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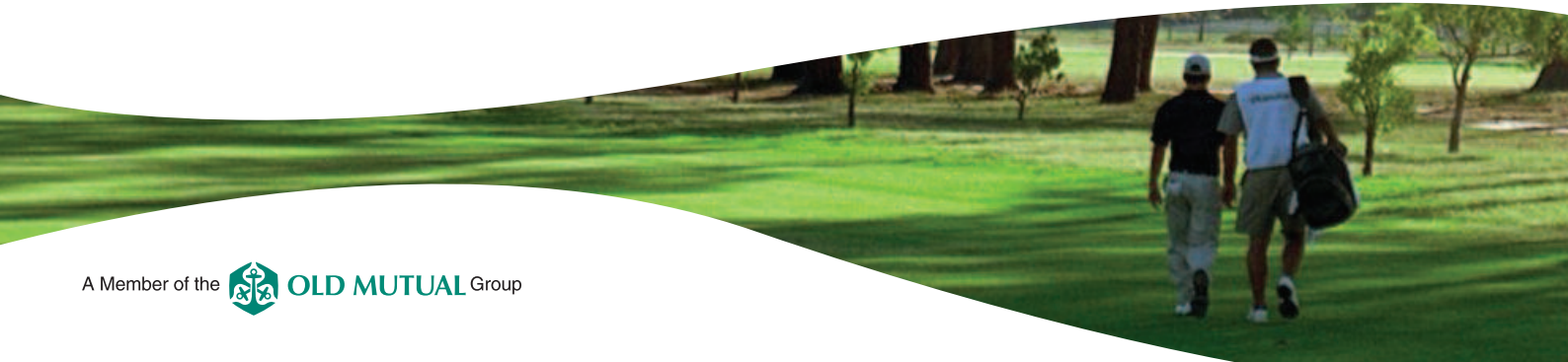
# The new model and our winning formula

## Introduction to the UK platform business

May 2009



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| Content | Speaker |
| --- | --- |
| Old Mutual and Skandia Group | Bob Head |
| Introduction to the UK platform business | Nick Poyntz-Wright |
| The evolution of UK financial services | Peter Mann |
| The platform model | John Tomlins |
| Financials | Simon Lloyd |
| Why Skandia will be a winner | Nick Poyntz-Wright |

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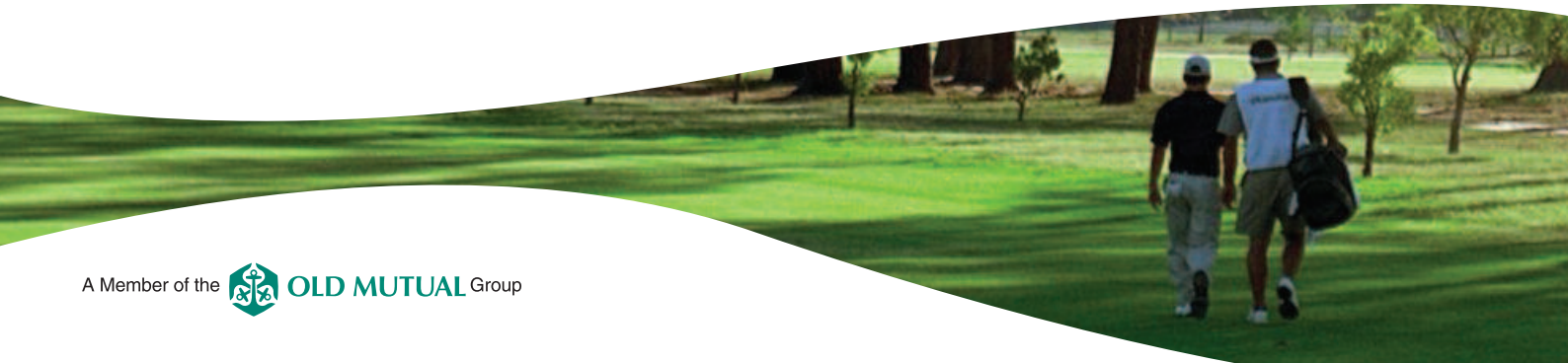
# Old Mutual & Skandia Group

Bob Head
Regional Director, Europe



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# Old Mutual: Five strategic priorities

| Strategic priorities | | | | |
|---|---|---|---|---|
| Conserve capital and liquidity | Streamline the portfolio over time | Leverage scale in our long term savings businesses | Drive value creation in South Africa | Improve operational efficiency, risk management & governance |

- Distinctive technology & capabilities
- Product development experience & expertise

**"We believe the future is in our open-architecture platform model. It is transparent where savers know exactly why and in what they are invested. It is a model in which we have strength, and I believe some considerable competitive advantage."**

Julian Roberts, CEO Old Mutual, March 2009

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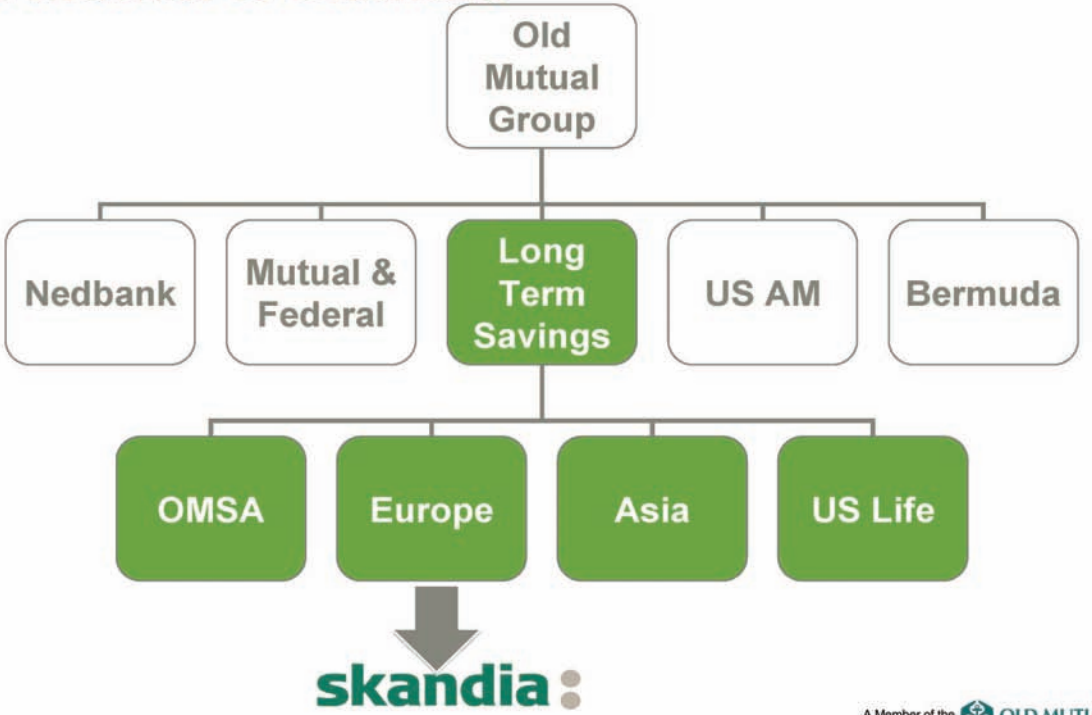
# Old Mutual & Skandia

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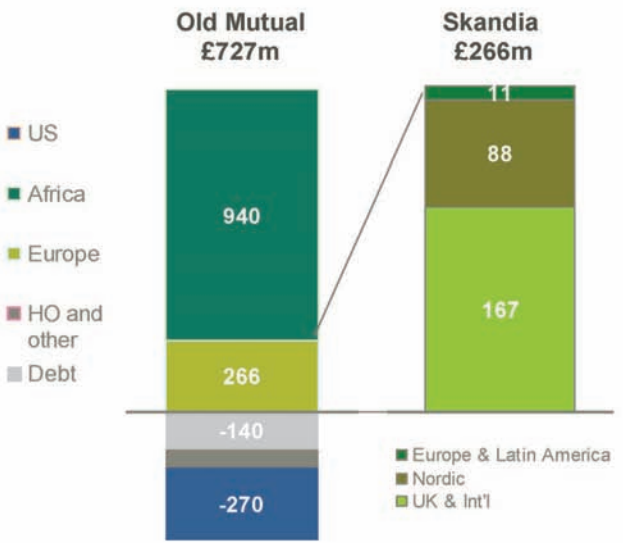
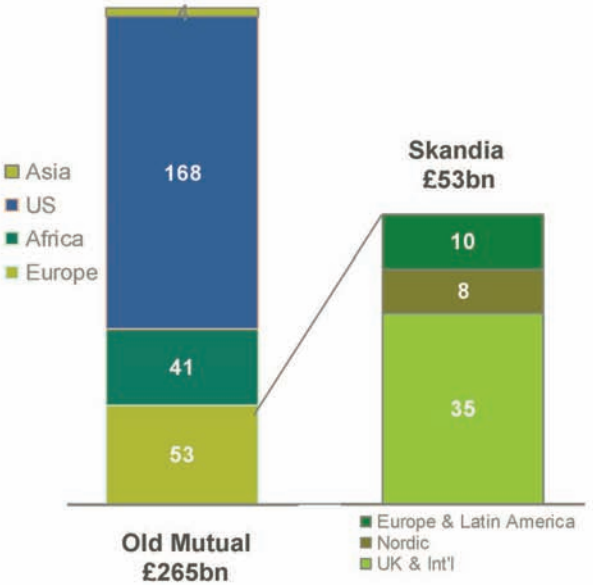
# Old Mutual & Skandia

## Adjusted Operating Profit[1] £m




## Funds under management[2] £bn




1 Adjusted operating profit is 2008 IFRS pre-tax and net of minority interests
2 Funds under management at 31st December 2008

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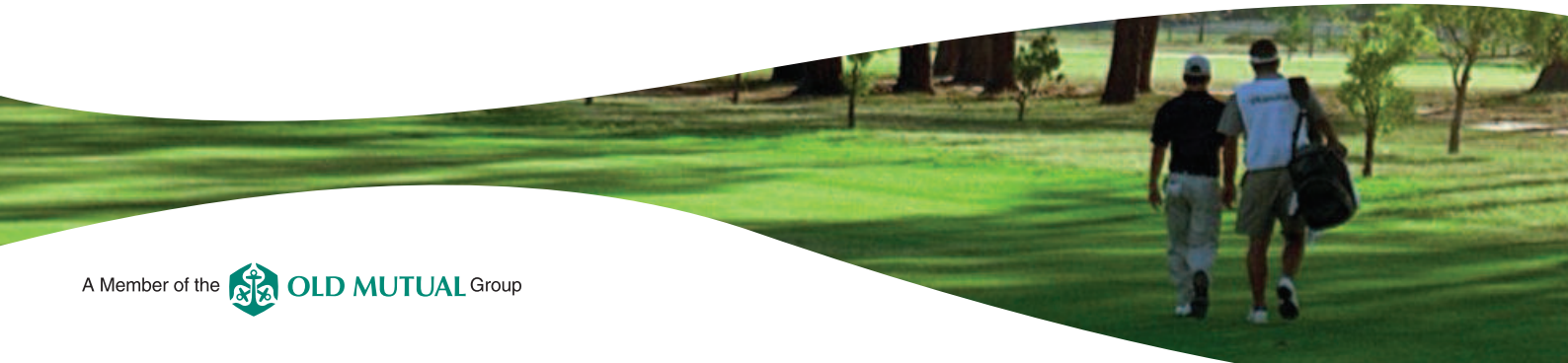
# Introduction to the UK platform business

Nick Poyntz-Wright
Chief Executive Officer



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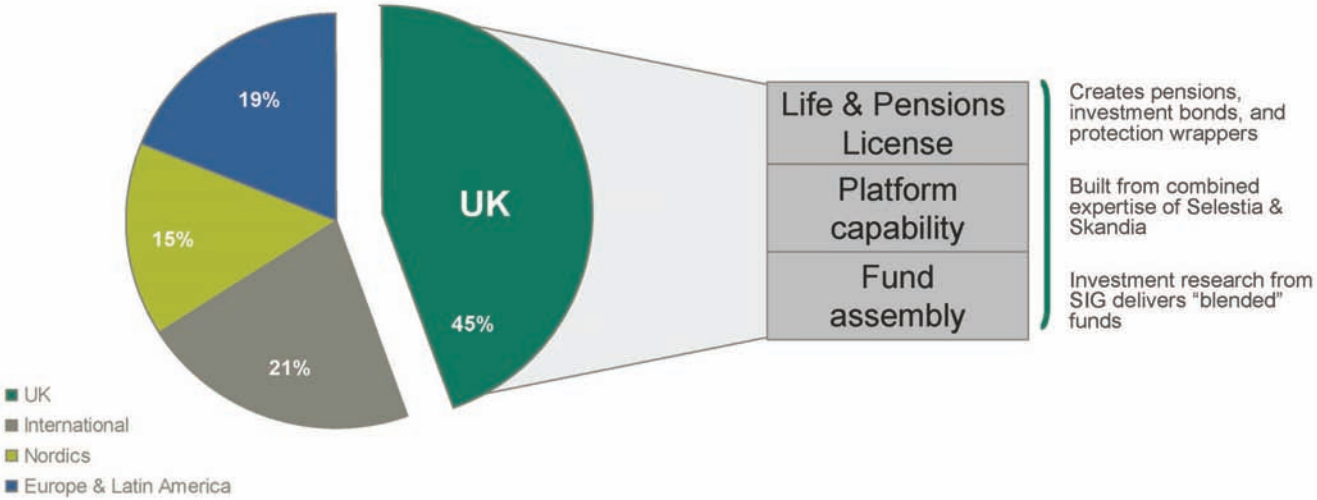
# Skandia UK : part of Skandia Group

## Funds under management




Funds under management at 31st December 2008

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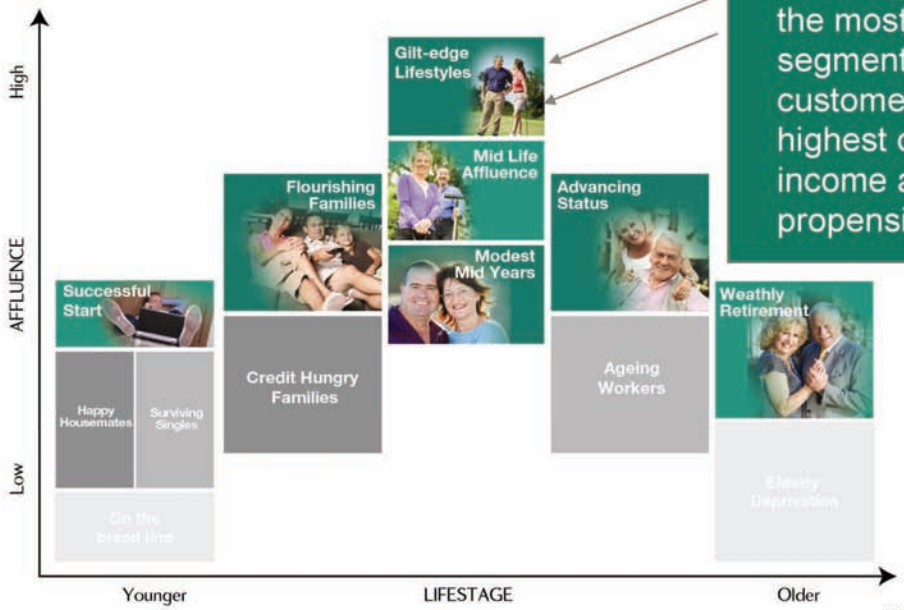
# Skandia UK : customer segmentation




**Gilt-edge lifestyles**: the most valuable segment of customers with the highest disposable income and propensity to invest

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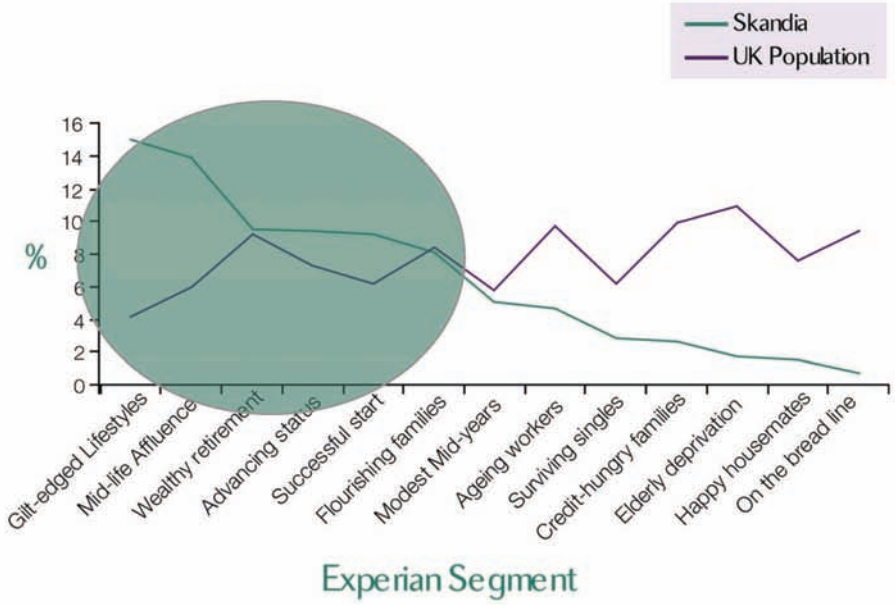
# Skandia UK : Customers v. UK Population




| Average fund size on SIS | |
|---|---|
| Bond | £74,432 |
| Collectives | £48,238 |
| ISA | £12,029 |
| Pensions | £58,186 |

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# Skandia UK : Winning formula

1. Changes in financial services
2. Platform model
3. Financial dynamics of the platform
4. Skandia : a winner in the new model

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# Evolution of UK Financial Services

Peter Mann
Chief Development Officer

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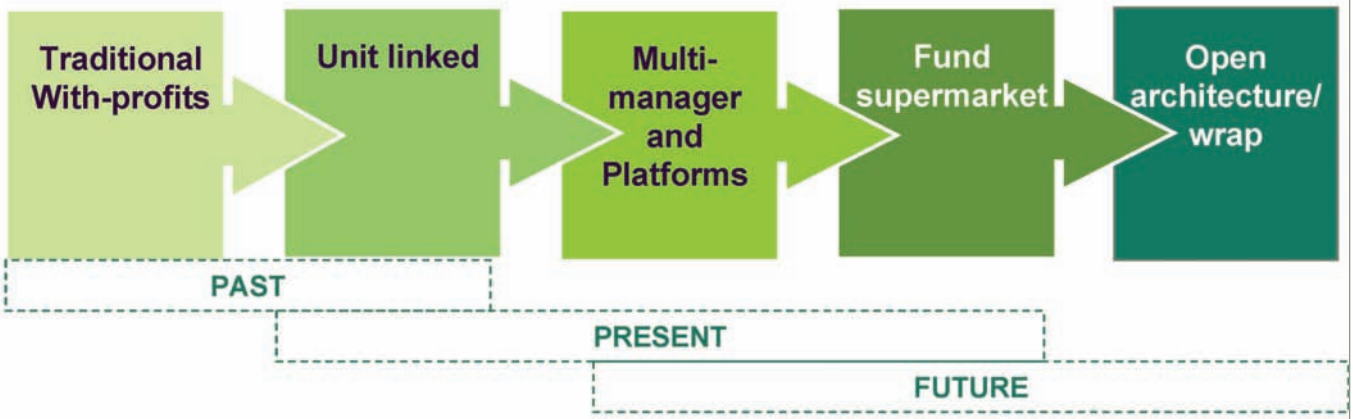
# Evolution of financial services




**PRODUCTS** → **SERVICES**

| Old products | New services |
|---|---|
| Opaque and bundled | Transparent and unbundled |
| High margin products | Margin compression |

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# New definitions in financial services

**Fund supermarket**

Technology that offers easy transaction and administration of mutual funds from range of fund management groups

**Platform**

Platform offers broader and deeper functionality that includes the funds and the wrappers that deliver the complete solution for the client

**Open architecture**

Extension of the platform into other investment vehicles and range of tax optimisation wrappers

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# Forces of change

| Demographics | Regulation | Distributors | Technology | Customers |
|---|---|---|---|---|
| State system unable to cope<br><br>Need individuals to fund for own retirement | FSA's Retail Distribution Review (2012)<br><br>Advice stratification<br>Professionalism<br>Adviser charging<br>Relationship | Compliant solutions with audit trail<br><br>Long term relationships<br><br>Consolidation to larger firms | Efficient processing<br><br>End to end solutions | Transparency & control<br><br>Convenience & personalised<br><br>High and complex tax leads to advice being sought |

**Financial services must respond, providers must change**

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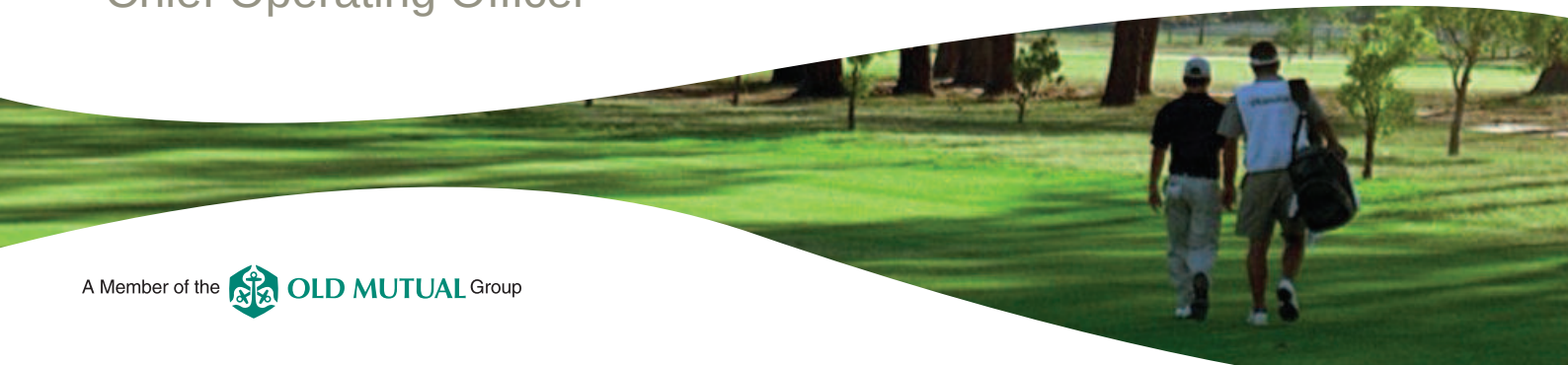
# The platform model

John Tomlins
Chief Operating Officer



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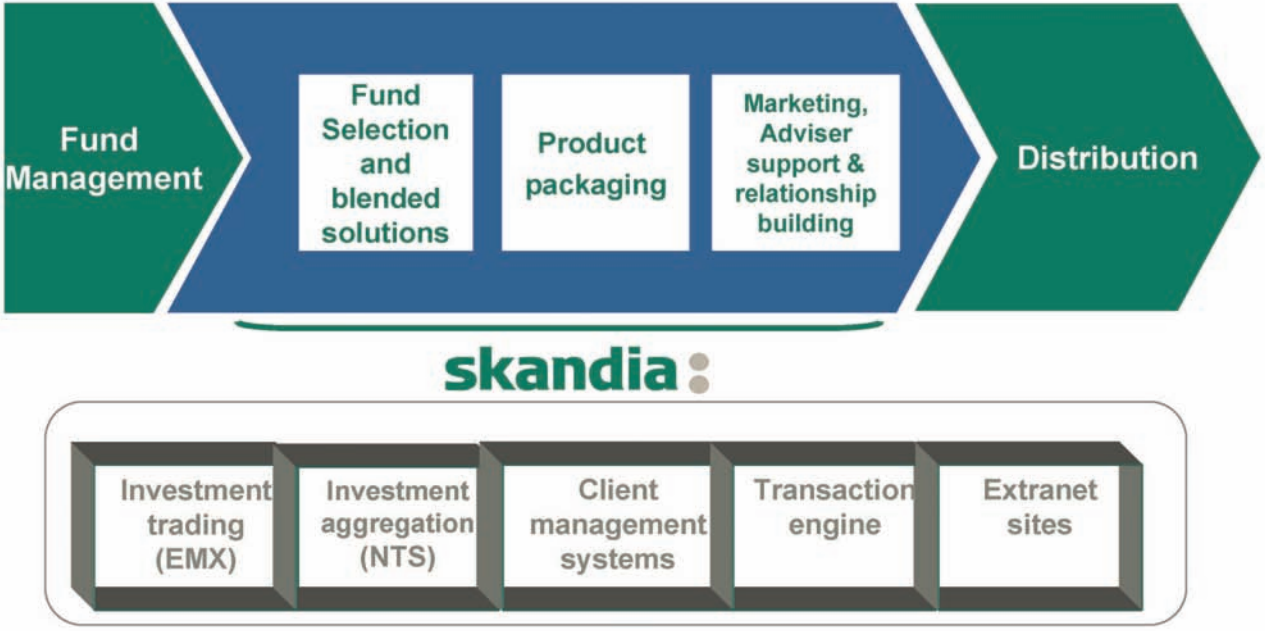
# New Model : Platform components



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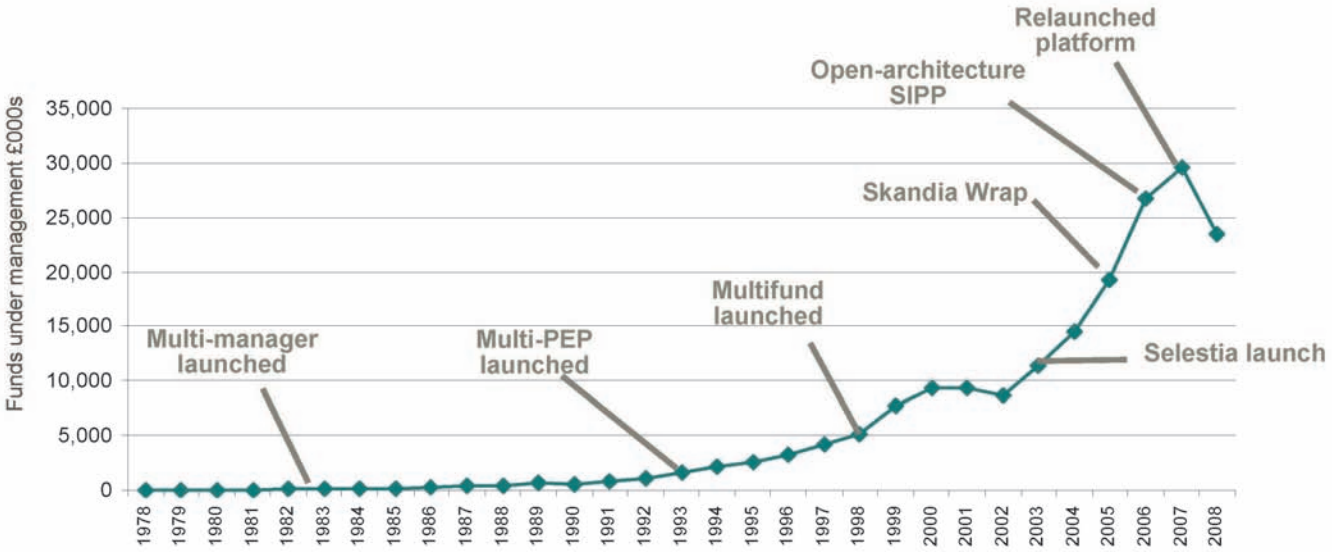
# New Model : Skandia's history of innovation



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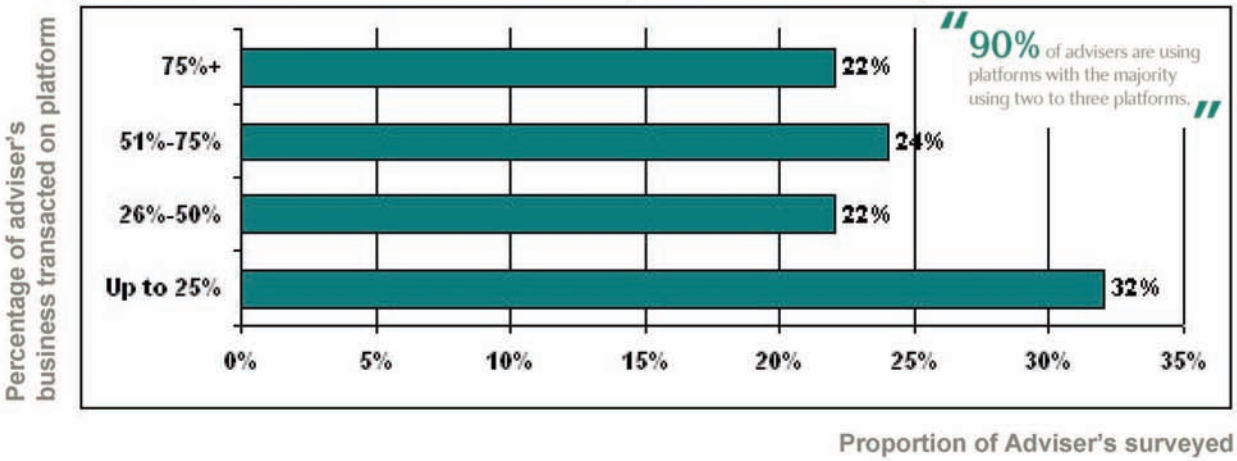
# New model : Platform adoption by Advisers

Proportion of adviser business currently transacted via a platform




**Source** : Research conducted by Skandia

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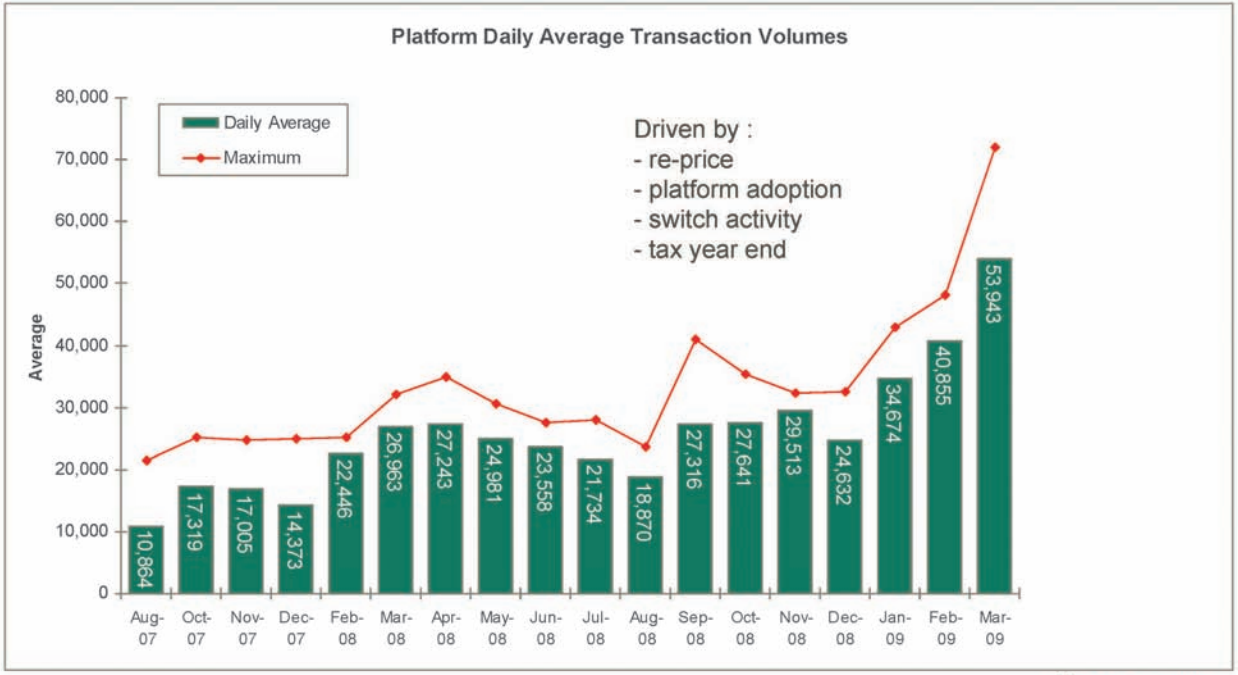
# New model : Skandia UK's Platform usage



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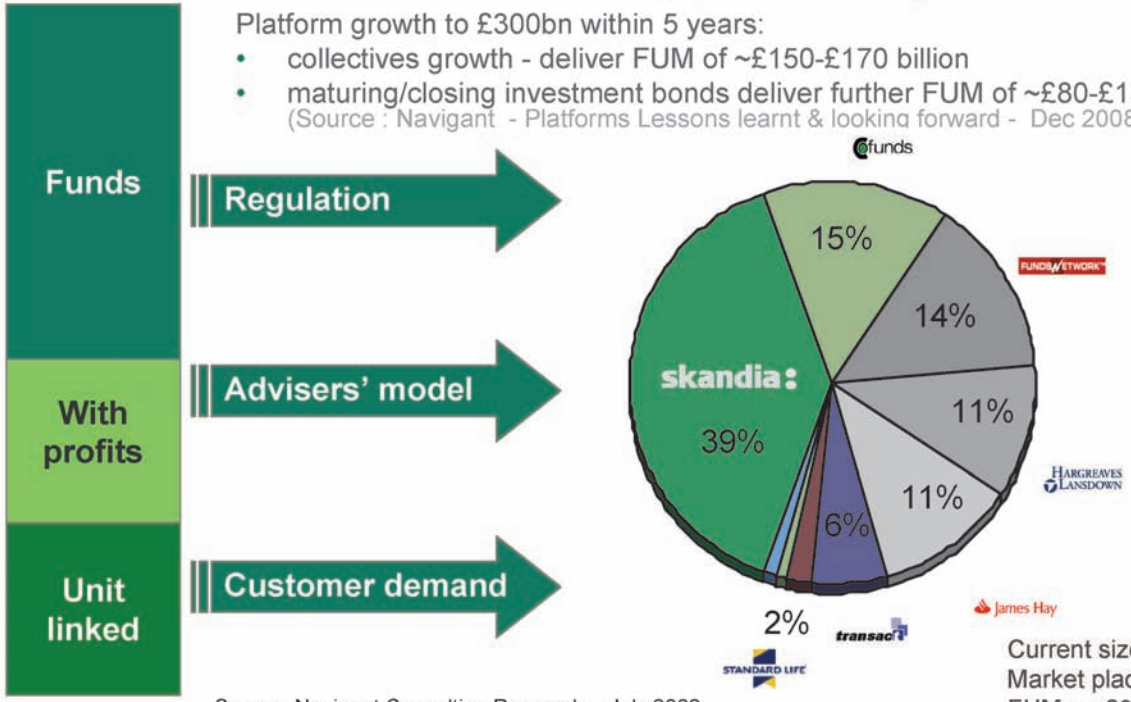
# Platforms : Size of the opportunity

Platform growth to £300bn within 5 years:

- collectives growth - deliver FUM of ~£150-£170 billion
- maturing/closing investment bonds deliver further FUM of ~£80-£130billion

(Source : Navigant - Platforms Lessons learnt & looking forward - Dec 2008)




Current size of Platform Market place : FUM = ~£90bn

Source: Navigant Consulting Research – July 2008

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# Platforms : Competitive advantage

| | Experience | Funds with external managers | | Own technology | Own wrappers | Investment assembly | Profit | 5* Service awards |
|---|---|---|---|---|---|---|---|---|
| skandia | ✓ | ✓ | £24bn | ✓ | ✓ | ✓ | ✓ | ✓ |
| cfunds the independent fundmarket | ✓ | ✓ | £15bn | | | | ✓ | ✓ |
| FUNDSNETWORK | ✓ | ✓ | £13bn | | | ✓ | | |
| transact take control | ✓ | ✓ | £6bn | ✓ | | | ✓ | |
| STANDARD LIFE | | ✓ | £1bn | | ✓ | ✓ | | ✓ |
| ascentric | | ✓ | £0.5bn | | | | | |
| nucleus | | ✓ | £0.3bn | | | | | |
| AXA | | ✓ | £0.0bn | | ✓ | ✓ | | ✓ |

NOTE : Skandia's view on the competition

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# Platforms : Winning formula

- **Technology**
  - best in class Technology partners
  - own build by Group – Old Mutual South Africa
  - long term experience
- **Adoption**
  - market embracing platforms
  - customer needs
  - adviser and provider business efficiency
- **Scale**
  - expected growth in FUM over 27% per annum
  - reinvestment of money from old style products

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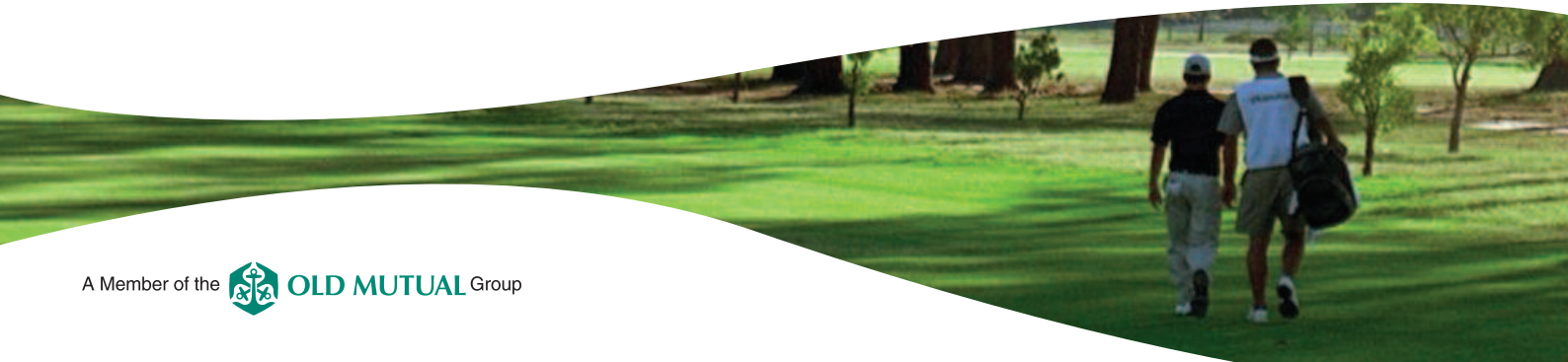
# Evolution of financial services and the Platform concept

## Break



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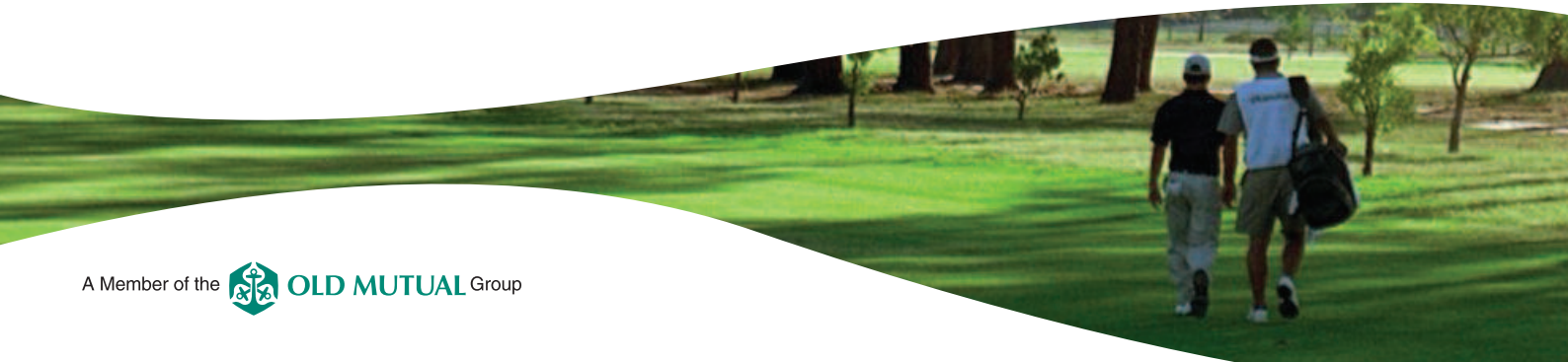
# Financials

Simon Lloyd
Chief Finance Officer



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# Platforms : Key financial drivers for platforms

PROFIT = Assets × Margins − Expenses

Funds under management

Participation in value chain

Capital efficient

Net client cash flow

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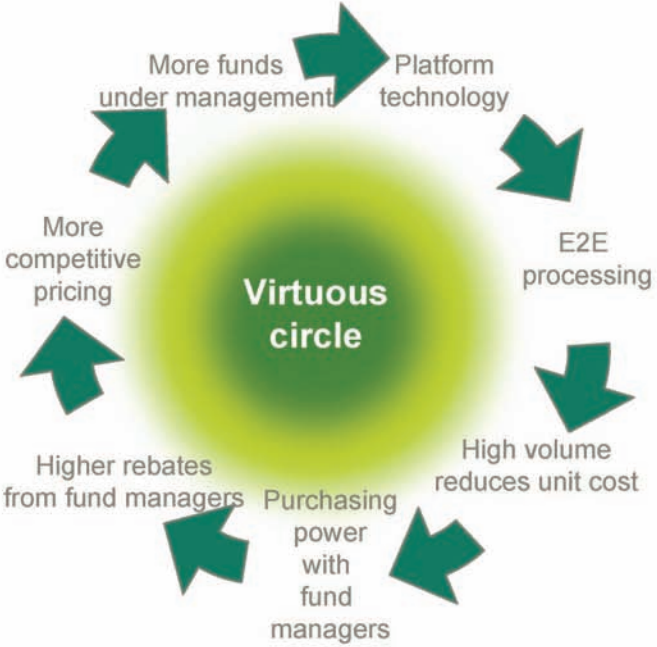
# Key financial drivers – Funds under management




**Skandia UK's scale and market presence creates a Virtuous Circle**

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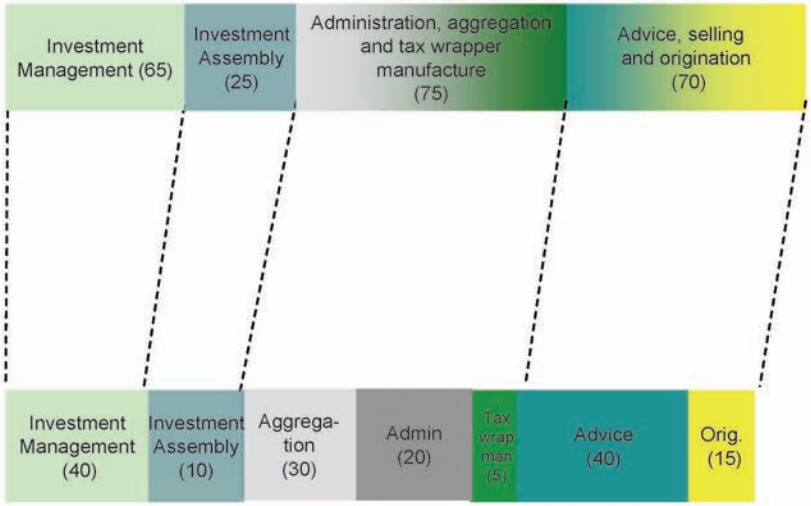
# Key financial drivers : Industry value chain




**TODAY : 235 bps, excluding investment risk management**

**2015 : 160 bps, customer gain of 75 bps**

SOURCE : Skandia's view on possible margin compression

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# Skandia UK : Platform value chain

| | Fund assembly | | Life & Pensions License | Platform capability |
|---|---|---|---|---|
| Estimated margins in 2015 | Investment Assembly 10bps | Aggregation 30bps | Tax wrappers 5bps | Administration 20bps |

SOURCE : Skandia's view on possible margin compression

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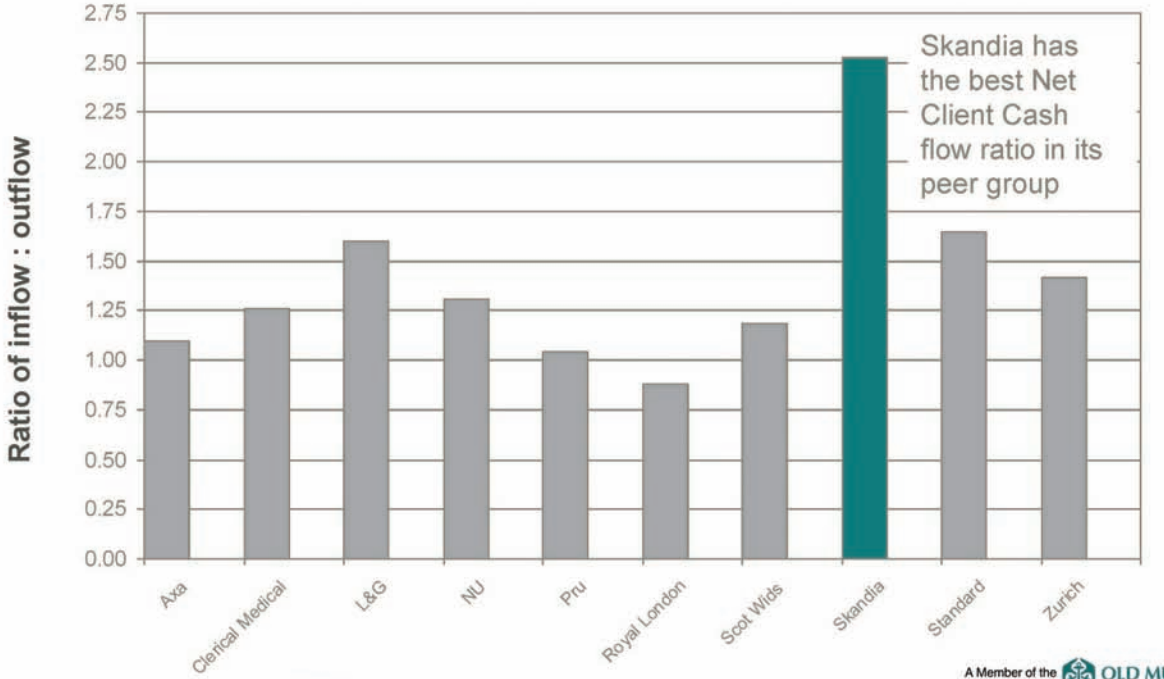
# Key drivers –Net Client Cash Flow




Source: Cazalet Life 2007/08

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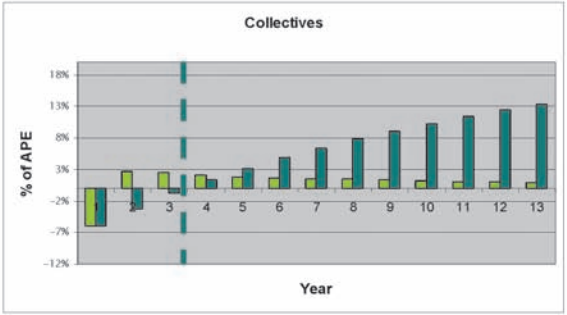
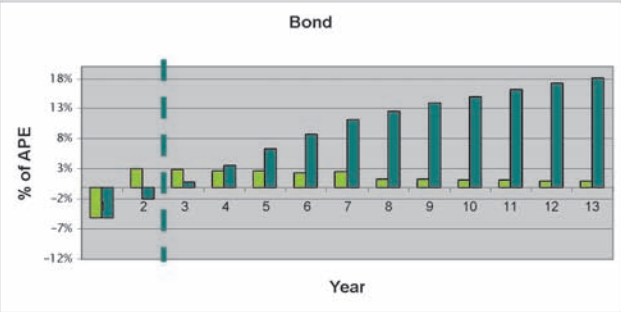
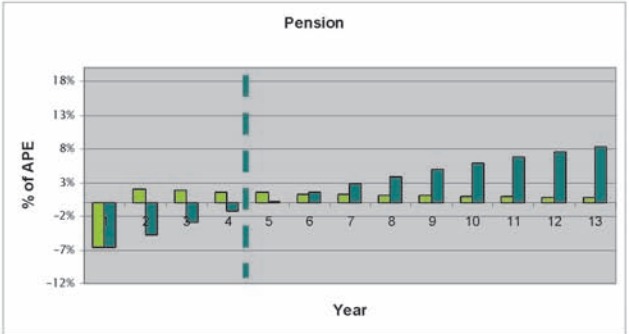
# Skandia UK : Capital efficient




Skandia UK's products are:

- profitable
- short pay back period
- capital light




Cash Flow
Cumulative

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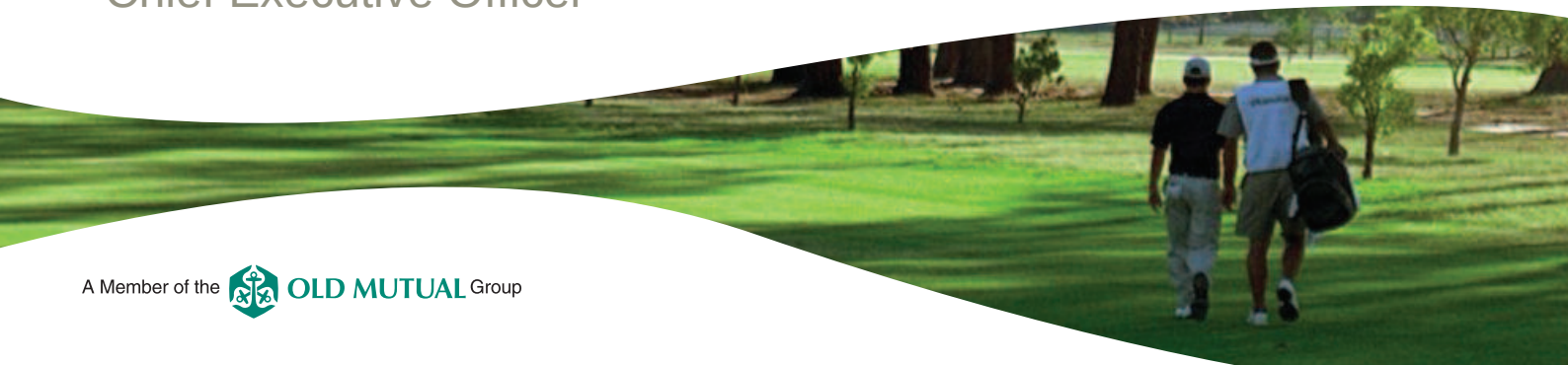
# Why Skandia will be a winner

Nick Poyntz-Wright
Chief Executive Officer



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# Skandia UK : Winning formula

Cash generative

+

Small legacy

+

Innovative DNA

Capital efficient

+

Service proposition

+

Clear pricing

**Empower people to take control of their financial future**

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# Skandia UK : Key attributes

## Empower people to take control of their financial future

| Platform | Investments | Back-up | Scale | Sustainability |
|---|---|---|---|---|
| **Solution for advisers** | **Wide choice to meet customer needs** | **Own technology and experienced people** | **Virtuous circle** | **Commitment to long term** |
| ✓ experience, brand & reputation<br>✓ largest adviser user base of any platform<br>✓ strong adviser franchise | ✓ Self select through to blended solutions<br>✓ support at every stage of the 'journey' – a 'no regret sale' | ✓ own technology, proven in market – platform and investment administration platform used by Group | ✓ largest FUM of any platform, with resulting buying power | ✓ profitable and reinvesting in future<br>✓ business built on new world margins of new world, not margins of old world |

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# Skandia UK : In the 'sweet spot'

**Insurance companies**

- ✓Scale
- ✓Cash generative
- ✓Tax planning

STANDARD LIFE

AXA

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**Platform providers**

- ✓New model
- ✓Limited legacy
- ✓Investment options

FUNDSNETWORK™

nucleus

cfunds

ascentric

transact

novia

×Legacy
×Rented technology
×Product silos

×Capital constrained
×Planning for exit
×Rented wrappers

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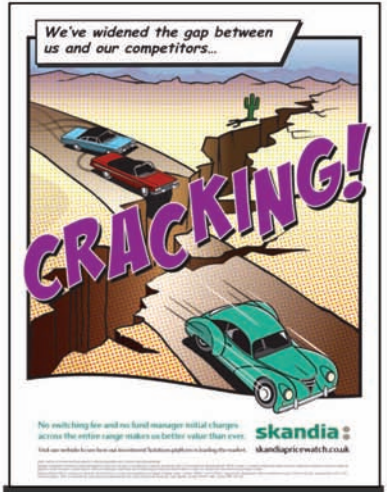
# Skandia UK : Leading proposition for advisers




VALUE

CLEAR

SIMPLE

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# Skandia UK : the winning formula

Capital light

Cash generative

Limited legacy burden

Modern service proposition

Scaleable technology solution

Rolling programme of innovation

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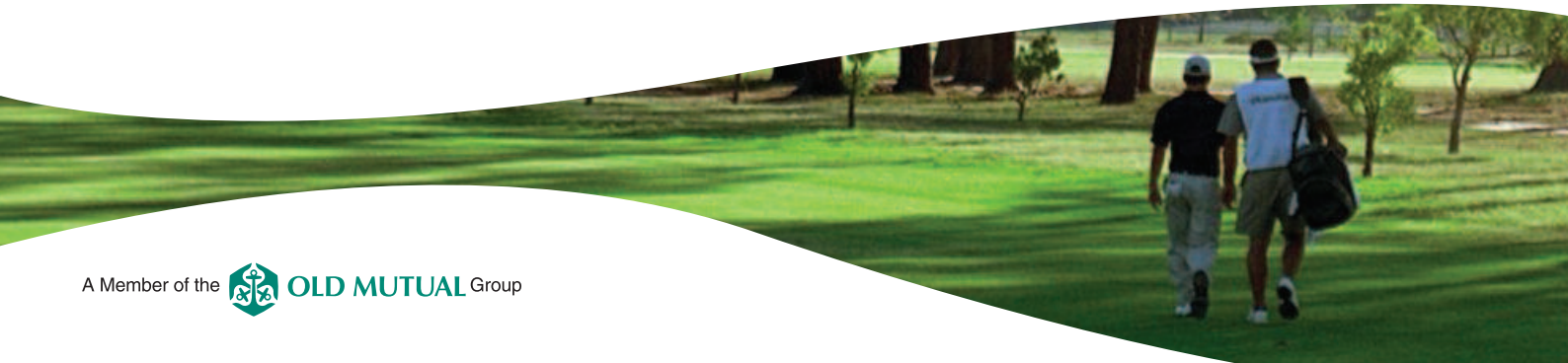
# The new model and our winning formula

## Introduction to the UK platform business

## Question time



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# Platform demonstrations

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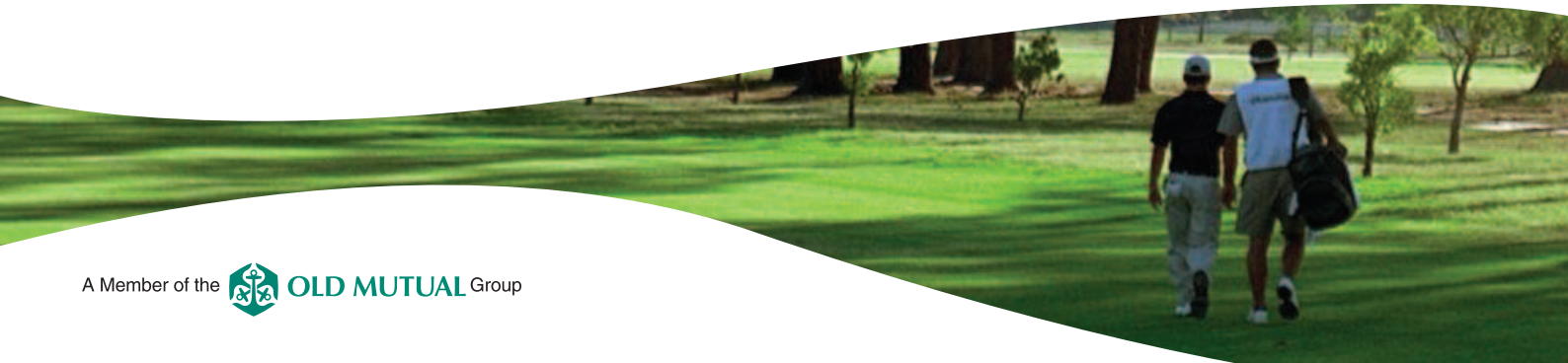
# Appendices

- Skandia UK corporate information
- UK Budget 2009
- Advice market in the UK
- Platform market share



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# Skandia UK : Facts & figures

- Founded: 1979
- Head Office: Southampton
- Regional Offices: 9
- Staff: 2,000

- Customers: 1 million
- FUM: £23.4bn

- Pioneers of MultiManager
- First 'fund supermarket'
- Award winner for service
- Largest distributor in UK of Black Rock, Invesco Perpetual; Gartmore; Schroders…
- UK's largest trader in funds

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# UK Budget 2009

**Key points impacting the UK long term savings market from the Budget are:**

- Tax relief on pension contributions - is restricted for those whose income exceeds £150,000. Limit the attractiveness of making further pension contributions. For Skandia, we expect limited impact on business given that we are principally in the transfer market rather than new contributions

- If income exceeds £100,000, will lose their personal allowances on a tapered basis. This creates a marginal income tax rate of 60% and also will give pension tax relief at the same level. This may help reduce the impact of loss of pensions attractiveness for those with income in excess of £150,000

- If income exceeds £150,000, will suffer tax at 50%. This may reduce capacity for investment by this customer segment

- ISA allowance will increase to £10,200

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# UK Budget 2009 : Pension tax relief

## Market

Limit the attractiveness for high earners to make further pension contributions

Close off salary sacrifice route

Tax changes on employer contributions

High earners already opted out of company final salary scheme in 2006

Closure of final salary schemes

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Mainly transfers from other pensions (80% of single premiums is transfers)

Growth in DC pensions market (only in DC pensions)

More retirement income solutions

Greater incentive for tax optimised wrappers

**Complexity will increase demand for advice**

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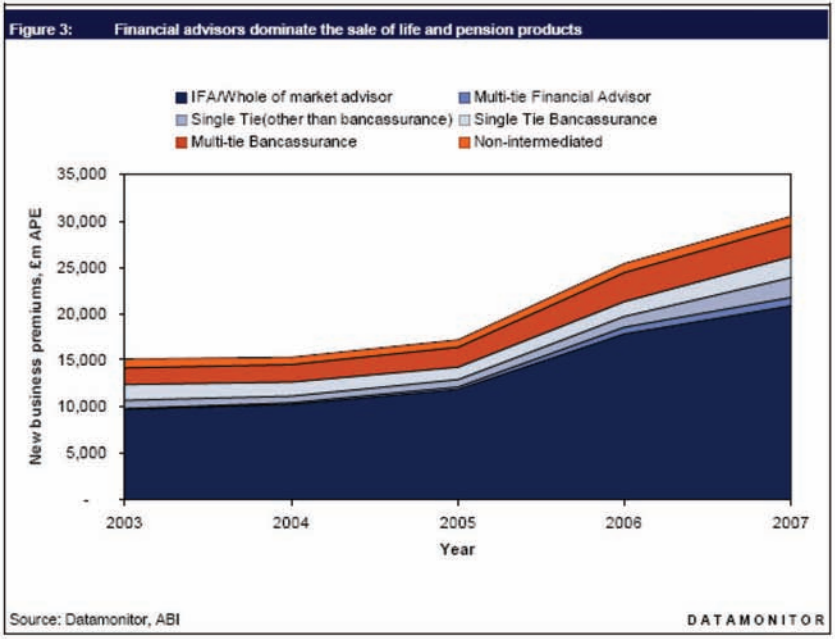
# Skandia UK : Adviser market




***"The IFA channel accounts for over two thirds of total life and pensions sales in the UK***

IFAs dominate the provision of investment products and financial advice for clients in the UK. IFAs share of total life and pensions sales is nearly 70% in 2007, while banks' share is just over 7% in the same year. The IFA channel is well established in the UK as a key provider of financial products and advice. The IFAs' position is likely to be maintained, although legislative and technological changes may alter the overall distribution landscape."

Source : Datamonitor : UK IFAs 2008

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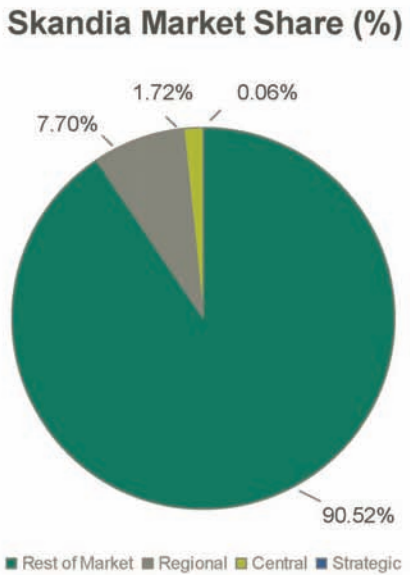
# Skandia UK : Adviser market share




Skandia's market share is 9.48% of which 99% is generated by regional and central firms.

Source: Touchstone 2008 includes 95%+ market coverage, figures quoted on an RP + 1/10th SP basis (APE), includes all compatible products, excluding GP

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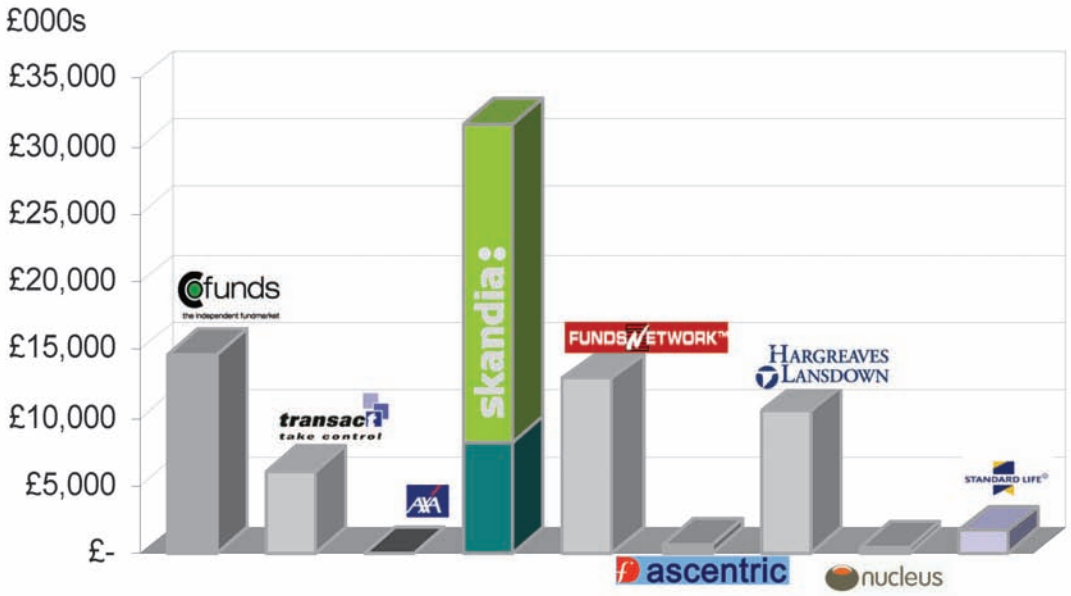
# Skandia UK : Platform market share




Source: Pridham

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# Nick Poyntz-Wright

## Chief Executive Officer, Skandia UK

Nick joined Skandia in 1988 as an Actuary, having worked at Friends Provident after gaining a 1st class honours degree in Economic and Statistics at Southampton University. Nick became Appointed Actuary of Skandia Life in 1995 and joined the board in 1996. Nick is currently Chief Executive Officer of the Skandia UK Group.

Nick is chairman of many of the Skandia UK subsidiary boards including Royal Skandia Life Assurance Limited, Skandia Investment Management Limited, Skandia Life Assurance Company, Skandia MultiFUNDS Limited and the Selestia Companies.

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# Simon Lloyd

## Chief Financial Officer, Skandia UK

Simon is a Chartered Accountant who started his career at PricewaterhouseCoopers. He worked with them for 13 years where latterly he was a Director in the Audit and Business Advisory Services insurance industry practice. Simon's career in PricewaterhouseCoopers led to him working with some of the leading UK and European insurers. He was primarily based in London although his career at PricewaterhouseCoopers included a secondment to their Hong Kong office.

Simon joined Skandia in September 2003 as Finance Director of Skandia Life and Skandia MultiFUNDS and as a member of the Skandia UK Executive Management Board. Simon has been Chief Financial Officer of Skandia UK since March 2007. He is a Director of Skandia UK Holdings, the intermediate holding company controlling the UK and offshore operations of Skandia.

Prior to joining Skandia, Simon also held senior UK-based finance roles in both AEGON and in the property and casualty business of AXA.

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# Peter Mann

## Chief Development Officer, Skandia UK

Peter started his career as a teacher before deciding to start a career in financial services. Peter rose through the ranks at Scottish Amicable and ended up as one of their leading sales consultants. He then moved to the other side of the desk as both a practitioner and manager of a leading financial adviser firm in Glasgow before returning to Scottish Amicable to take up a position in sales management. He became the Sales Director at Scottish Amicable. When Prudential purchased Scottish Amicable, he was appointed as the Distribution Director.

Prior to joining Skandia, Peter was Chief Executive Officer at Bankhall – a financial adviser support services company and subsidiary of the Skandia Group. He joined Skandia as Chief Development Officer in October 2008, bringing with him extensive knowledge of distribution. His mandate at Skandia is to lead distribution, and he has specific responsibilities for sales, product development, strategy and marketing.

Current external influencing roles include main board membership of the Personal Finance Society and being Deputy Chair of the AIFA strategy group.

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# John Tomlins

## Chief Operating Officer, Skandia UK

John started his career at IBM during the 1970s and rose to Director level. His time at IBM provided John with core skills during a period of huge expansion of the IT market. He then moved to Prudential as a Director during a period of huge change in financial services with the introduction of regulation. From Prudential, he moved to Britannic where his role was again in the operations of a business that had a direct proposition to the customer. From Prudential, he was head-hunted by Old Mutual to develop and launch the Selestia platform, which now sits at the centre of the Skandia UK proposition.

John was a founder of the Institute of Client Services and continues to work with this organisation to promote good customer services in all retail sectors.

His key responsibility at Skandia is the development and delivery of the Shared Services model which includes Human Resources, Marketing Services, Legal, Customer Services, Finance, IT and Investment Admin.

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# Tim Mann

## Platform Delivery Director, Skandia UK

Tim's first position was with a refrigeration equipment manufacturer, after which he worked in software houses before joining Coopers & Lybrand. Tim worked in the Management Consultancy division specialising in IT, operating extensively in the Retail, Defence and Pharmaceutical sectors.

Following consultancy Tim joined Skandia as Head of IT where he has been responsible for all aspects of Information Technology, covering systems development, operations and e-commerce. He was appointed IT Director in August 2000. He led the development of the IT Strategy within Skandia UK, known as 'Darwin', which called for a replacement of IT architecture, revision of IT processes and change of sourcing strategy which outsourced the IT organisation to an Indian partner. A contract with HCL was signed in December 2006 with a service start date of 1 February 2007 and this arrangement, now in its third year, continues to be a success for both parties. In 2006 he added Customer Services to his portfolio, and led a wide ranging BPR programme to reduce maintenance and acquisition costs within the company. Skandia was again awarded Company of the Year by Financial Advisor and Money Marketing during 2006 and 2007, as well as collecting further Technology awards.

Tim is currently the Platform Delivery Director, responsible for the operation and development of the award winning investment platform, Skandia Investment Solutions.

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# Giles Elliott

## Skandia Chief Marketing Officer and Head of Marketing Services, Skandia UK

Giles Elliott is Head of Marketing for Skandia in the UK, and Chief Marketing Officer for the Skandia Group. He has been at Skandia for five years. Prior to joining Skandia he has worked for independent marketing communications agencies, including his own company for 16 years. In that time he has worked at board level with clients, among them PricewaterhouseCoopers, Eurotunnel, Motorola, the UK Cabinet Office and a number of financial services companies including Skandia, Gartmore and Invesco Perpetual.

At Skandia UK Giles runs the Marketing Services function, with a team of 45 people forming an 'internal agency'. The team are responsible for all literature, PR, e-marketing, sponsorship, events, advertising and direct marketing, in not only the UK but for the offshore markets in the Group. Giles is also responsible for the Skandia brand internationally.

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# Michelle Cracknell

## Strategy Director, Skandia UK

Michelle Cracknell was a financial adviser for 20 years. She started off working in the small self-administered pensions arena together with employee benefits work. During this time, she qualified as an Actuary and helped grow the business, particularly with the advent of SIPPs and changes in company pension schemes offered by small to medium enterprise companies. Throughout the 20 years, she maintained some involvement with clients although this reduced significantly in the last five years as she became an increasing part of the management of the business.

Her career started with the company when we were wholly owned by a firm of chartered accountants. The directors performed a management buyout in 1992 and she became a shareholding director in 1996. She was involved in the growth of the business and the succession planning which resulted in the business being sold to AEGON in 2002, who merged it with the other financial adviser businesses to form Origen.

Her key responsibilities at Skandia are building up views of the market to assist in developing the future direction and working on the vision and strategy for Skandia.