

# Optimising RoC in a new landscape - Overview of LTS and Rationale

Diane Radley

21 October 2010



# LTS strategy

**Complement** a **strong, highly profitable** and **mature** South African business by:

**Leveraging** our **SA capabilities** to **grow** and **develop** our businesses in selected Asian, African and Latin American markets

Operating capital light, **fast growth businesses** in selected UK and European markets

Exploiting **capital, cost** and **revenue synergies** between the various businesses

**Focus on building a culture of customer focus and value creation**

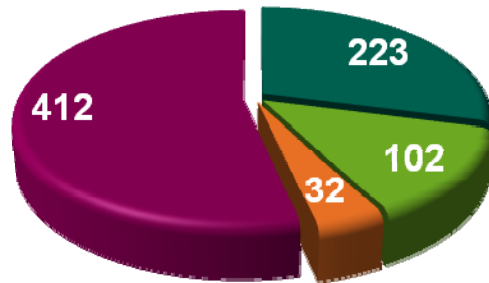
# The LTS portfolio provides high returns combined with high growth

Mature Profit Generation	Profit Growth	EV Growth
<ul style="list-style-type: none"> <li>▪ Slow growth</li> <li>▪ Large market share</li> <li>▪ Generate high cash returns that fund new business, allow for acquisitions and Group dividend</li> </ul>	<ul style="list-style-type: none"> <li>▪ Low profit generation relative to enterprise value</li> <li>▪ High cost bases</li> <li>▪ Potential for rapid profit growth on restructuring / efficiency gains</li> <li>▪ Largely self funding in terms of new business and growth</li> <li>▪ New business tends to be cash demanding</li> </ul>	<ul style="list-style-type: none"> <li>▪ Require funding of business at least until breakeven</li> <li>▪ Rapid growth of sales</li> <li>▪ New business tends to be capital intensive</li> <li>▪ Potential to grow embedded / enterprise value rapidly</li> <li>▪ Cash generation is far out</li> </ul>
<ul style="list-style-type: none"> <li>▪ <b>OMSA</b></li> <li>▪ <b>Namibia</b></li> <li>▪ <b>Colombia</b></li> </ul>	<ul style="list-style-type: none"> <li>▪ <b>Wealth Management</b></li> <li>▪ <b>Nordic</b></li> </ul>	<ul style="list-style-type: none"> <li>▪ <b>European Retail</b></li> <li>▪ <b>Africa</b></li> <li>▪ <b>Asia</b></li> <li>▪ <b>Mexico</b></li> </ul>

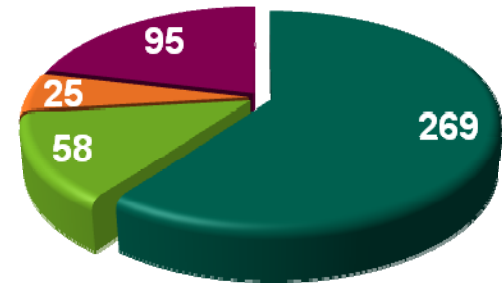
Together these businesses generate a good cash return coupled with good profit growth and a long term build up of embedded value

# H1 2010 LTS financial summary<sup>1</sup>

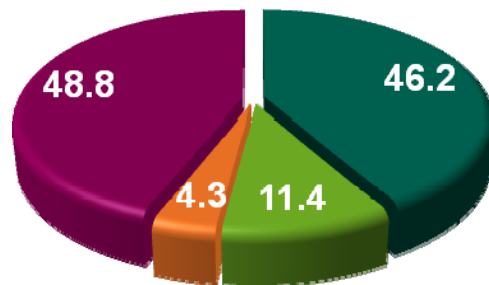
**Life Sales APE £m**



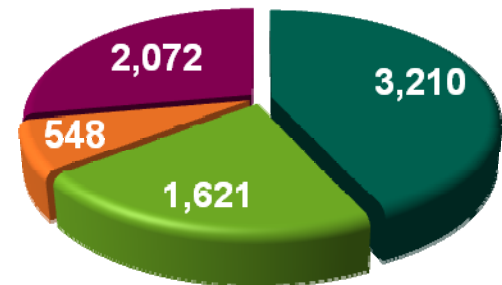
**IFRS AOP £m**



**FUM £bn**



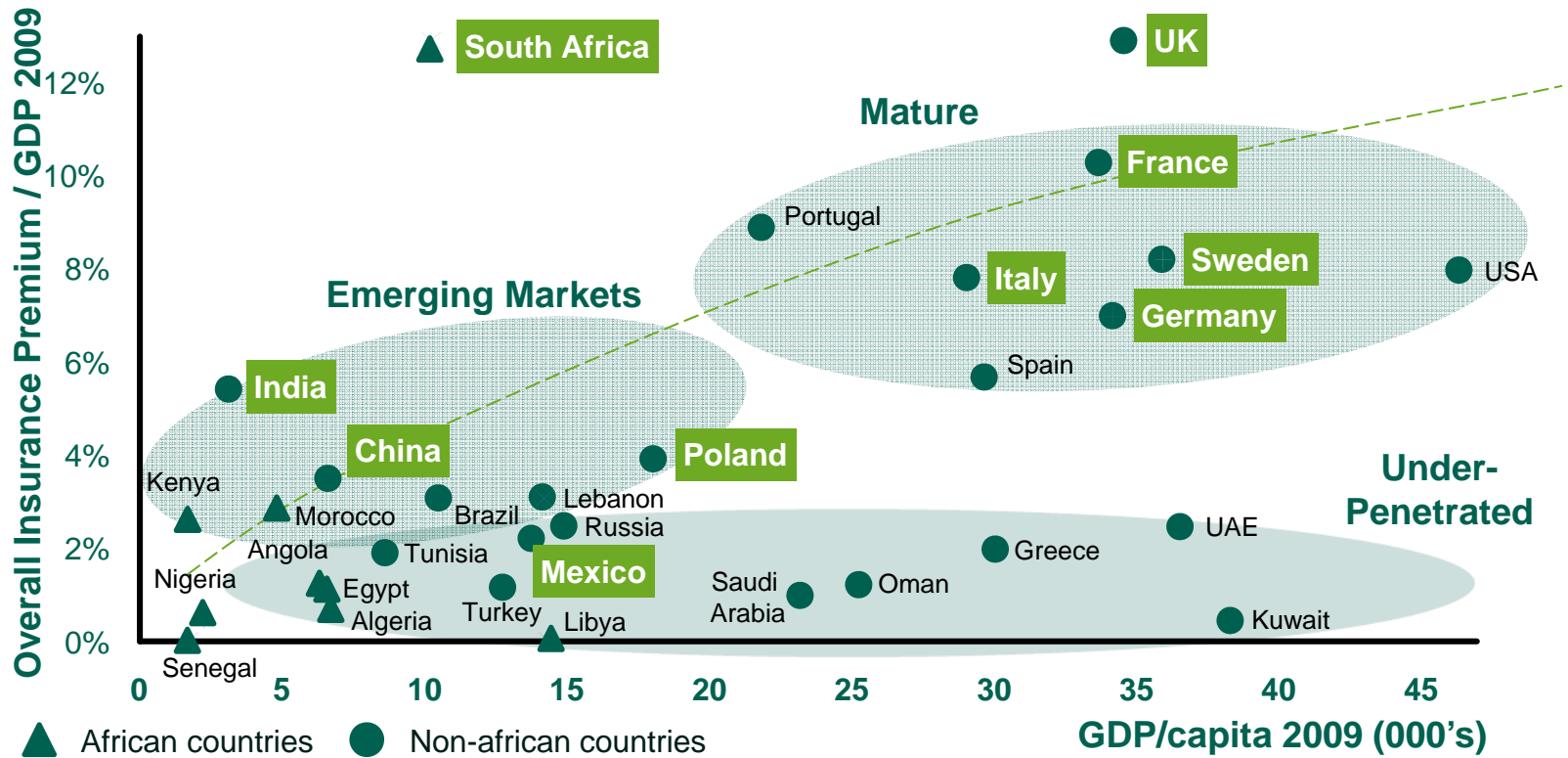
**MCEV £m<sup>2</sup>**



1. US Life business not included
2. Covered and non-covered businesses

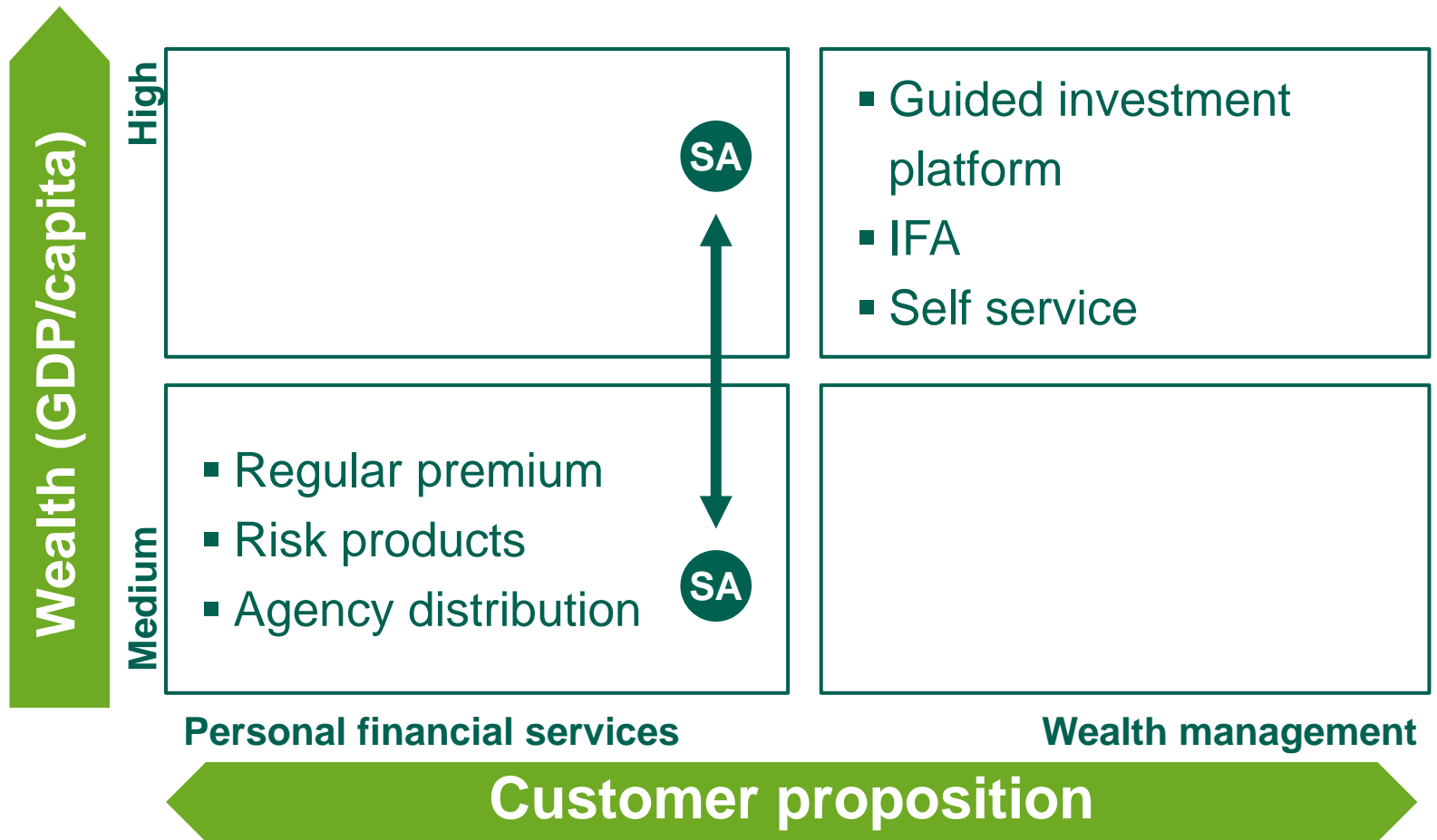
# Industry growth

## Overall insurance premiums and GDP 2009



Source: IMF, Swiss Re Sigma World Insurance 2009

# Putting the customer at the centre



# Shareholder value model

Economic Profit (“EP”)  
Enhancement to Embedded Value

Profit – (Cost of Capital x Capital)  
(VNB + Experience Variance)/MCEV

Strategy, investment / dis-investment, capital allocation,  
performance measurement, reward



# Achieving our targets

	Implementation	Measures
<b>Driving revenue growth</b>	<ul style="list-style-type: none"><li>▪ Exploit growth opportunities in emerging markets</li><li>▪ Position for sweet spot in Europe</li></ul>	<ul style="list-style-type: none"><li>▪ <math>(VNB + Exp Var) / MCEV</math></li><li>▪ NCCF / FUM</li></ul>
<b>Reducing cost</b>	<ul style="list-style-type: none"><li>▪ Specific efficiency programs in each BU</li></ul>	<ul style="list-style-type: none"><li>▪ Administration expenses</li></ul>
<b>Synergies</b>	<ul style="list-style-type: none"><li>▪ Adopt LEAN methodology across all businesses</li><li>▪ Potential IT synergies, particularly in outsourcing</li><li>▪ Product lines extended to other markets</li></ul>	<ul style="list-style-type: none"><li>▪ Expenses</li><li>▪ APE</li></ul>
<b>Capital efficiency</b>	<ul style="list-style-type: none"><li>▪ Focus on capital light products</li><li>▪ Diversification benefits</li></ul>	<ul style="list-style-type: none"><li>▪ Equity (E)</li></ul>



# Efficiency programs at business unit level

	Implementation	Business
<b>Shared services</b>	<ul style="list-style-type: none"> <li>▪ Finance</li> <li>▪ HR</li> </ul>	<ul style="list-style-type: none"> <li>▪ Risk</li> <li>▪ IT</li> <li>▪ Wealth Management</li> <li>▪ Retail Europe</li> </ul>
<b>Outsourcing to SA</b>	<ul style="list-style-type: none"> <li>▪ Administration</li> <li>▪ IT</li> </ul>	<ul style="list-style-type: none"> <li>▪ Retail Europe</li> <li>▪ Wealth Management</li> </ul>
<b>LEAN approach</b>	<ul style="list-style-type: none"> <li>▪ Process and customer focused</li> <li>▪ “Overheads” as well as administration</li> <li>▪ Spans of control</li> </ul>	<ul style="list-style-type: none"> <li>▪ LTS wide</li> </ul>
<b>IT</b>	<ul style="list-style-type: none"> <li>▪ Global outsourcing</li> <li>▪ Shared computing</li> <li>▪ IT applications</li> </ul>	<ul style="list-style-type: none"> <li>▪ LTS wide</li> </ul>

# Progress against 2012 cost reduction targets

	H1 2010 <sup>1</sup>	2012 Target
Long-Term Savings <sup>2</sup>		
- Emerging Markets	-	£5m
- Nordic	-	£10m
- Retail Europe	£6m	£15m
- Wealth Management	£17m	£45m
<b>LTS Total</b>	<b>£23m</b>	<b>£75m</b>

- Costs to achieve of approximately 150% of savings

1. Run-rate savings delivered to date  
 2. Long-Term Savings excluding US Life

# Progress against 2012 ROE targets

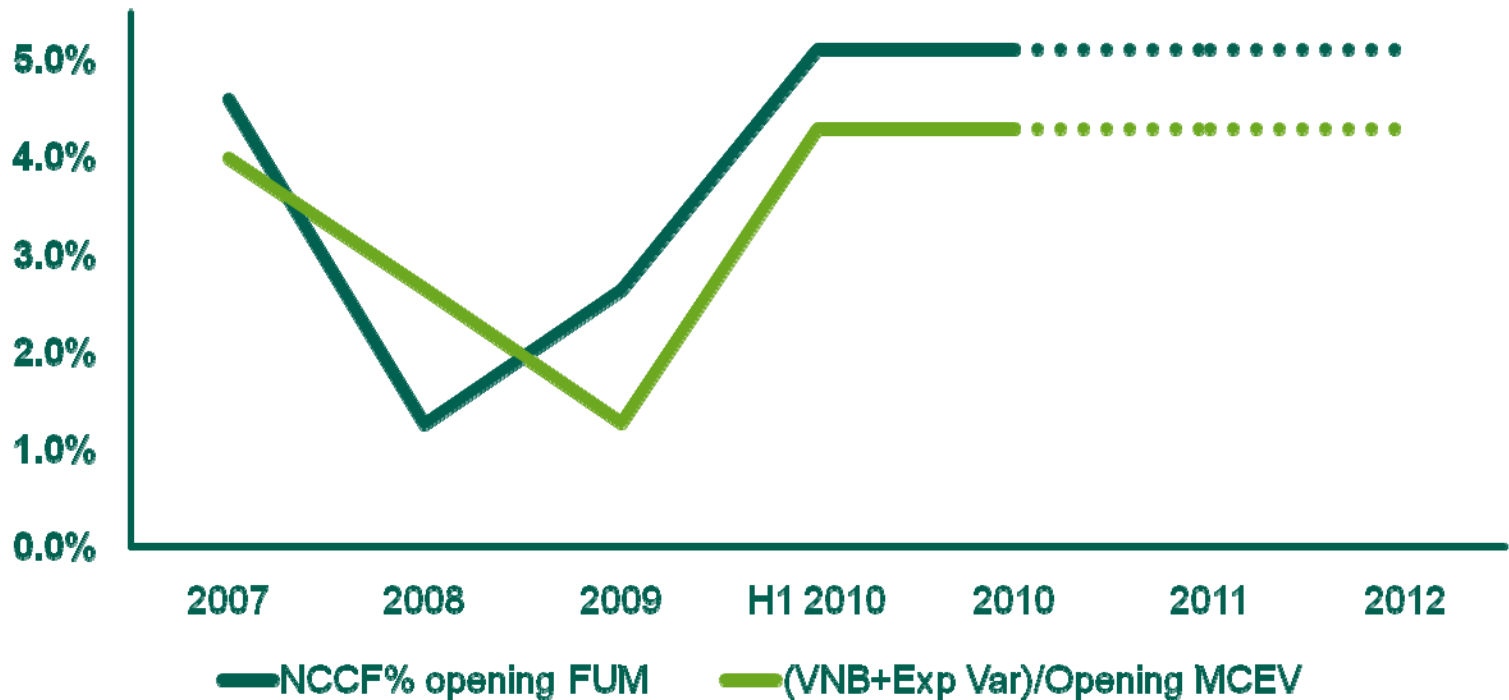
	<i>FY 2009</i>	H1 2010	2012 Target
Long-Term Savings ROE <sup>1</sup>			
- Emerging Markets	24% <sup>2</sup>	<b>27%<sup>2</sup></b>	20%-25%
- Nordic	12%	<b>12%</b>	12%-15%
- Retail Europe	9%	<b>20%</b>	15%-18%
- Wealth Management	8%	<b>15%</b>	12%-15%
<b>Total LTS<sup>3</sup> ROE</b>	14.9%	<b>19.3%</b>	<b>16%-18%</b>

- Hurdle rate for continued retention in LTS

1. For Nordic, Retail Europe and Wealth Management, ROE is calculated as IFRS AOP (post tax) divided by average shareholders equity, excluding goodwill, PVIF and other acquired intangibles; 2. OMSA only, calculated as return on allocated capital where full year 2009 has been adjusted to the 2010 LTIR rate; 3. Long Term Savings excluding US Life

# Tracking progress

**(VNB + Exp. Var)/MCEV and NCCF/FUM**



# Delivery of targets – illustrative scenario

		Resultant ROE				
		Market growth				
Expense inflation	Market growth					
	0%	2%	4%	6%	8%	
0%	14.9%	16.8%	18.5%	20.1%	21.6%	
2%	12.9%	14.9%	16.7%	18.4%	20.0%	
4%	10.7%	12.8%	14.7%	16.6%	18.2%	
6%	8.4%	10.7%	12.7%	14.7%	16.4%	
8%	6.1%	8.4%	10.6%	12.7%	14.6%	

£m	2009	Delta	Year 4
<b>Revenue</b>	<b>2,021</b>		<b>2,408</b>
Market growth @ 6% p.a.		386	
<b>Administrative expenses</b>	<b>1,459</b>		<b>1,519</b>
Impact of cost reduction		(75)	
Impact of expense inflation @ 3% p.a.		135	
<b>Pre-tax AOP</b>	<b>562</b>		<b>888</b>
<b>Post-tax AOP<sup>1</sup></b>	<b>429</b>		<b>677</b>
<b>Equity</b>	<b>3,255</b>		<b>3,876</b>
<b>ROE<sup>2</sup></b>	<b>13.2%</b>		<b>17.5%</b>

Note: Local equity and allocated capital as per targets disclosed in Prelims 2009. Assumes constant corporate tax rate, capital requirements constant % FUM (assuming fixed gross margin on revenues)

1. Reflects removal of 2009 non-repeat items for Nordic and Wealth Management
2. Reported 2009 ROE of 14.9%

# Closing remarks

- Portfolio delivers high ROE and growth
- Customer focus leads to top-line growth
- Synergies can be exploited
- Strong risk, capital management and performance framework in operation
- Strong local management teams