

**Barclays Select Series  
2012  
UK Savings:  
New world, new model**

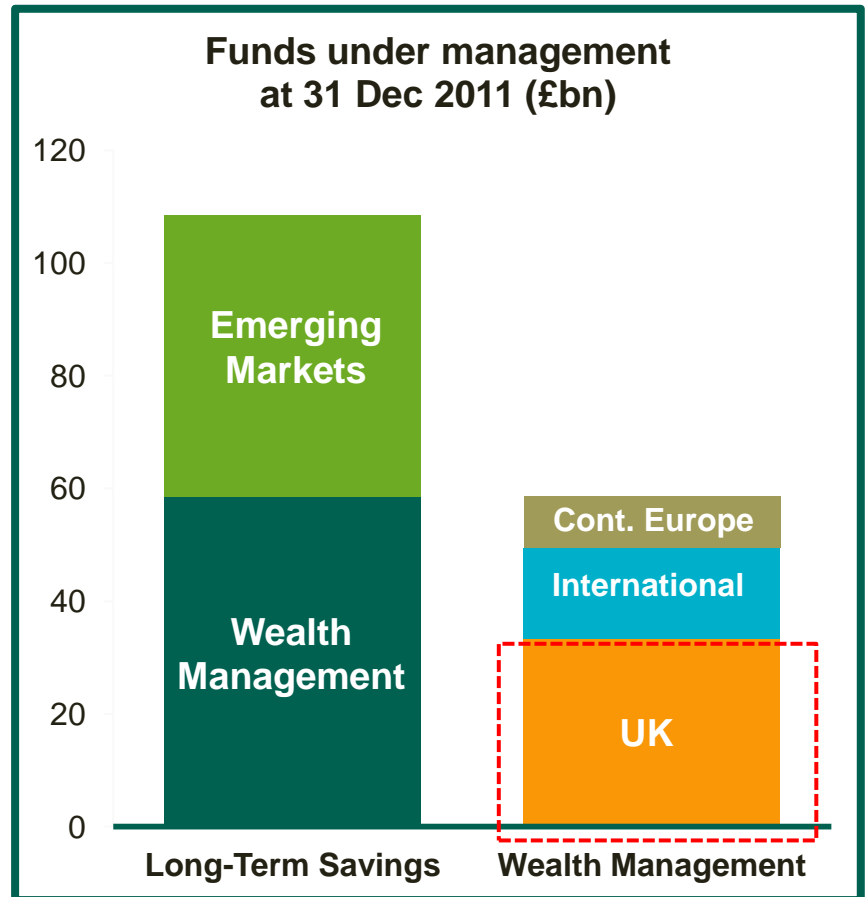
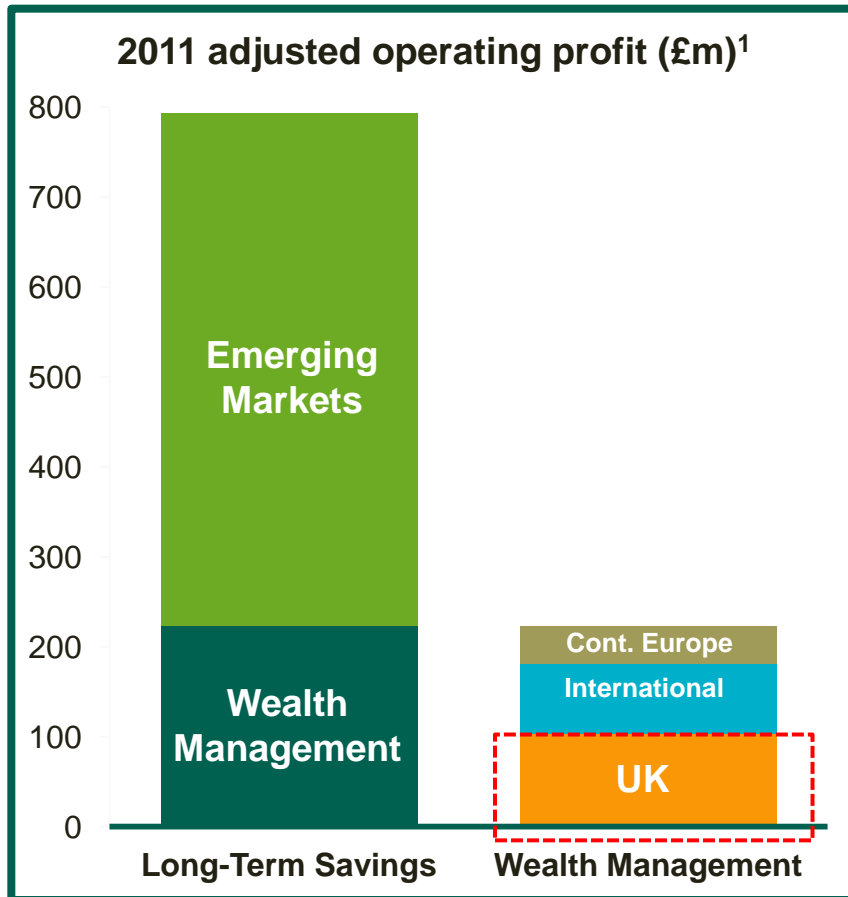
**Peter Mann:  
CEO Skandia UK**

**31 May 2012**

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# Skandia UK is an important part of Old Mutual's Long-Term Savings business

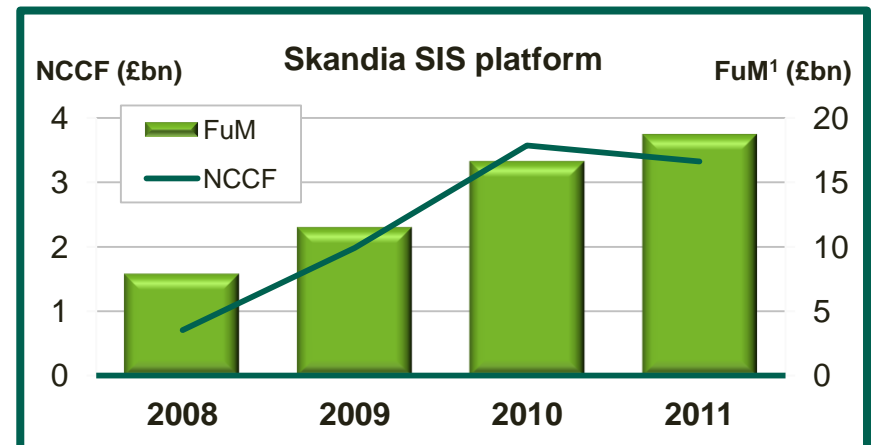
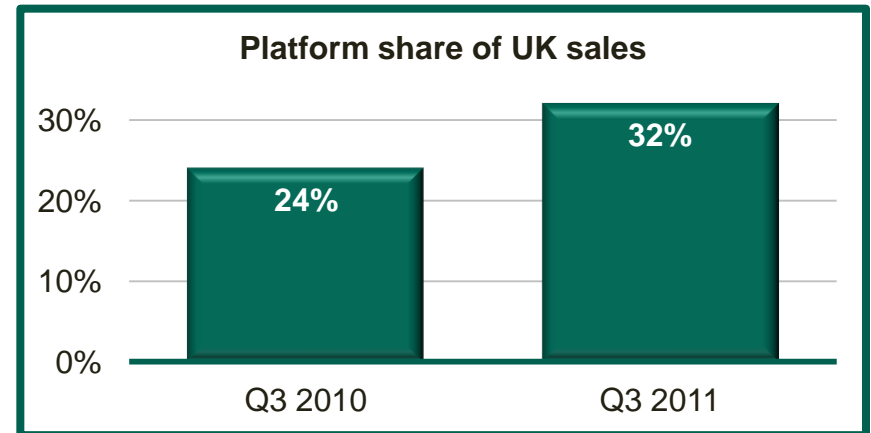


# Old Mutual is committed to creating shareholder value

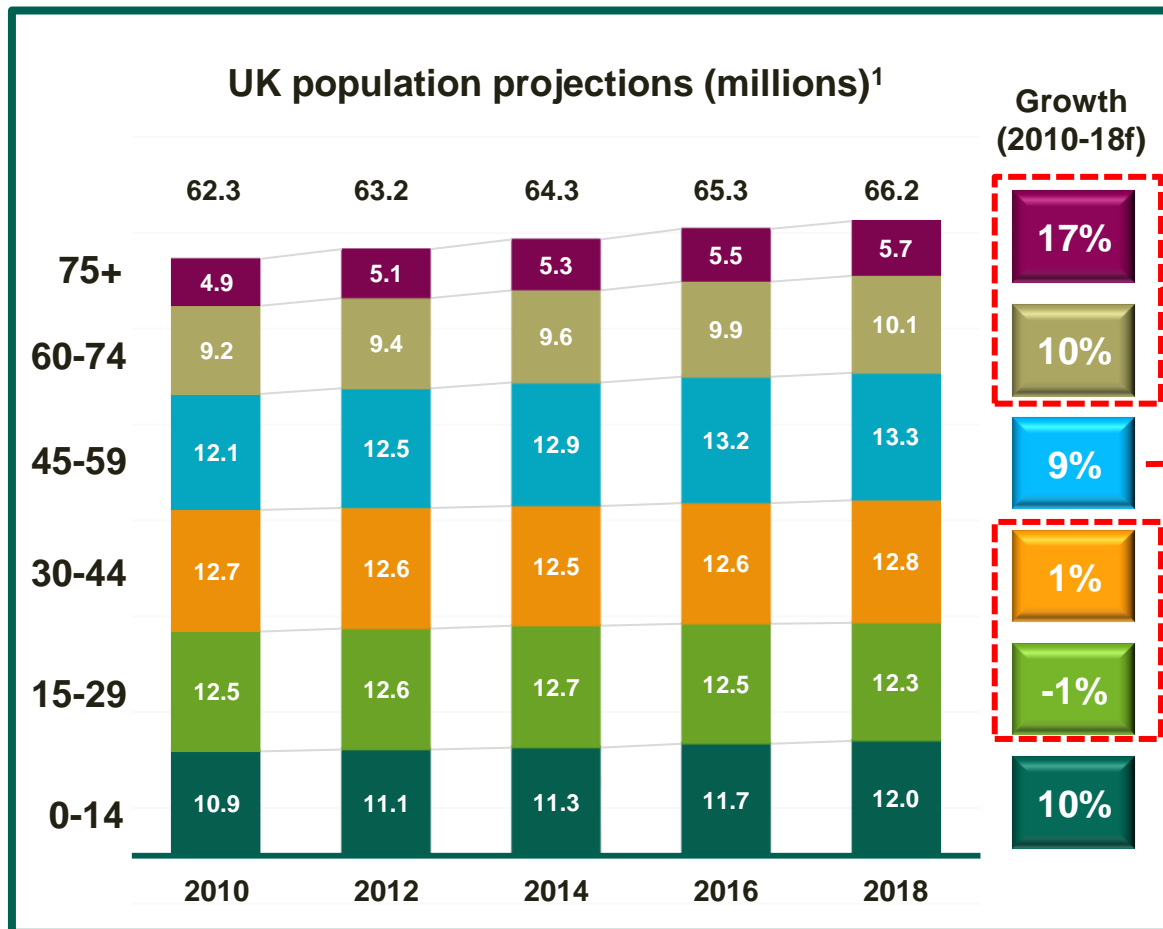


# The strength of our UK platform supports growth prospects in Wealth Management

- We have the largest retail investment platform in the UK:
  - a leading platform in the largest segment of a growing market
- Underlying shift towards platforms from traditional life & pensions
- UK platform market c. £170bn:
  - has doubled in 3 years
- >90% of IFAs use platforms
- Some sub-scale platforms may not survive RDR
- At Q1 2012:
  - UK FuM £36bn,
  - of which platform FuM £20bn



# Investment platforms will increasingly need to cater for an ageing population

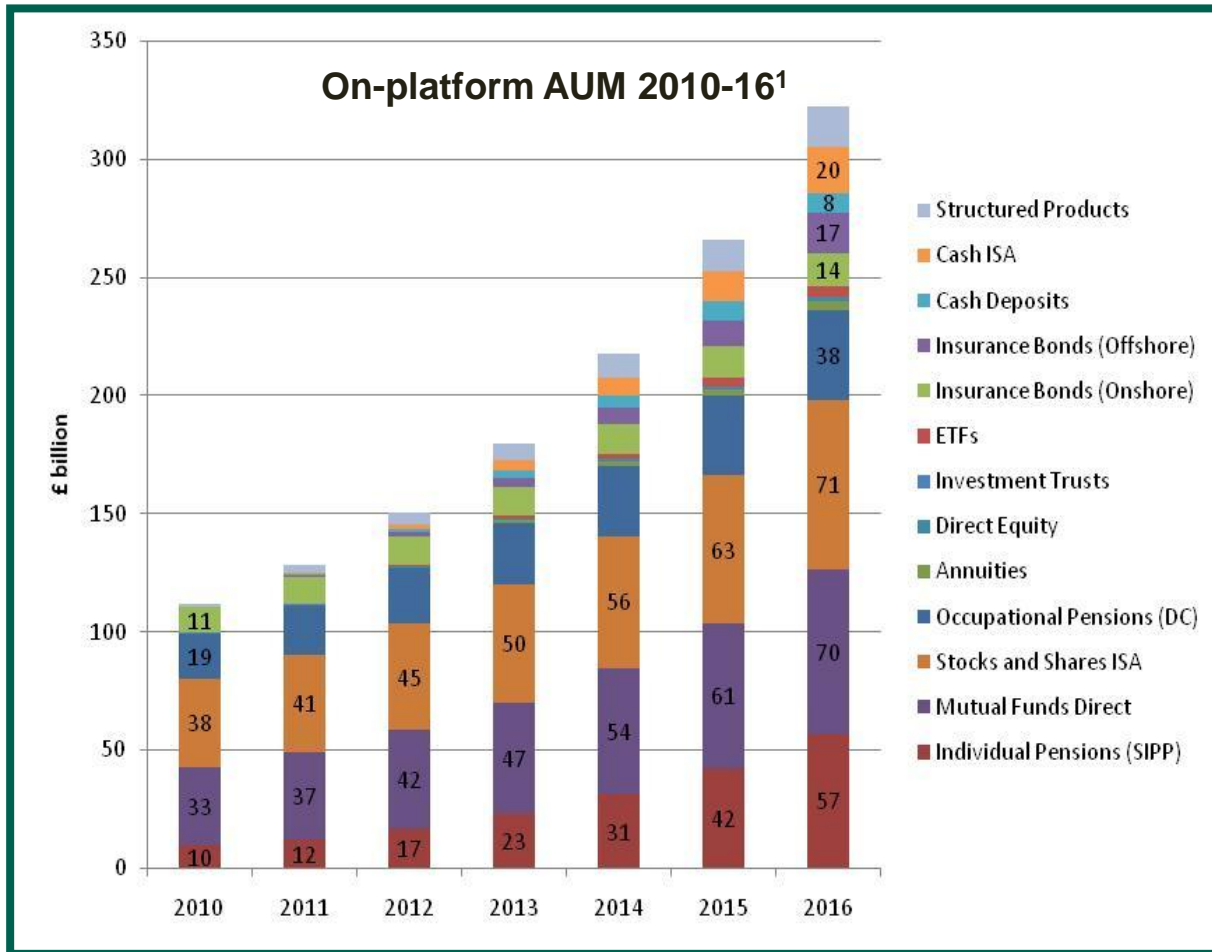


(60+): Looking to maximise income to help subsidise retirement: Solutions for inheritance planning & income drawdown are critical

(45-59): Looking for products that maximise capital growth to finance large outgoings eg. children's university fees

(15-44): Looking to make mortgage decisions and for pension and investment solutions: Large buyers of financial advice

# There are attractive growth opportunities across a range of on-platform products



# There are 5 key product categories

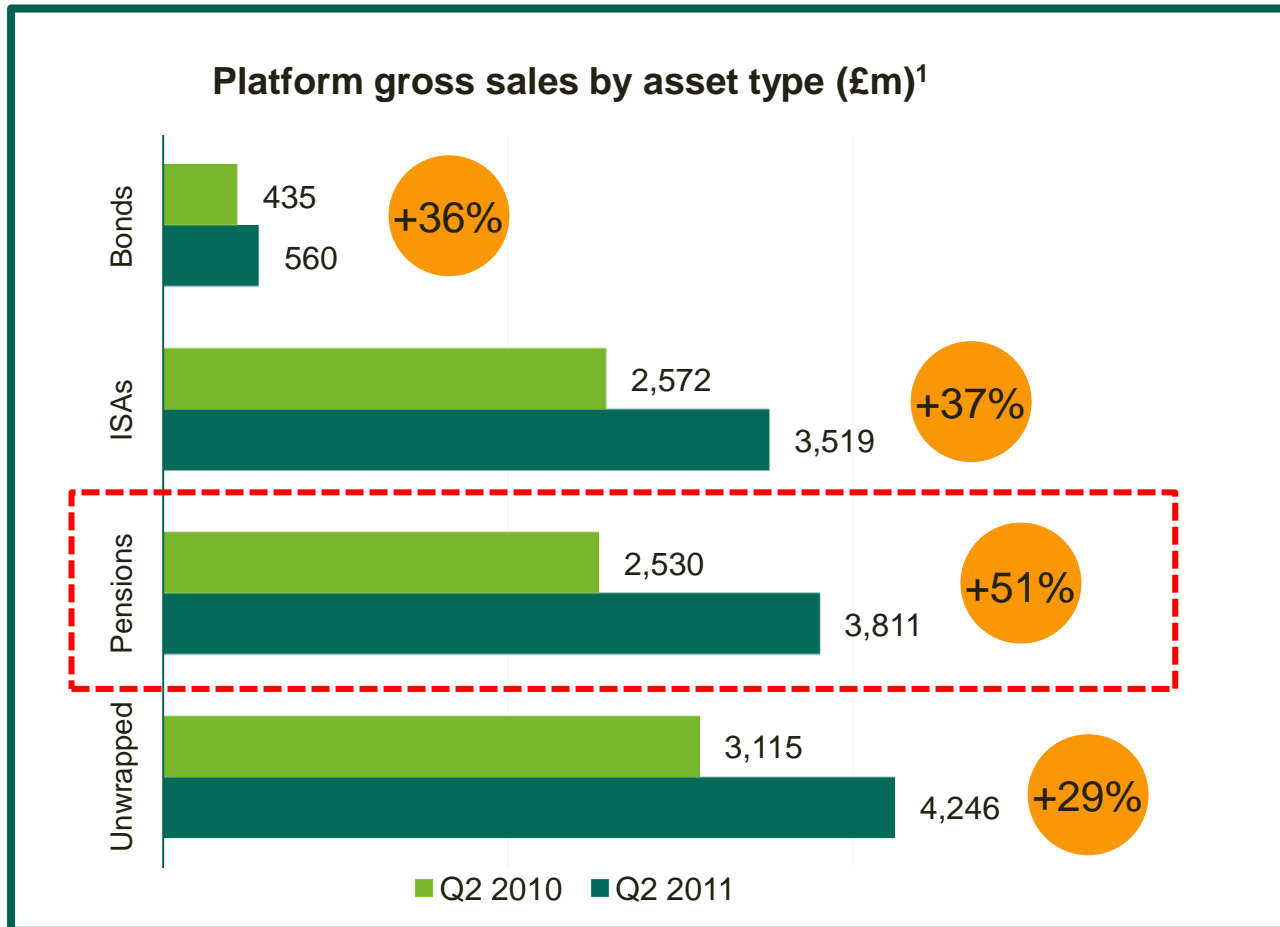
		Market size (2010) <sup>1</sup>	pa. Growth <sup>2</sup>
Retail investments	Mutual funds	£108bn <sup>3</sup>	15%
	Life savings & investments	£10.2bn <sup>4</sup>	-16%
Decumulation / Annuities	Annuities	£12.1bn <sup>5</sup>	n/a
	Income drawdown	£2.2bn <sup>5</sup>	n/a
Individual pensions		£18.3bn <sup>4</sup>	5%
	(of which , SIPP)	£8.1bn <sup>6</sup>	37%
Occupational pensions		£13.7bn <sup>4</sup>	14%
Protection		£0.7bn <sup>7</sup>	3.5%

1. Gross new business premiums, APE
2. 5 year historic CAGR
3. Source: IMA, December 2011
4. Source: ABI, 2011

5. Source: ABI & Towers Watson survey, 2010
6. Source: ABI/Mintel, 2011
7. Source: Datamonitor, "UK income and critical illness insurance 2011", 2011

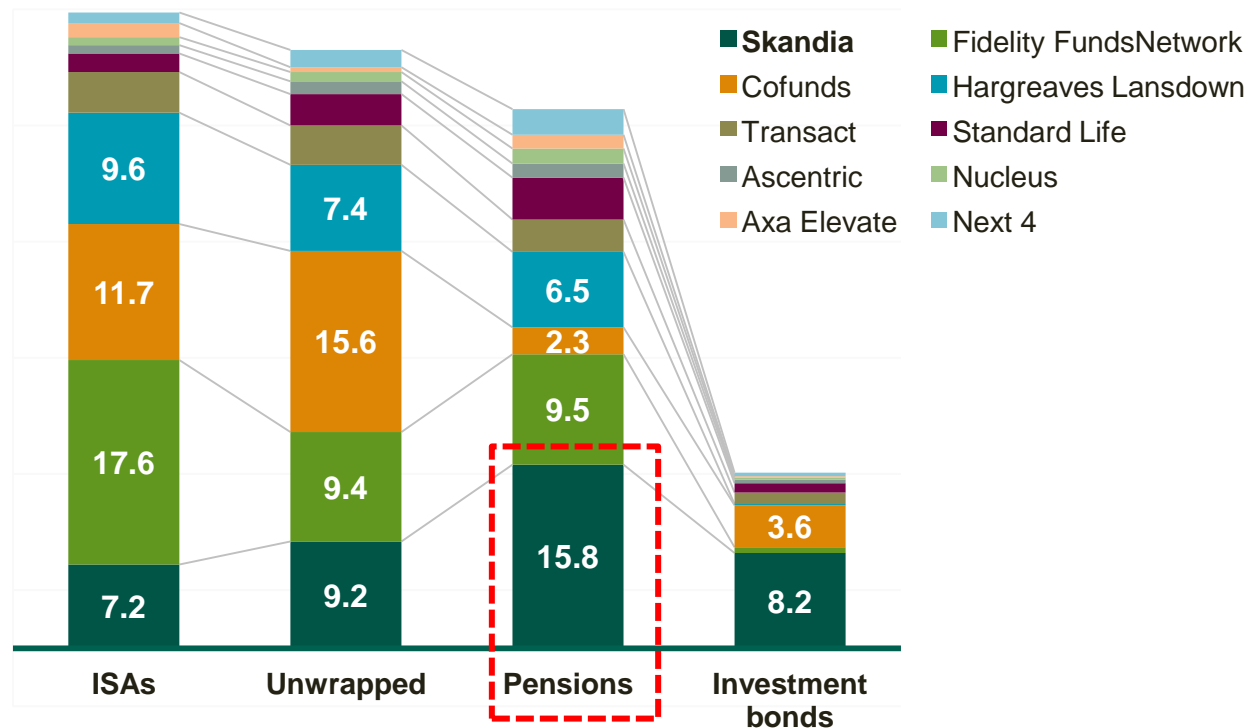


# Pensions are the fastest growing platform asset type



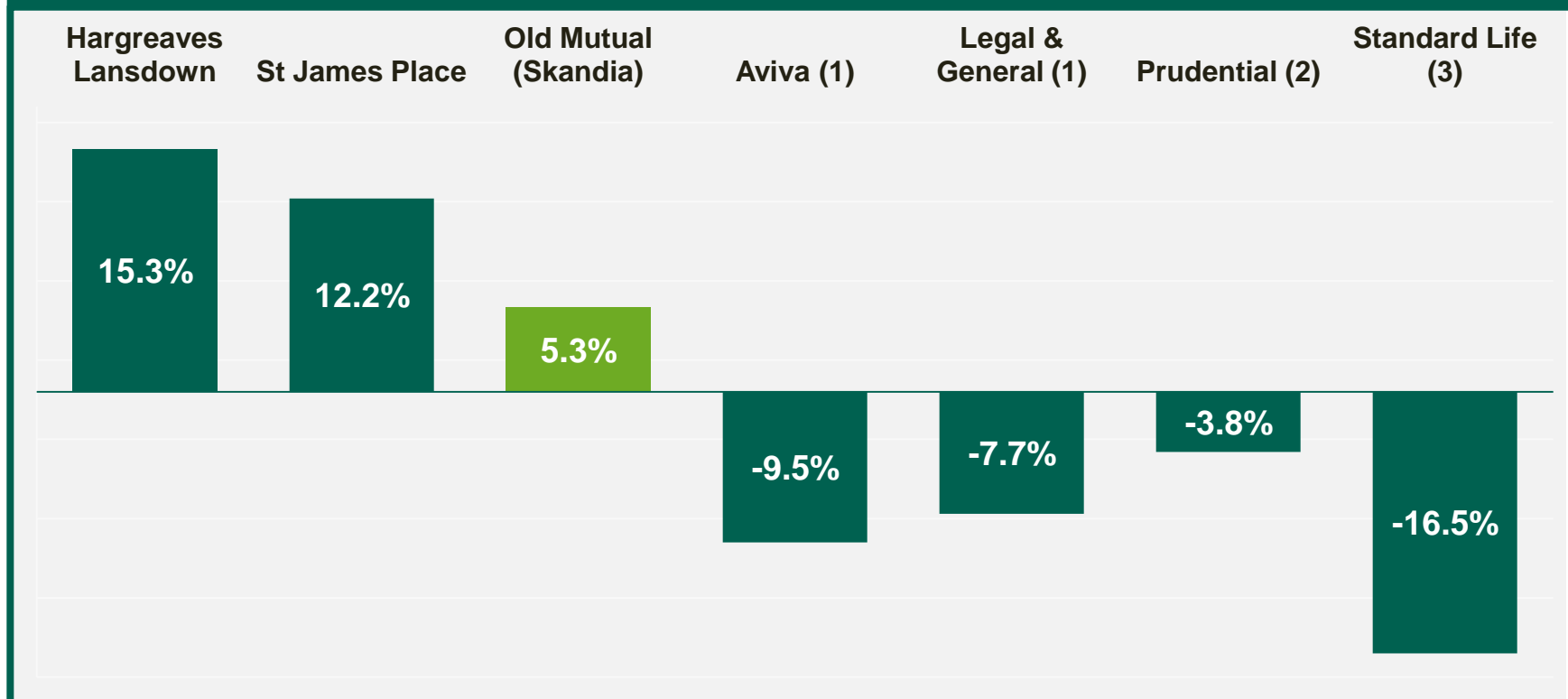
# Skandia has a strong position in platform pensions

Platform AUA by company and asset type  
(Q2 2011, £bn)<sup>1</sup>



# In a difficult market in 2011 Skandia UK continued to secure positive NCCF

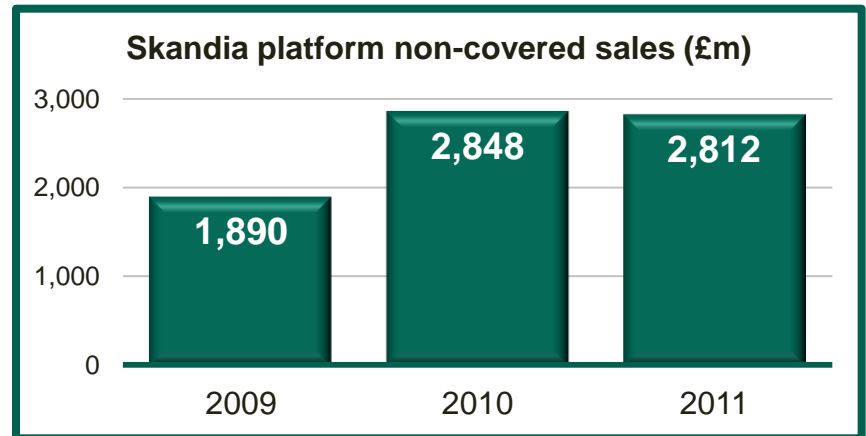
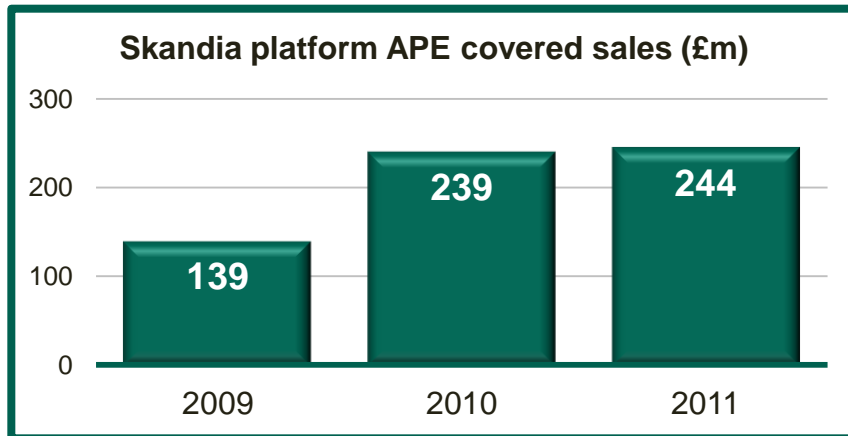
## 2011 UK NCCF as % of opening FUM



Source: Company announcements, Aviva derived from segmental company information

1. Aviva, Legal & General: with-profits book
2. Prudential UK excluding bulk annuity, based on with-profits policyholder liabilities
3. Standard Life: legacy life book

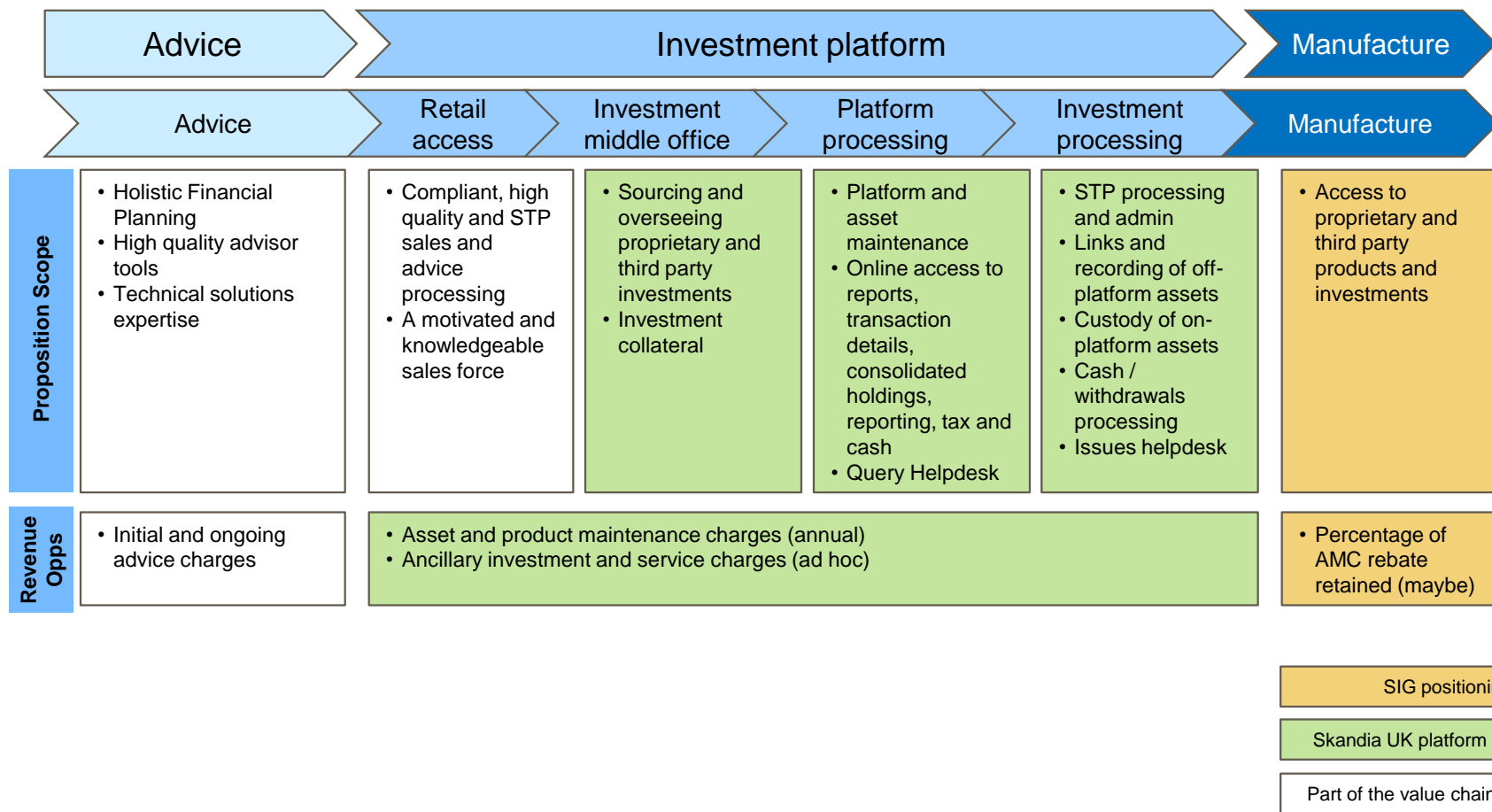
# Skandia's platform sales are growing but industry margins are being compressed



Current economics, Skandia UK (bps) <sup>1</sup>	2010	2011	Long-term model
Revenue <sup>2</sup>	80	67	50
Costs	56	46	40
<b>AOP (pre-tax)<sup>2</sup></b>	<b>24</b>	<b>22</b>	<b>10</b>
Return on equity (post-tax)	17.7%	16.5%	15%

1. Total business including platform (FuM at 31 March 2012: £20bn) and legacy (FuM at 31 March 2012: £16bn)
2. Normalised basis, excluding policyholder tax transition adjustment

# Diversification could involve extending our reach of the value chain



# Platform outlook: new world, new model

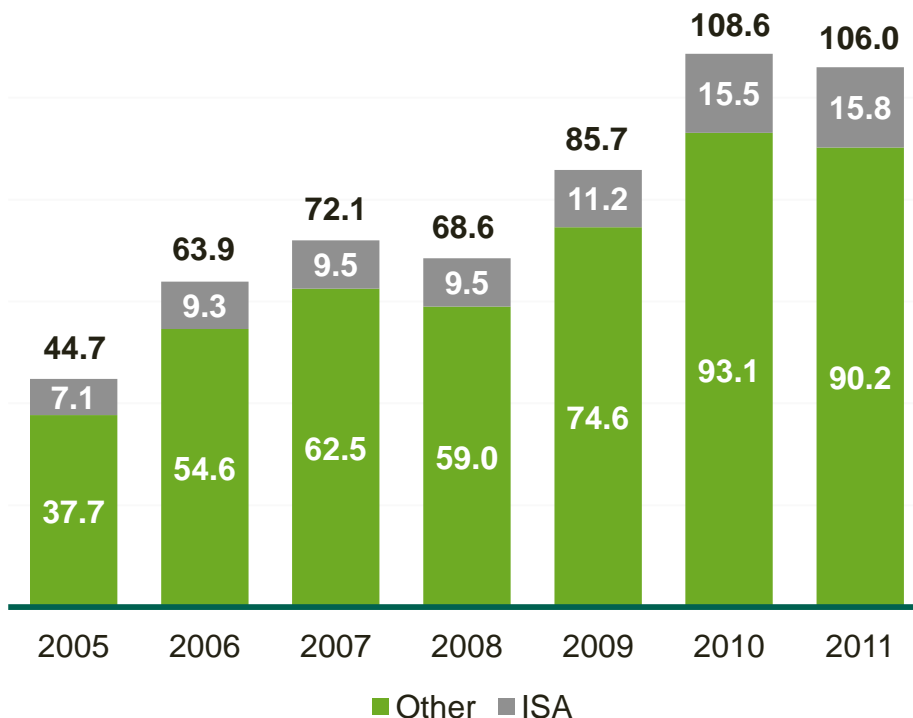
- Demographics are changing the industry ...  
... RDR is changing the model
- Platform growth prospects remain attractive
- Retail asset management needs distribution: platforms deliver this most efficiently
- Future is bearish for asset managers without platform access
- Industry margin compression is inevitable
- Skandia UK is well financed, well positioned, well prepared for regulatory changes – and it works!

# Appendix

# The retail fund industry has grown strongly from its 2005 levels but challenges remain

**Gross retail mutual fund sales (£bn)  
(UK domiciled unit trust/OEICs)<sup>1</sup>**

**Industry  
CAGR: 15%**

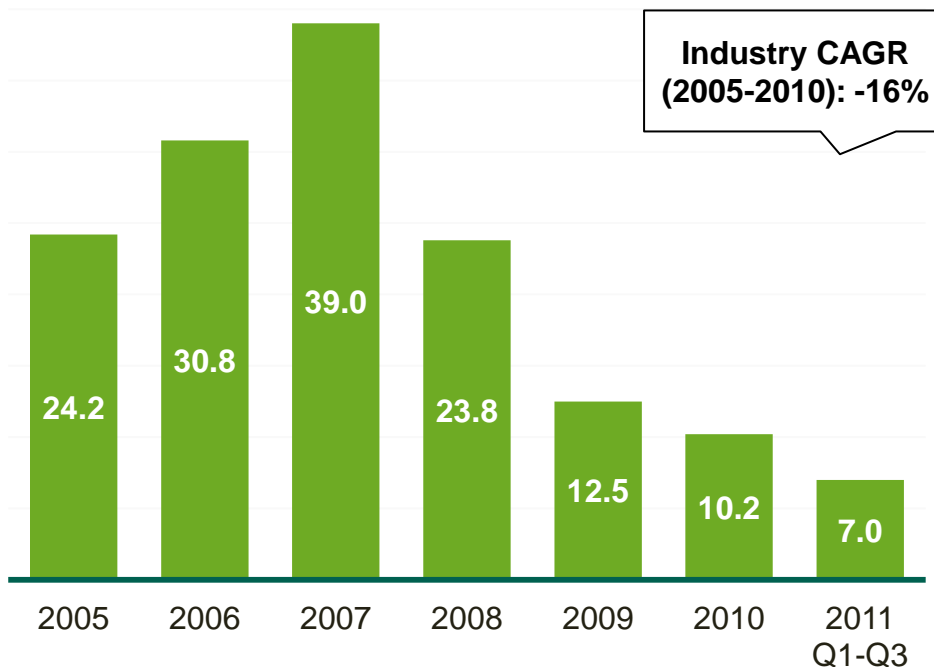


- » The UK retail mutual fund industry has experienced strong growth despite the challenging economic conditions
- » Overall the industry has grown significantly over the last five years (15% year-on-year):
  - » Part of the growth is explained by a drop in the number of people who see property as the best long-term investment therefore positively influencing the sales of ISAs, stocks and shares
- » Despite the positive performance, the fund management industry faces challenges such as:
  - » Growing interest of index-tracking funds
  - » Downward pressure on management fees
  - » Institutional and retail fee convergence driven by unbundling of pricing and increased use of platforms
- » The latest mutual fund sales figures reflect a slow down in the industry - in Q4 2011, ISA sales were negative £140m



# The life investment & savings industry is unlikely to provide attractive opportunities in the medium term

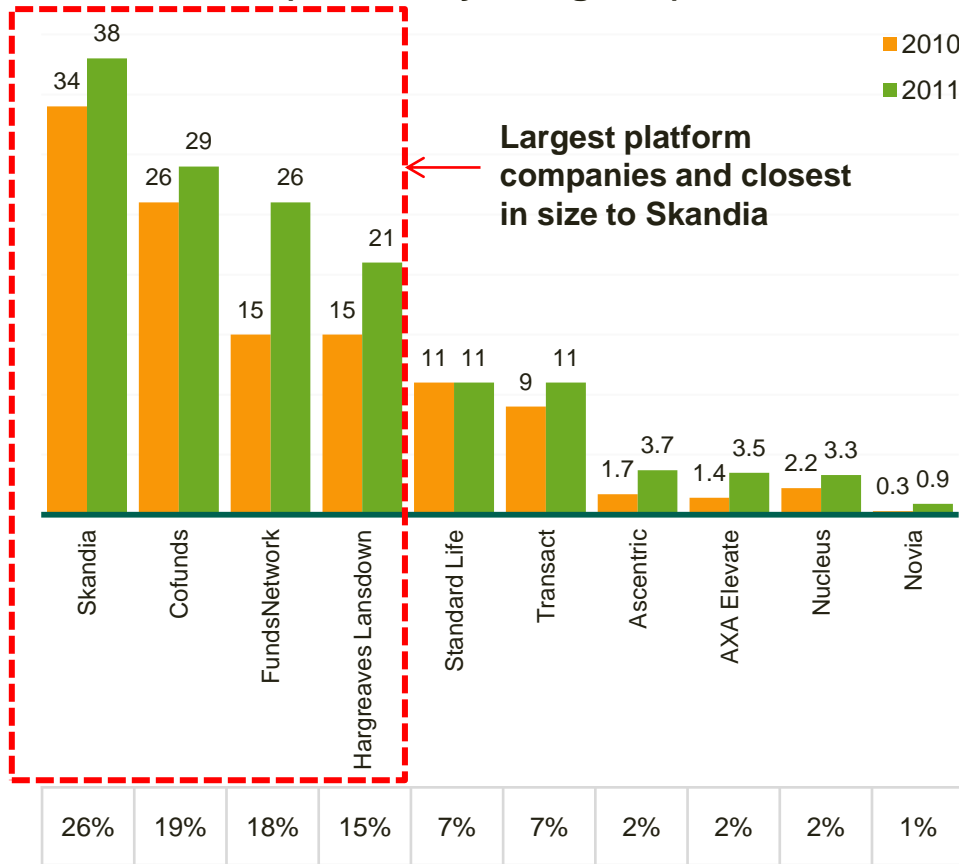
Life investment and savings new business premiums (£bn)<sup>1</sup>



- » Life investment and savings industry has been negatively impacted by:
  - » The prevailing low interest rates
  - » Tax advantages related to these products have been largely removed
  - » Several products have been discontinued, including child trust funds and endowment policies
- » As a result, the industry has declined by 16% every year since 2008 and industry commentators do not project a recovery in the market

# Skandia and the other 3 largest platform companies together account for almost 80% of platform assets

**Assets under Administration (£bn, mid-year figures)<sup>1,2</sup>**



- » Scale is important for platform operations due to the impact on operational scalability
- » There is a significant gap between the size of the biggest and smallest platforms
- » Skandia, Cofunds, Fidelity FundsNetwork and Hargreaves Lansdown are the top 4 scale players:
  - » In particular, FFN and HL have grabbed significant AUA between 2010 and 2011
- » For those longer in the market, outflows are becoming a significant issue, due to customer life cycle (decumulation) and competitive pressures
- » Increasing scale provides a competitive advantage to platforms up to a point where their operating model can support the growth with modest increases in operating costs
  - » Sustainable growth in assets must be supported with straight-through processing and a low number of manual processes

1. Source: Data: Platform, Additional Market Analysis: Navigant Consulting, 2010 and 2011  
 2. AUA figure for Cofunds, FundsNetwork and Hargreaves Lansdown have been adjusted based on a removal of non-advised AUA

# Platform companies differentiate themselves with their proposition, distribution and operating models

## Platform differentiators<sup>1</sup>

## Description

## Key trends

### Proposition

- Breadth & complexity of product set
- Availability of platform tools
- Charging & pricing model

- Introduction of more complex products, eg. ETFs and structured products
- RDR regulation & changing customer needs are resulting in introduction & development of new tools
- Unbundled charging models are becoming the norm

### Distribution

- Single vs. multi-channel
- Target customers (eg. execution-only, financial advisers, wealth managers vs private banks)

- Diversification away from reliance on the financial adviser segment towards service Direct-to-Customer (D2C) and corporate segments

### Operations and operating model

- Service levels
- Technology (in-house vs. outsourced, stock-broking vs. fund systems)

- Adoption of a “low-touch” customer service model to reduce costs & improve scalability of the platform business model

# Platform companies' operating models are under pressure due to market changes

## Changing client needs

- » Segmented financial adviser community
- » Concentration of wealth to older demographic segments
- » Increased longevity
- » Growth of direct

## Revenue pressures

- » Reduction in retail fees
- » Loss of cash rebates
- » Threat of new entrants
- » Risk of price wars

## Cost pressures

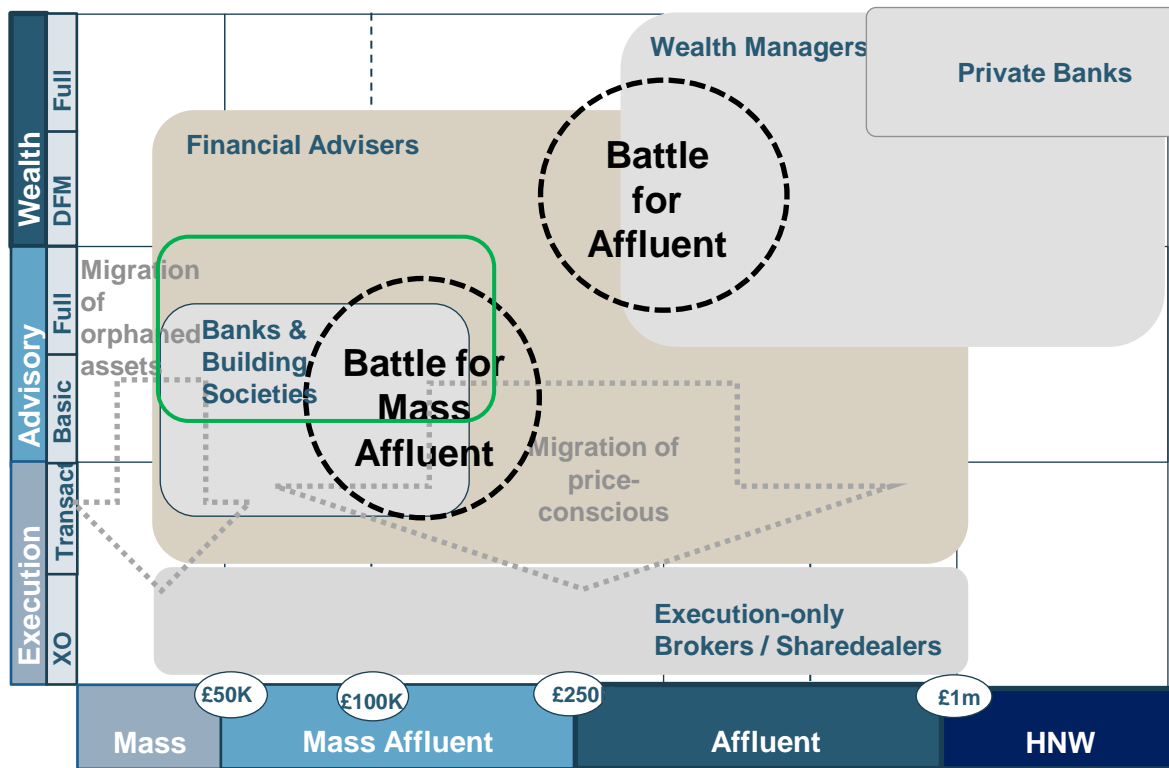
- » Broader scope of products & services
- » New regulatory requirements
- » Scaling efficiently

Platform Operators

## Potential responses

- **Tight management of cost base** – understand (and link) impact on proposition and pricing
- **Continuous assessment and improvement of evolving operational structure** (lean, online, force adviser changes)
- **Focussed strategy and proposition** targeting the right customer and market segments
- **Investment spend targeted** on areas which will have the most impact on customer experience
- **Business diversification** to look for alternative sources of income

# RDR is changing the competitive landscape: 2012 distribution landscape<sup>1</sup>



= Skandia's current bulk of assets

Some changes evident now, but will continue to play out over next 2 years

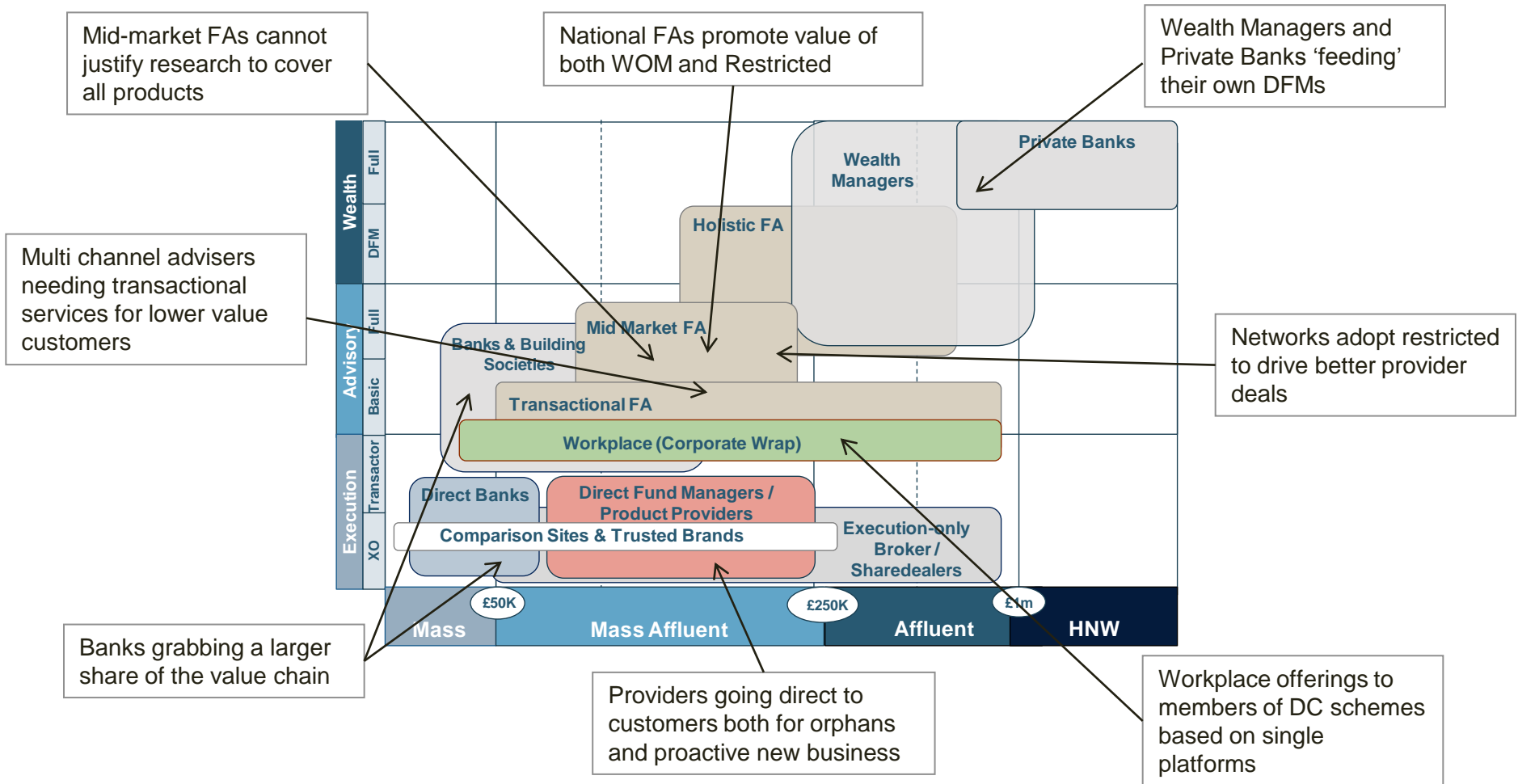
## Market Drivers

- RDR making end-investors more price-conscious
- Adviser revenue protection
- Price pressures across the value chain

## Market Changes

- Advisers orphaning lower value customers and targeting higher value
- Client migration towards XO
- **Top End:** Wealth Manager land-grab for Advisers and their clients
- **Bottom End:** Banks, Fund Managers, Life Companies reconsidering their propositions for Advice and XO distribution

# RDR is changing the competitive landscape: distribution landscape by 2016



# Experience from Australia<sup>1</sup> and Europe

	Australia		UK	
	AuM	Market share	AuM	Market share
June 2000	~\$0	0%	~\$0	0%
June 2010	<b>\$391bn</b>	<b>85%</b>	\$157bn	19%

AUA <sup>2</sup> at Sept 2011	€bn <sup>3</sup>
UK	216.0 <sup>4</sup>
Italy	112.2
Germany	107.5
France	101.8
International	33.5
Spain	23.3
<b>Total</b>	<b>594.2</b>

1. Source: Cerulli Associates
2. Assets under Administration
3. Source: Data: Platform, Additional Market Analysis: Navigant Consulting
4. Assumes an exchange rate of £1=€1.2





# Contacts

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