by building scale on the platform which is Simon's virtuous circle.

Just a word about the net flows as well, this is an important KPI for us that we track very regularly. The figures that you saw on that chart were '07, '08, they're a bit out of date to be honest and this is not least because the peer group and the providers out there are sometimes a bit reticent about publishing the net client cash flows so we rely on the third party research which takes a while to come through. In our own case the good thing is that on a quarter by quarter basis our net flow position has remained positive in every quarter and as I say it is something we look at. The low point in recent times was in Q3 last year which obviously was a bit of a torrid time from a market perspective and the net position improved in Q4 and it has improved again in Q1 so we're actually seeing that come back and we do have to work at both ends, so it's not just bringing the new money in but as Simon said being more and more proactive about trying to make sure that we get the money to stay on the books.

So I think from my perspective here in summing up I'm going to try and pull together some of the ideas that you've already heard today and underline why we believe that we've got an excellent opportunity here to be the winners in this particular segment. As Peter has indicated we think it is a rapidly growing segment. You've got that wall of money over to the left of those charts which is gradually going to wake up and move and we're ready to obviously take that on.

Slide: Skandia UK: the winning formula

So I want to talk briefly about our winning formula. If you can imagine the engine of a high performance car there's a few characteristics that I think are aligned to what we've got here. First of all it's getting that balance right. The fuel injection system gets the balance right between the fuel which in our case is the first year old unit-linked book of business which is throwing off positive cash flows and generating the opportunity for us even after we've self-funded the investment required to build the platform, we are cash positive which is a great situation in the current market to support the parent. Coupled with that as well as the fuel, the fresh air because a lot of the businesses that we compete against have a lot of history, they've got a lot of legacy, a lot of baggage and although they've got a lot of cash generation they are still in the process of mopping up and sorting out some of the issues of the past and they have many strategic ambitions and they're multiple objectives. We're very focused so we've managed to focus our strategy particularly in this area. We think that's going to pay off and actually we've got that innovative streak and the 30 years of presence in the IFA community where they know us and they trust us to deliver good solutions for them.

Then on top of the mixture of fuel and air if you like, we've got the fuel efficiency which Simon referred to which is we're not going to consume very much capital in writing the business. It is a scalable business. Finally the low emissions, so we've managed through being only 30 years old but also being IFA distributed and uni- linked we've navigated around a lot of the issues in the industry like pensions mis-selling, mortgage endowments, the guarantees that are coming home to roost in terms of whether it be with-profits or annuities and so on. That's not a boast, that's not a position of particular price, it's a fact. So in terms of the degree of management attention that we can direct towards making this a really successful proposition that's really what we're thinking about 100% of the time. So that's an important position to be in.

I think in terms of the attributes and you've heard and probably seen some of these already, there is that relationship of brand franchise if you like we've built up with the IFA community. This is very important. They are 60-70% of all the distribution in the UK, they know us and they respect us and we continually in the various surveys come out well regarded. Now there are other entrants into this space, there are other players who they have seen come and go and the IFAs are a relatively suspicious, independently minded bunch – they want to know that you're going to be there and we have a faithful following. The investment choice, we have broad investment choice. Peter has explained we want to broaden it further so we want to add in other investment options. We know we have work to do but we do have a very wide range and we have the tools to navigate through them, some of which you'll have seen earlier.

I think John made the point about our own technology, I think that is really important and a couple of the insurance establishments, Standard and AXA use the same third party technology provider. I think if we're in that situation that would be a concern. We have the support of the group, the capability that was constructed in South Africa and that gives me a really good feeling that we're able to deal and develop with the platform as it moves forward.

I just want to give you an example of this scale point as well and in fact I'll give you two examples because it's not just about the terms of trade and making sure we get the best discounts or rebates in the fund group. Let me give you two examples. When we were really concentrating on trying to make sure we had an efficient, straight through process, so certainly around one of the screens we were looking at switches and we were looking at a bolt switch which could span hundreds of clients, one click of a button and we wanted to make sure that that switch instruction squirted straight through our system, aggregated with all the other trades on that particular fund and straight into the back office of the fund management company and in order to do that obviously we've got to make sure that our systems talk electronically on a seamless basis with those fund groups. Many of them use the same TPA providers, that helps, but we've got to persuade them to sign up to an industry standard messaging hub which for many is EMX. That took a lot of grind and sweat and persuasion and cajoling and influencing to make sure that they connected up to those systems. Now the whole fund universe was connected to that system and those processes are straight through. Now that comes from having that presence and position with those groups and being influential.

The second example I'll give you is around the pricing change that we made. Now one of the decisions we made last year was actually to remove our initial margin so when a client first invests through the platform we make no charge, so our revenue model is actually on the ongoing level of assets under management. One of the reasons that we did that is that if you consider the consolidation opportunity, you remember the slide with the pie chart on the right and the tower of a couple of trillion pounds on the left, the opportunity to move and make those existing savings work harder for the client is facilitated with no charge, so if the IFA has a proposition for a customer who may not be confident putting new money in, it's saying move your existing money and I can get it across clean, so there's no charge in doing that. Now of course there were charges being imposed by the fund management company, so we can remove our margin but if they're still taking a sliver of a bid of a spread or discounted initial charge that's a problem. Because of the negotiating power that we have we were able to convince them to remove their initial margin too. So we have got that kind of capability in the market. The final cone here is sustainability. If you look at the FSA's guidance about platforms and platform selection they appreciate that IFAs have got a very difficult decision to make and they guide them around the degree of due diligence that they need to undertake if they're tying up with a platform partner. Now that to me underlines this point that it is a business solution, it's a commitment on the part of IFAs and it's a serious commitment to make. The FSA is saying think about whether that provider that you are teaming up with is going to have a sustainable proposition, is going to still be there in 5, 10, 20 years time, its going to tune their proposition to meet the needs of your customers over time. Of course you've got to make a judgment on that but the judgment's going to be easier with a partner like us who has been around in the market serving those IFAs for 10s of years. So, this sustainability point is important and it cannot be created overnight. So in terms of barriers to entry Simon indicated the cost of developing the platform is one thing but actually getting people to buy into it and commit to it in a significant way is another.

Just in terms of our position and I talked earlier on about the 30 years old being exactly the right age and this is really the area where it comes in. There are two communities around us that are competing in this kind of space. There's insurance companies, established insurance companies and there are new entrants there are platform providers of various types and each have their advantages it has to be said, but each have their disadvantages too. And we bring scale we hopefully explained that we have the dominant position there. We are cash generative despite, even after the funding of the investment programme we are cash generative so we don't have to go cap in hand and try to get the next capital injection to build the next thing. The tax planning support for IFAs is critical if they're going to add value in that area for their clients and it's almost exclusively the insurance providers that have that capability and we are well known for it. Then on the right hand side there you've got a new and fresh approach so you need that strategic focus, you need to make sure that you haven't got to keep a number of other plates spinning and strategic priorities working. We had a limited legacy as I've been saying but also the investment options and solutions, the support to IFAs we can bring through getting the start fund managers in front of them through getting direct activity between them and the fund managers completely the other end of the value chain but we can actually give them that kind of insight to help them to more confidently build their investment portfolios. So where are all the others, well obviously they are mapped one side or the other and none of them really have the same mixture of characteristics that we do. A couple of things I'll point out which I think have been referred to is the degree of renting that goes on, either renting the technology or renting the product wrappers and there's really no-one else that has all that capability themselves. The fact that structurally some of these new entrants, the way they've been set up, the ownership is primed for some kind of corporate event. They're often independently owned or they've got independent ownership that's going to need to be crystallised and if I'm an IFA deciding whether to place my commitment with that organisation I don't know who it's going to be owned by in three to five years time, that's a concern, so getting that sustainability is vital. I think in terms of the combination of those things we would say that we've actually got all of the ingredients that we need to capitalise on the important head start that we've got. We're not complacent and we're not silly enough to think that actually it's all plain sailing, it definitely isn't and we know that we've got to continue on a journey of continuous improvement but we do have a lot of the ingredients which mean that we can capitalise on that head start.

What about the proposition out there in the market? One of the things I've been keen to do in the last year or so is make sure that we are more bold and aggressive and on the front foot in the market place with advisers in making sure that they can't ignore us. There is a really compelling proposition there for customers and increasingly advisers are having to look at that whether or not they already have links with other players. The offering for the customer is pretty simple so, it says that actually there is no initial margin maybe my adviser will dial in a fee or a commission up front, in which case that's reflected in the terms, but there is no initial margin so all I've got to think about is the ongoing costs which is essentially the annual management charge and the expenses which are automatically captured within the price of the funds I'm investing in so I just have to look at those prices which are already net of those charges. Those charges also facilitate typically a 50 basis points trail so I know from that my IFA is earning 50 they might dial that up to 75 depending on the service they are providing. That's clear. So, actually the only visible charge that I'm paying for the access to the platform is £50 that's what we charge and it's £50 a year per customer and that applies regardless of how many of the tax wrappers they happen to be using so, again, an encouragement to consolidate. That is a really, really simple description of how customers can see that this is adding value for them, this is a place where they can bring all their savings together and their advisers can very efficiently and effectively manage it. One of the things that did come out in one of John's slides about the degree of adoption is the impact this can have, so if we're able to convince IFAs to adopt us as a business solution the amount of their business that they then transact through the platform increases significantly. If you get into that lead position the evidence says you can get 50% possibly even 75% of that IFA's business but if you think of the transactional product model you'd be more in the area of 10% to 15% and the FSA have accepted that the concept of an adviser placing the majority of their clients onto a single platform is fine because actually they are applying their independence on the whole of market selection on the investments underneath, so that's a significant point.

So, we've covered a bit of ground this morning, a number of different areas where we believe we've got the key ingredients. I do think we have a significant head start but it's no more than a head start. The competitors are stressed by the current market conditions and we're absolutely focussed on making this proposition a successful proposition. It's excellent we think from the customer's point of view and hopefully you've seen some of that. It can transform the business model of an adviser, so Peter I think referred to the multiple ways to command in terms of value for the future and that just reflects the power that this brings and the ability the adviser can spend more and more time in front of the clients and it does, we think give us a great chance to have a dominant position in a segment which is I think emerging as a major part of the long term savings market.

So, thanks very much for listening. We've got an opportunity now I think to go for some questions. Bob, are you going to help us by fielding those. Thank you.

James Pearce, Cazenove

[*Questioner off microphone*] Question about the value chain and the margin that Skandia is earning where Skandia is moving from earning 100bps to 65bps in the future.

Nick Poyntz-Wright

This is the future view James, so it's actually saying the part of our business at the moment which is the platform business bear in mind we've got the 30 year old book which is unit linked and a little bit different in terms of responsibility. We do think that the margins are going to get squeezed in the future.

Simon Lloyd

Yes I can do. So in the bottom part we've actually gone into some greater granularity in terms of the value chain. The first part, working from right to left is with regard to tax wrapper, I think what we're seeing is that some of the more sophisticated products where there's opportunity to make further charges, those are going to disappear and we're going to see something that's a much more commoditised wrapper that is actually being provided whether it's in a pension or a bond and therefore the ability to charge a premium for that will actually disappear. Admin will be a key part and therefore the quality of the platform, well again people's expectation will be likening that or looking at how that compares with the retail fund management industry and therefore again you'd expect to see a reduction. Talking around in terms of the broader investment assembly, we were having a discussion earlier about what is happening in that market and question whether there would be, I suppose how that's coming down, as Nick said it's really our view of the future is that again will become more commoditised, I suppose in terms of the outlook and therefore your ability to charge a premium for that proposition is lower.

James Pearce, Cazenove

[*Questioner off microphone*] Question about percentage of assets sitting on the platform.

Simon Lloyd

More platforms? Sorry, in terms of at the moment or going forward. A third is probably sitting on the platform [that we have described today].

Nick Poyntz-Wright

I think this is the future view, these margins and this structure doesn't apply today, we're just acknowledging I think that we're going to see some squeezing going on in terms of the headline prices people are prepared to pay and others are prepared to offer, so where do we get our ability to defend and improve the margins is something that we are actually focused on, on making sure that we defend and improve the margins going forward, and the areas are there's got to be a consistency element of it and you know that the whole market is recycled money at the moment, it goes around and comes around. So that is an important element of the platform is that there should be no reason once an adviser is on there to take it away. There's got to be a play around up-stream so the gap between discounted retail prices as we experience them today and institutional is probably a gap of 30 to 40 basis points and that will be an interesting bench mark position, long only equity, get the accounts back on retail, we've got institutional financial costs and the other piece is around unit costs and that is significantly driven by scale and also fixed elements of the online processes in platforms. So those are the ingredients I suppose we're trying to draw out acknowledging that this low-margin world is not just our world it's going to apply we think to the industry at large.

Michael Christelis, UBS

[*Questioner off microphone*] Question about Retail Distribution Review, own distribution, whether to launch own agency sales force.

Peter Mann

If you look at the provisions of the Retail Distribution Review there are lots of contentions around the degree to which our current community will survive and prosper in the future. The contention that's generally held is the number of independent financial advisers will reduce which may or may not be true. What won't reduce is the accessible potential in terms of customers, so those that survive I think will have richer pickings because of if you're servicing the same level of demand. Our aspirations are considerable in terms of dominance of the platform space and where we can identify distribution channels where the product offering that we have would be appropriate and they don't challenge directly the marketplace that the independent financial adviser of the future would be looking at then we should consider those. A particular facet is that one of the things that's happening at the moment is that people are developing businesses which are platform centric and some of those businesses are developing Skandia platform centric propositions, so a high usage of our platform. Should they not make it to a post RDR environment then clearly it's within our interests that we retain those assets, so we may have to provide a vehicle, a non-IFA competing vehicle for those people to continue to trade and move their assets too. Now that may or may not be what you would call a traditional agency sales force. The problem with agency sales forces in the UK is far too much of the value passes to the agent so in order because there is a limited number as they move around the cycle then people pay them more for their services. So in a thin margin product line it's quite difficult to develop a commission hungry agency sale force so we have to regenerate the model. That's a kind of roundabout way of saying yes, I think there will be opportunities to investigate it post RDR but not in the traditional commission written agency distribution channel.

Bob Head

[*Off microphone*] [The wider Skandia Group operating in Europe run some interesting distribution models including tied agencies, which gives us some experience that we may tap into.]

Peter Mann

If you look at that pile of £1-2 trillion of money, quite a lot of that pile was as a function of the traditional agency sales forces of the past, so there may be some opportunity to replicate the Spanish experience in the UK.

Nick Poyntz-Wright

I think the first thing to say Michael is there's a lot of headroom for us in this [the adviser] space, so if you think about, first of all don't think about in terms of the new business closed but think about it in terms of assets under management which I think is a quite important mindset to have; and secondly think about the market share opportunity. If you've got the potential of increasing that between five and ten times which we'd normally have, if you're able to develop this business relationship, we do think I would suspect we think that RDR is going to refine and improve the standards in the IFA world, probably reduce the number of advisers which is probably going to result in better quality and maybe a smaller number of cuts but if we think in terms of our opportunities set out which are quite large, clearly there are also other opportunities and as Peter said I think we've got to be open given the importance of the dominant scale around what we're doing, opening up the channels at some stage.

??

[*Questioner off microphone*] Question about Assets under Management breakdown, how much do you have to get on the platform.

Nick Poyntz-Wright

First there's a duration point there in terms of what's the duration of investment. One of the phenomena in the market is actually around investing through this so the longevity point is actually saying no longer is it appropriate for people to buy annuity at age 50, actually the limit says you've got to buy one at 75, there are ways in which you can avoid doing that for a bit longer and so people are actually now thinking "if that's true, we're not an annuity provider but I think the opportunity of someone joining us, having a customer aged 45-50 for actually a long relationship", you can see that relationship continuing to age 75 and beyond, I don't see that as a particular problem. Our experience has been good generally so obviously everybody assesses assumptions for embedded value services and I think over the last few years we've managed that pretty well. What we're not doing so far is the continuing transition I think on the transactional relationship based IFA is the long term improvement stickiness of the platform. You'll see that come through in time. What I'm getting at there is that you find some IFAs are actually testing or utilising or trying out a platform as a product solution to see if it works and if it's a compelling product proposition but not necessarily using it as a business tool to actually develop their business. It's when they get to that stage and that's the kind of interactivity that we're showing on the adoption curve is the degree of connectedness and the usage that they're putting into it tells you that they're beginning to adopt it as a business solution and that I think where I think the stickiness really begins.

Peter Mann

At the heart of this FUM application aggregation question i.e. to what degree only 75% of your funds under management remain with you because everybody takes it through the process to cash and that's kind of predicated on the fact that you're aiming at the pre-retirement market. We are quite a strong player in the at retirement market dealing with income, draw down and retirement products where of course the tax free cash has come out and the balance is being reinvested and the actual diminution of value over a period of time where the assets are held in those types of funds is relatively small, so they're sitting there for longer.

James Pearce, Cazenove

[*Questioner off microphone*] Question about re-pricing in September, stopping of initial charges, profit line on products, why there is a negative cash flow at the start of the product.

Simon Lloyd

I think what you're seeing in there is the initial strain and also the up front costs are reflected in there but the commission on the platform products has been stripped out in terms of trail commissions are coming through in the cash flow.

Nick Poyntz-Wright

If it's paid [commission] then it's chargeable so it washes through basically. To give you an example I think the average initial commission on the platform was 1.6%, so it's low and I can't remember what the average ongoing is but it's just over 50 and the way that works in terms of that 1.6% is if your average IFA wasn't 1.6% we would start at 1.6% on the investment. It's entirely neutral.

Peter Mann

On the FSA point there are two aspects to the FSA point with regards to commission. It's really only indemnified, they lack band commission period but recognise that that would generate an inefficient market equilibrium at the moment so they're not going there at this point in time. The drawbridge comes down on indemnified commissions on 31st December 2012 but that of course doesn't affect significantly the platform market because it's not typically indemnified commissions. It's more of a non-investment protection type issue. The second thing is that whilst they might not like it, they have accepted the fact that what they regard it to be can still continue to be taken from the ongoing value in the product, so as long as you can reflect in your product structure the ability for the IFA to take ongoing remuneration which we can, then you'll be able to continue to remunerate the IFA. The difficulty is that adviser charging or principles of the adviser charges are predicated on your being distant from that decision, so the IFA agrees with his consumer what he's going to charge and then dials it up through the life company rather than the life company incentivising him by giving him various commissions, so the emphasis changes, the structure actually doesn't.

Bob Head

Ok, thank you very much. Thanks very much for coming in.