

# UK Life Sector: A Perspective

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# 1980 - 2000: Artificial Returns on Equity

## ➤ Returns

- high equity content in UK with profit funds
- margins resistant to consumer pressure
- high growth rate projections supporting new business

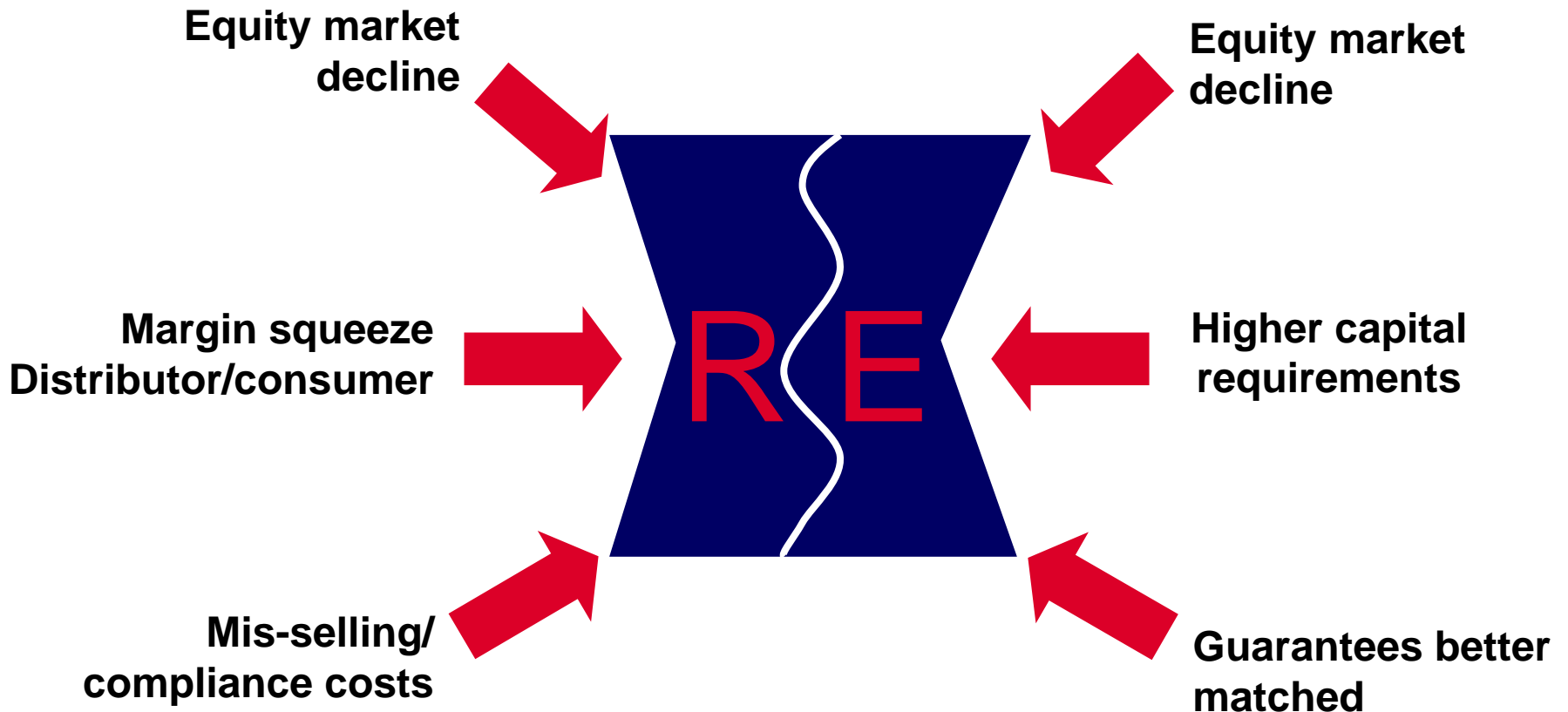
## ➤ Equity

- capital held on formulaic, not realistic basis
- risks not fully accounted for (equity mismatch and guarantees)
- implicit item / other capital “subsidies” relied on

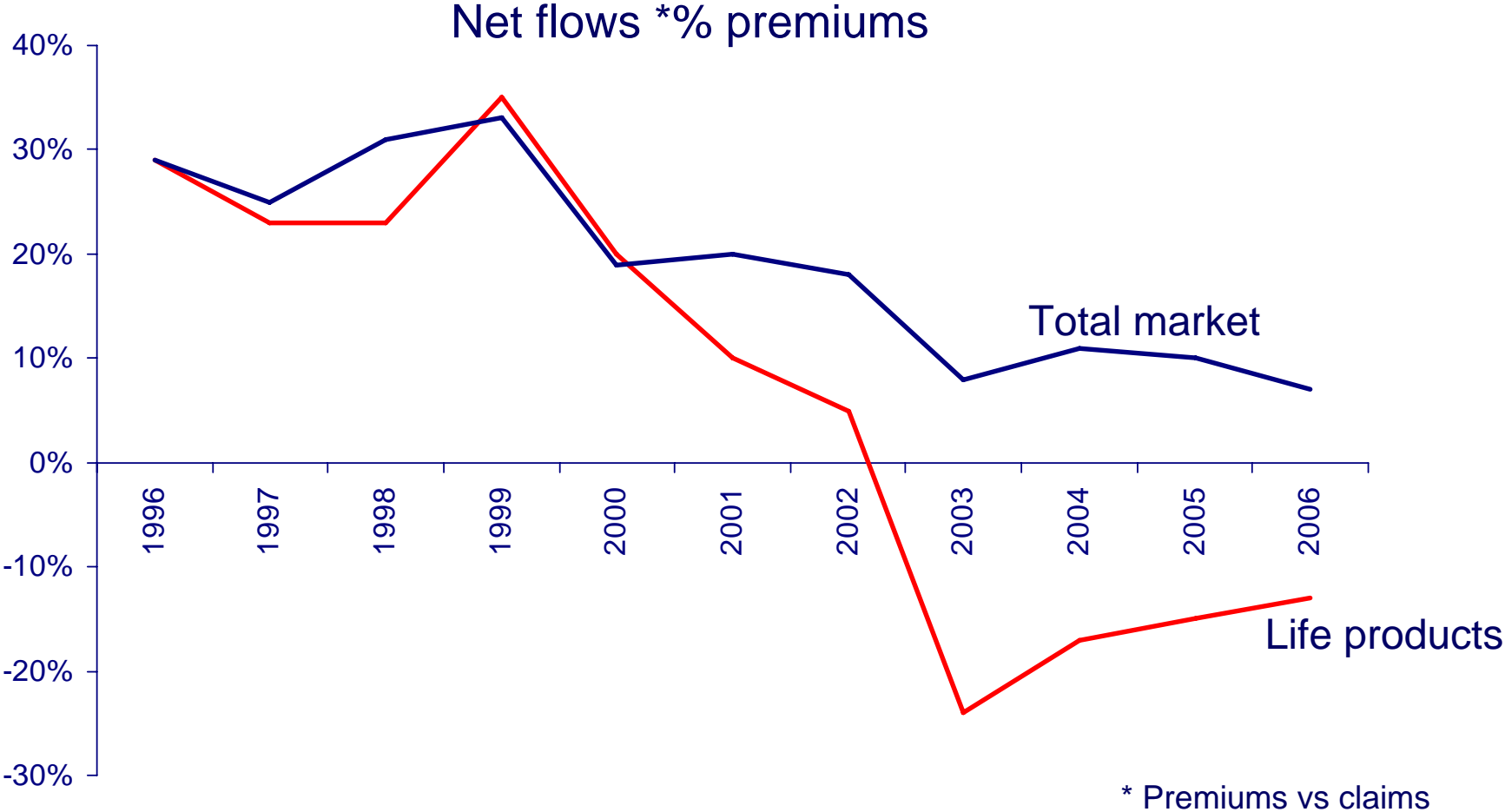
## ➤ Result

- apparent profitability attracted new entrants (banks, foreign insurers)
- over capacity driving competition on bonus rates , commission etc....
- catalyst needed to trigger restructuring

# 2000 – 2003: The ROE Storm



# UK life market in run-off



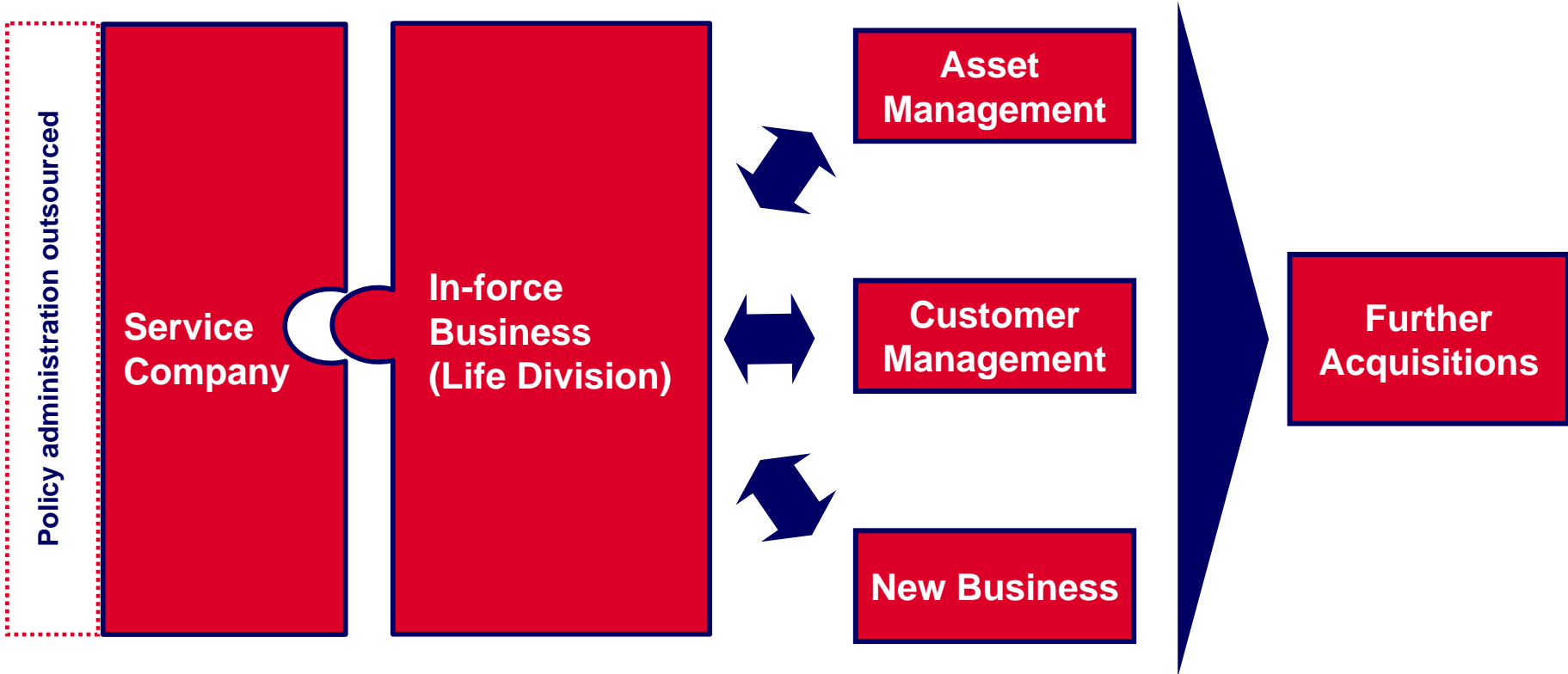
Source: CSO Blue Book and Citigroup Investment Research

# Consolidation drivers

- ▶ In-force blocks not replaced by similar products
- ▶ Value leaking from back-books
  - $87 - 16 + 12 = 83$
  - negative variances
- ▶ Profitless growth in new business
- ▶ Life sector still fragmented
  - Top 5: UK banks = 89% of deposits\*  
UK life assurers = 46% \*

*\*Source: Merrill Lynch research*

# Value from segmented model



# Restructuring of the UK life market

2001 to 2005

TODAY

By 2010

## Exits / consolidation

- Reduction in excess capacity
- Market distorting players exit

## Rebuild confidence in EV

- Focus on in-force
- Predictable cash emergence
- Realistic assumptions
- No wishful thinking

## Sustainable new business returns

- Robust IRRs
- Payback periods
- Acquisition costs
- Persistency

- Market continues to grow
- Small number of winners
- Industry returns to taking risk
- Strong and stable returns available