

UK Life Market Update

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Life/Health Ratings

UK Life Market 2006 Overview

30% Growth in Sales

10% Growth in Premiums

12% Growth in Profits

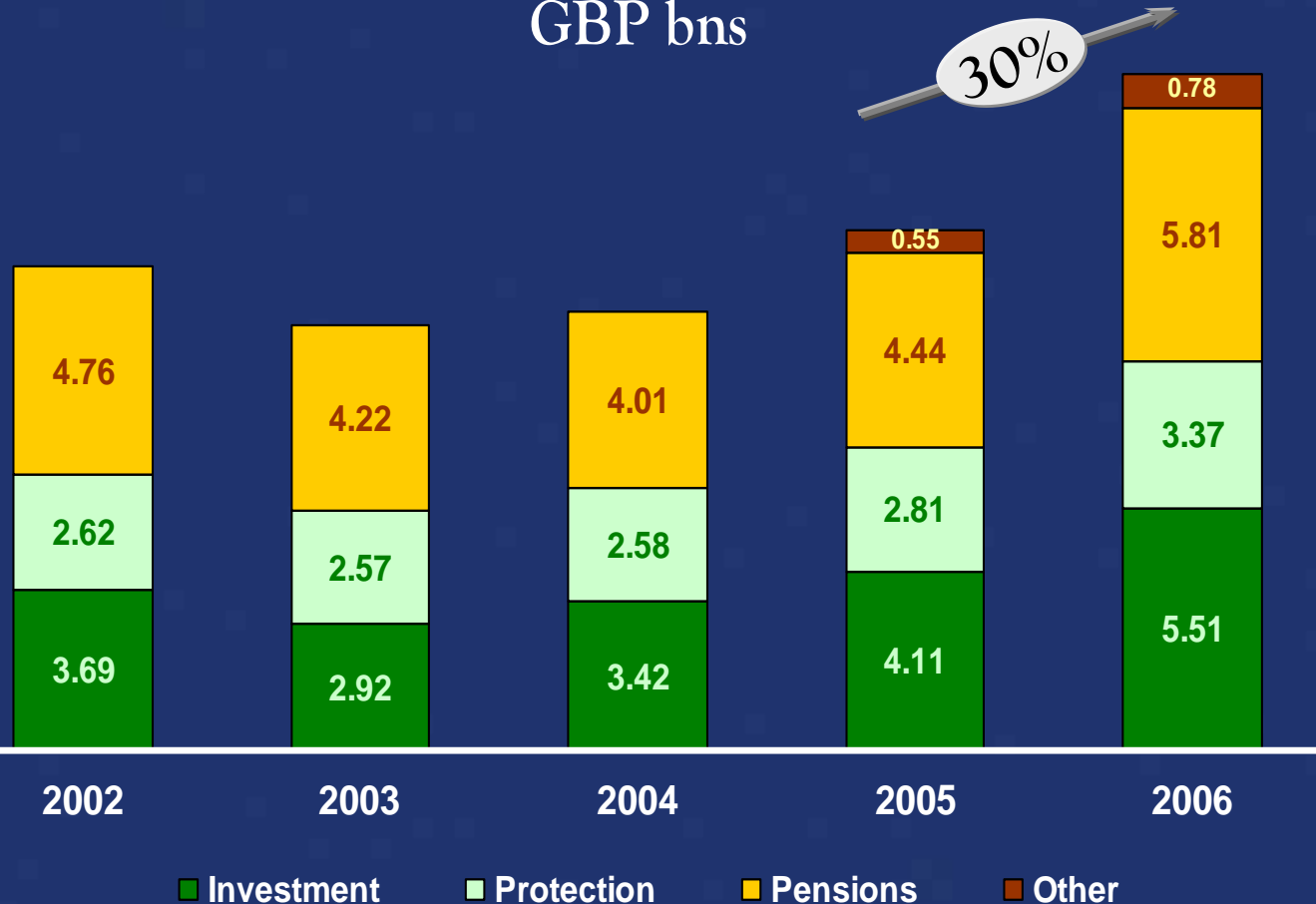
Up to 4% Increase in Profit Margins

Capitalisation at its **highest**

Dramatic Sales Growth

New Business Premiums (APE)

GBP bns



Key Drivers

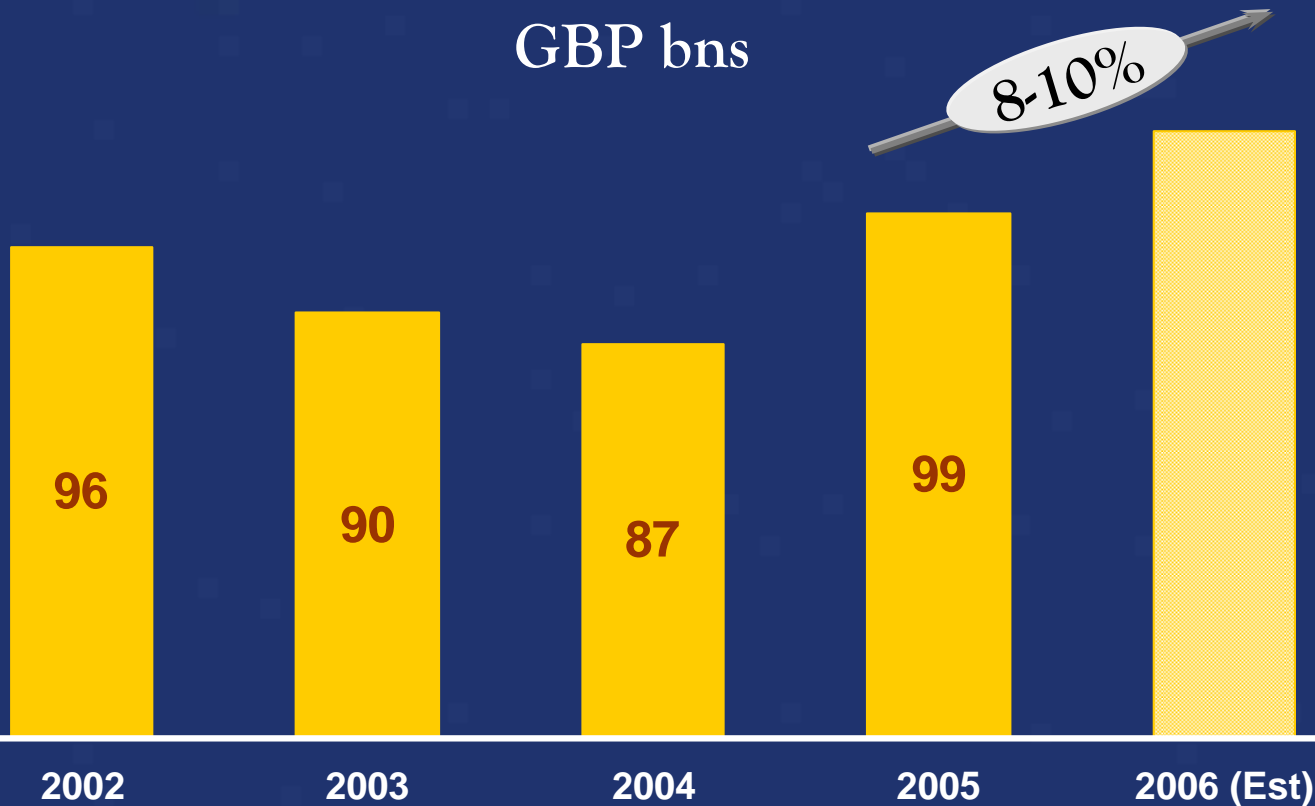
- Stage of Economic Cycle
- Disposable Income
- Regulatory Changes

- Property market
- Employment market

- Performance of investment markets
- Maturing pensions business

Most of the Growth is Due to Churning

UK Life GWP
GBP bns



Key Drivers

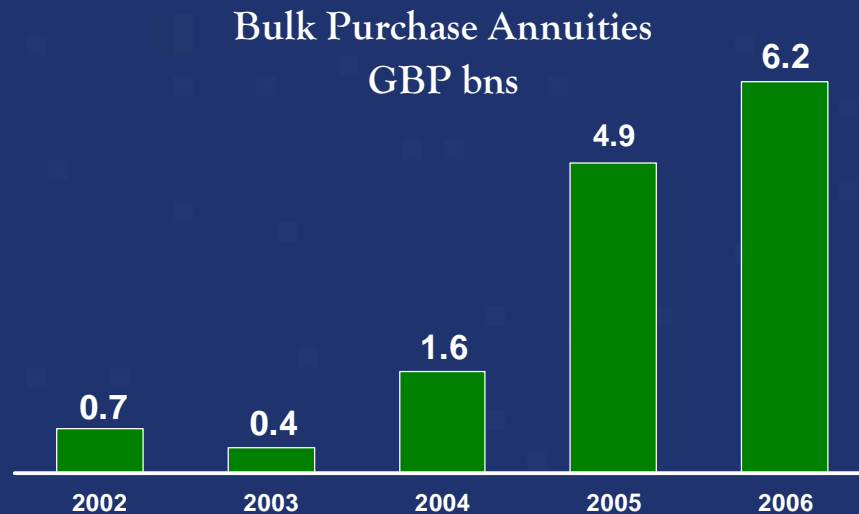
- Pensions A day
- Growth in property market
- Growing equity prices

Resulted In

- Churning of pensions and related business
- Increases in:
 - a. protection
 - b. Unit Linked
- Who benefited other than the salespeople?

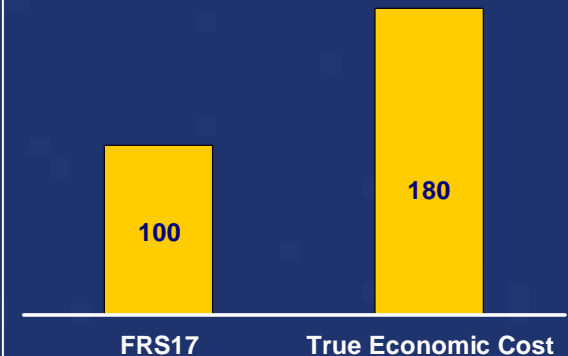
The Rise And Rise Of BPA

Booming Sales Of BPA



Demand Will Increase

Deficit In Final Salary Pension
Plans
GBP bns



Source: Deloitte (IFRS), Willets (True Economic Cost)

Increased Number of Competitors

From 2 Competitors:

- L&G
- Prudential

To 10 Competitors in just over 1 year:

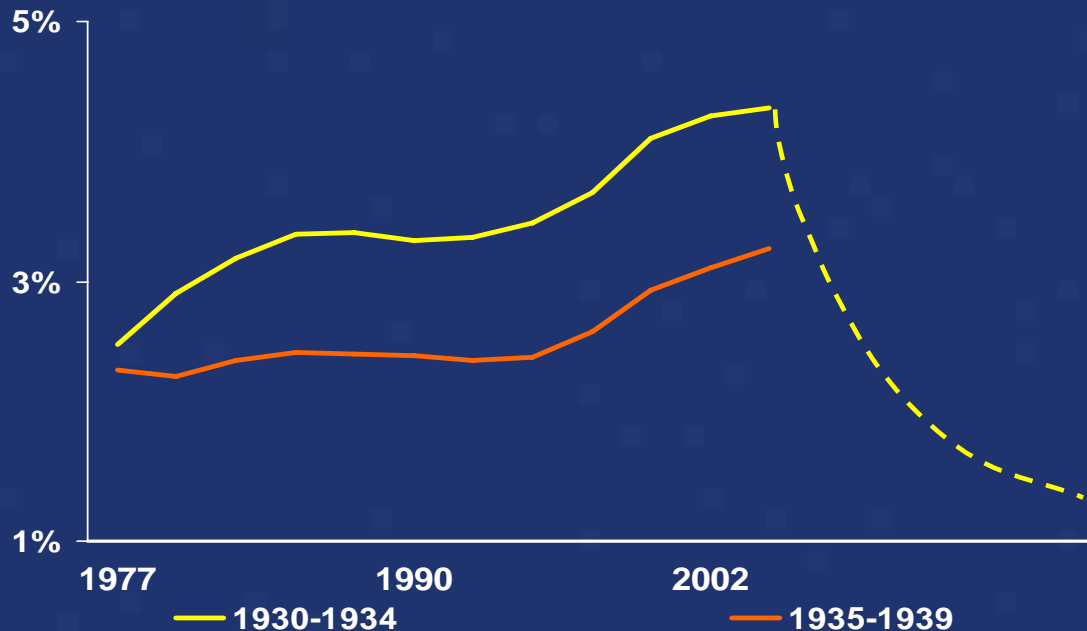
- Aegon
- AIG
- AVIVA
- Canada Life
- L&G
- Paternoster
- Pearl
- Prudential
- Synesis
- Wesleyan A.S

Risky Future

1. Realistic Liabilities vs Book Value
2. What Mortality?
3. Price?
4. Credit Worthiness of Acquirer

The Problem With Annuities

Mortality Improvements - Pricing Uncertainty



Companies / Trustees

- Awareness of problem but...
- Significantly undervalued liabilities
- Accounting standards slowly catching up with reality

Insurers

- Opportunity for growth
- Significant new numbers entering the market
- Pricing on a “conservative” basis
- History has shown that “conservative” may well be short of “realistic”
- Even if it were “conservative” would it remain so under increased competition?

Reinsurers

- Interested but . . .
- Lacking scale and expertise
- Can find other areas of growth
- Investment strategies not ideal for assuming annuity risks

Good Profits – But What Drives Them?

UK Life Market Consolidated P&L

	2004	2005	2006e
Net Premiums	64.8	79.0	90.0
Investment Income	98.4	180.3	225.0
Total Revenue	163.3	259.3	315.0
Claims & Surrenders	141.0	229.5	275.0
Expenses	17.0	20.8	30.0
Total Outgo	159.0	250.3	305.0
Profit	4.3	9.0	10.0

- Strong investment performance drives market profitability
- Investment returns at their highest since 2001:

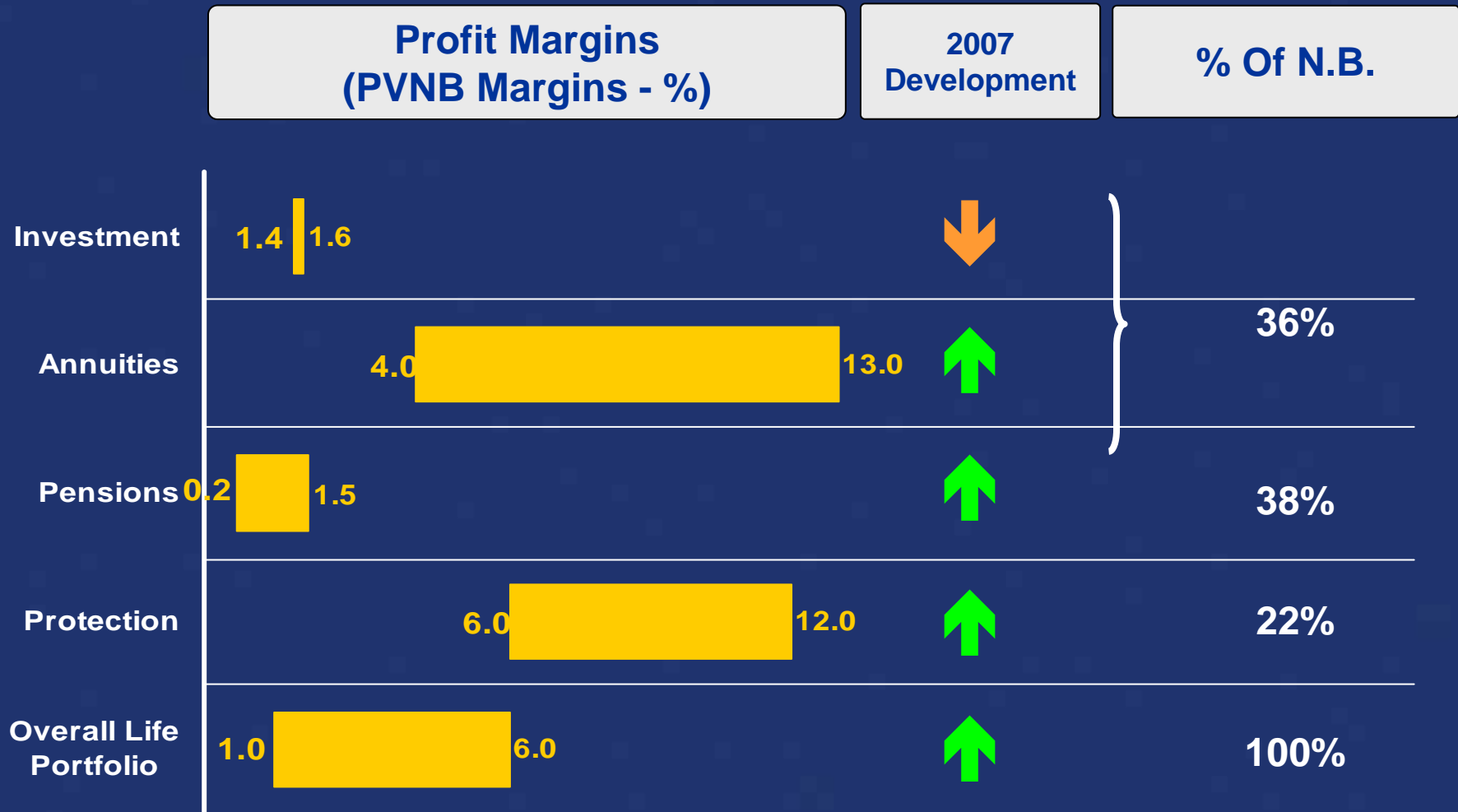
	'04	'05	'06
Net Inc. Cap. Gains	5.6	5.8	6.5
	13.0	18.5	19.0

Impact of recycling of significant amount of contracts

Main driver of expense increase is growth in acquisition expenses. Acquisition expenses as % of NB

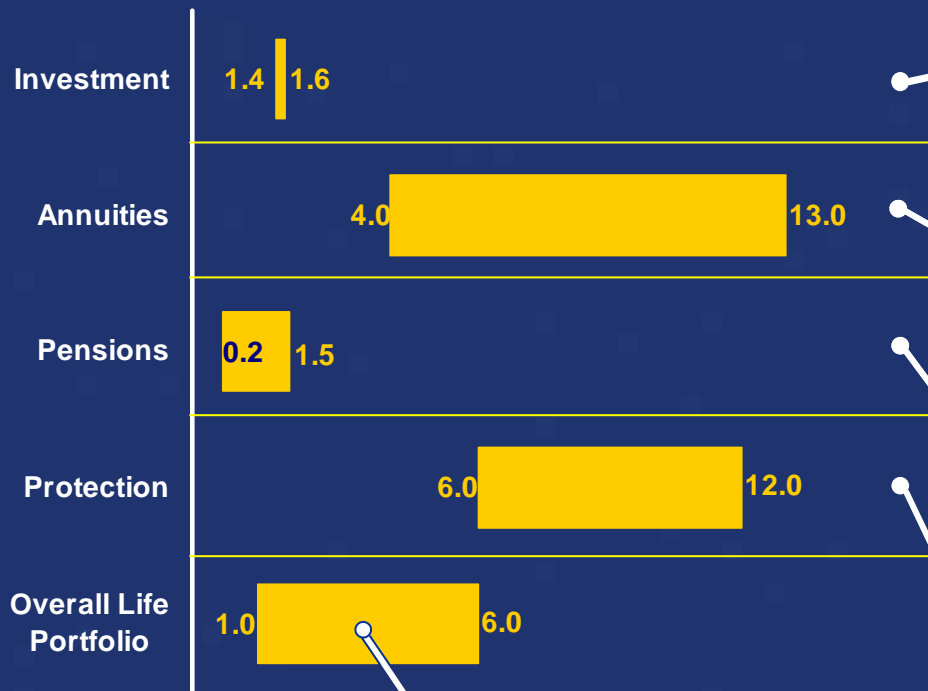
	2004	2005	2006
	15.8	17.0	18.5

Profit Margins Increase



Still There Are Reasons For Concern

Profit Margins (PVNB Margins - %)



- Increasing proportion of Unit Linked
- Positive development for capitalisation but persistency may suffer

- Significant proportion of pensions related annuities
- Mortality improvements – have we seen the worse yet?
- If not margins will prove far too optimistic

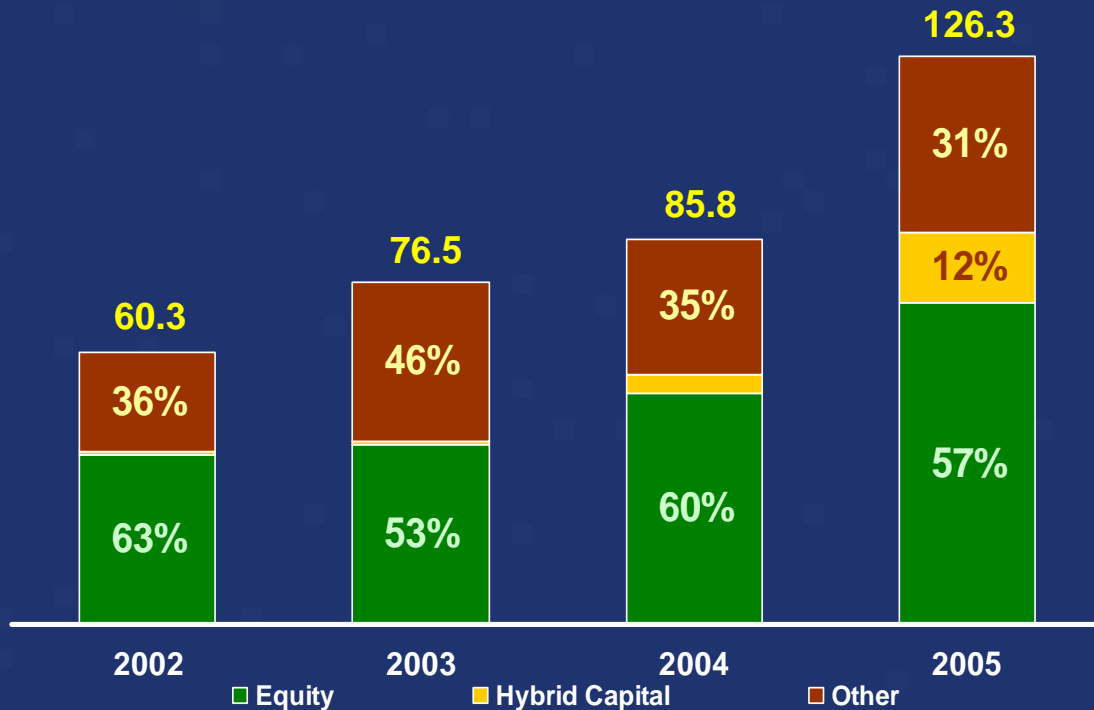
- Loss leader for most companies
- Profitability highly dependent on persistency – unlikely to be realised

- Consistently profitable
- Critical mass essential to profitability
- Protection market driven by less than 10 companies

- Still lagging behind comparative investments and other mature markets
- Pressure for improved returns
- Leading to review of capital bases

Capitalisation Has Peaked

UK Life Market – Capital Development & Composition



Equity

Growth of equity to slow down as dividend ratios are kept high

Other Soft Capital

Other soft elements of capital to remain stable in the short term, Reattribution of Orphan Estates a positive development.

Hybrid

Most of the larger insurers are at their maximum level of hybrid for the current rating levels. Any further issues to come from small to medium sized competitors

Every Silver Lining Has a Cloud

30% Growth in Sales

Most is churned money

10% Growth in Premiums

Is indeed a strong performance

12% Growth in Profits

Down to investment markets
performance

Up to 4% Increase in Profit
Margins

Still not good enough
Indications that estimates are
over-optimistic

Capitalisation at its highest

Expected to deteriorate