



Financial Services Forum Crown Promenade Hotel Melbourne • 30 April – 1 May 2012



Global Trends in Life Insurance Distribution

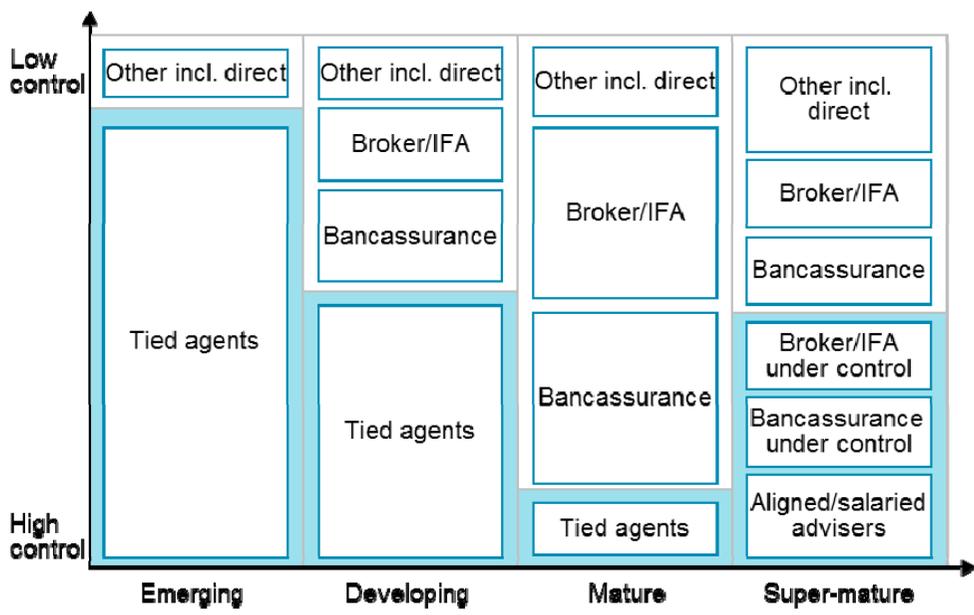
Anthony Bice, Brad Clarke

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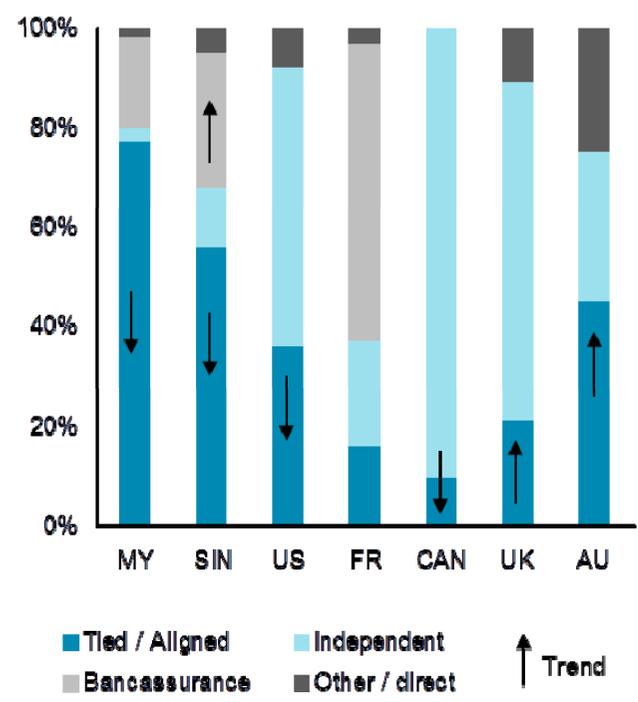
Distinct evolution patterns in distribution

Global retail life distribution life cycle

Illustrative



Distribution for selected markets





Drivers of change in today's world

Customer	Industry	Environment
Value-focused customers with need for trust post GFC	Ongoing tension between distribution independence and control	Regulation focused on enhanced consumer protection and intermediaries
Increased uptake of technology with demand for convenience	New entrants e.g. rise of direct businesses, online aggregators	Global economic slowdown post GFC
Aging population		



Key trends

- 1. Regulation of the intermediated channel to protect consumers
- 2. Rise in direct distribution
- 3. Multi-channel strategies and channel convergence
- 4. Challenges to traditional bancassurance models
- 5. Shift in focus from hunting to farming

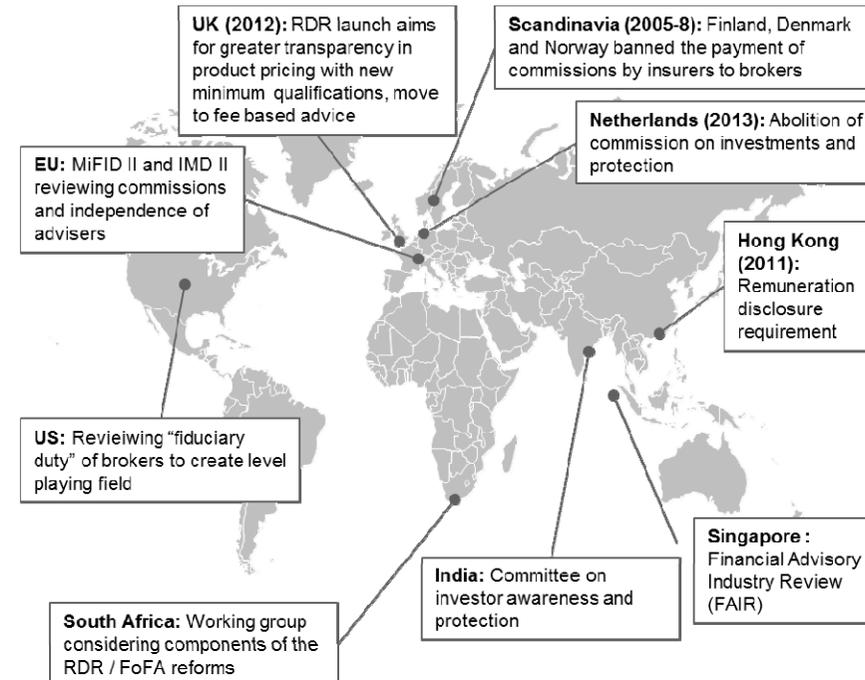
Focus

Global trend towards greater regulation of financial advice and distribution

Australian distribution regulatory developments

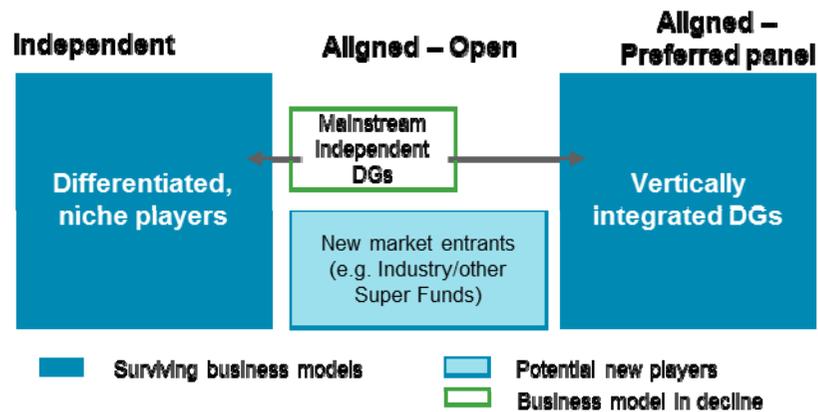
- *Financial Services Reform Act 2001* prescribed **training requirements** for individuals selling financial products
- *Financial Services Reform Act 2002* covered new **conduct and disclosure obligations** e.g. disclosing remuneration and other interests/relationships under a Financial Services Guide
- **Stronger Super** recommendations from Super System (Cooper) Review (December 2010)
- **Future of Financial Advice (FoFA)** reforms (July 2013)

Recent global regulatory developments impacting distribution



FoFA is driving major changes in the composition of the advice sector

Number of independent DGs likely to shrink

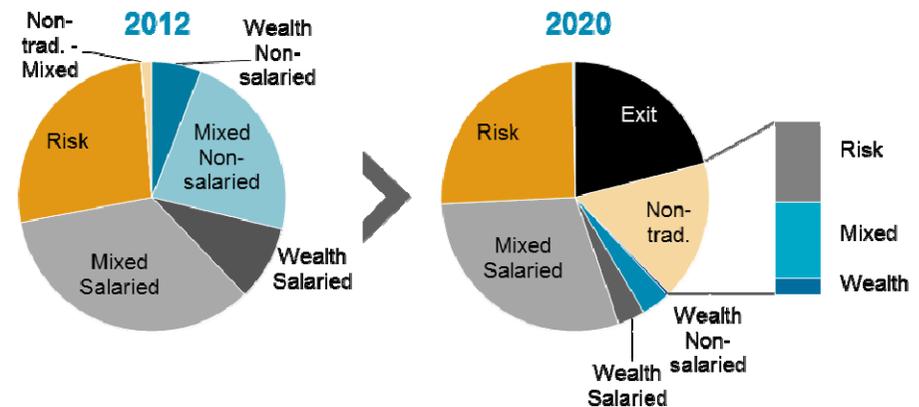


- Dealer groups are expected to evolve to two business models in a **“barbell-style”** industry
 - Vertically integrated DGs (predominant)
 - Differentiated Niche Players serving HNW

Source: Oliver Wyman analysis, Rice Warner, CoreData, Beaton, Interviews
 Note: Non-trad. = online aggregators and scaled advice

Potential Adviser landscape 2012 vs. 2020

FOFA may bring extreme disruption, assuming 20% reduction in total number of advisers



- FoFA expected to drive negative outcomes for advice economics driving changes to advisers' behaviours and profile
 - Shift towards salaried staff
 - Shift towards risk (life insurance)
 - Movement towards offering scaled advice
 - A proportion of advisers exiting

FoFA and RDR comparison

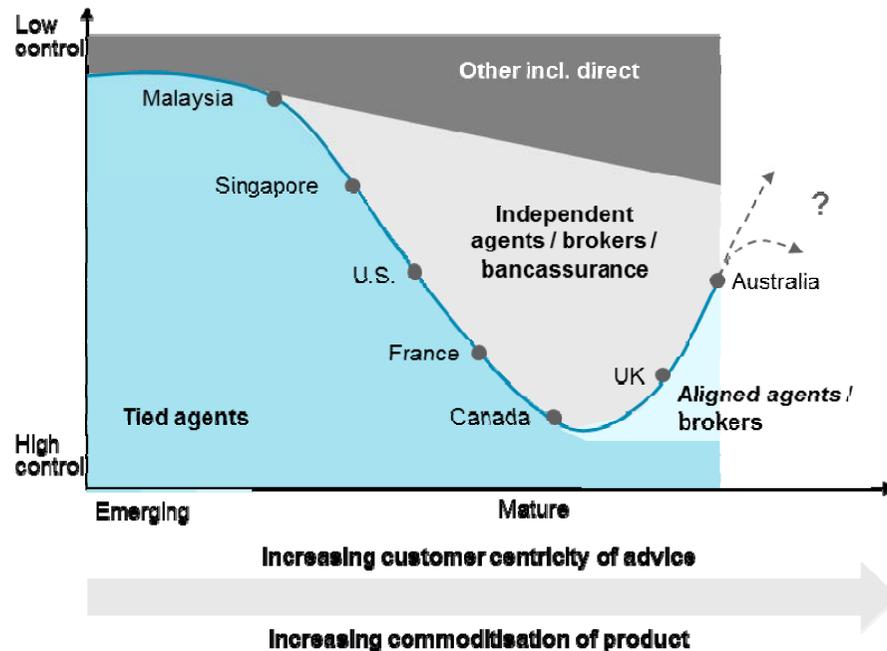
	FoFA (Australia)	RDR ¹ (UK)
Elements		
Commission ban	✓	✓
Product neutral remuneration for advice	✓	✓
Low-cost "simple advice"	✓	✗
Higher professional standards	✓	✓
Statutory duty of "best interests"	✓	Already exists
Designation and disclosure of Restricted advice	✗	✓
Impact		
Number of advisers	∨	∨
Barbell	∧	∧
Vertical integration	∧∧	➤
Bank participation	∧	∨

1. Retail Distribution Review

If current trends continue, will we see the death of 'independence'?

Global retail life distribution life cycle

Illustrative



Commentary

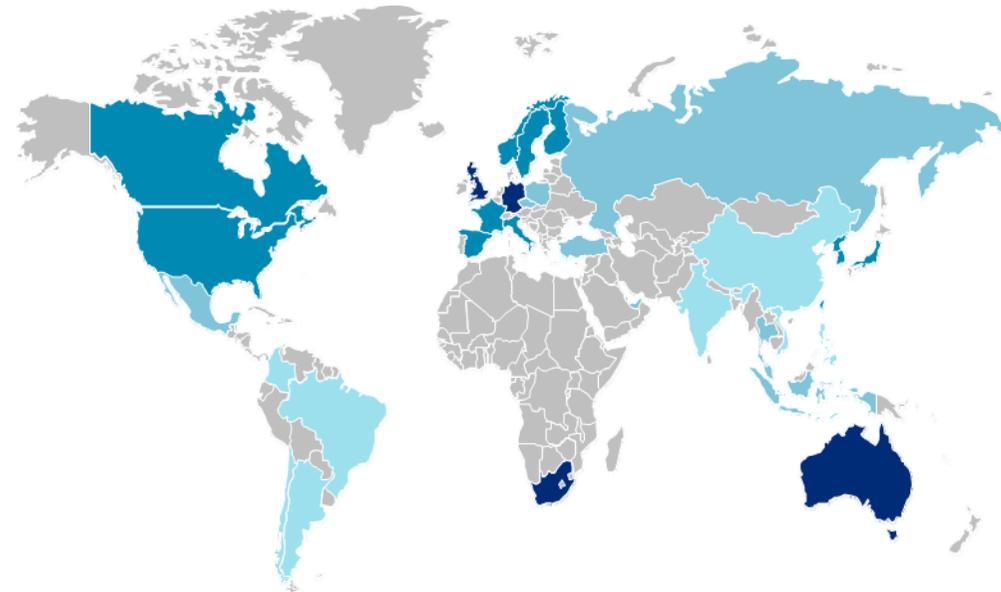
- Markets fluctuate in terms of degree of control as they evolve, driven by
 - Increased customer centrality of advice (i.e. removal of conflicts of interest)
 - Commoditisation of product, increasing the importance of price as a core comparator
- At the same time, customers are increasingly choosing to self-service via direct channels
- Together, these trends call into question the value customers place on 'independence' of advice
- Where to next
 - How far will increased vertical integration go?
 - What would trigger a shift back to greater share for 'true' IFAs?

Australian Direct channels are advanced and innovative, accounting for ~25% of new business

Market Observations

- Direct is emerging as a key business source in both developed and developing countries
- Direct can
 - Open new markets and
 - Provide access to underserved (typically large, less wealthy) customer pools
- Business models, capital requirements, products and target markets can be selected and vary significantly between players even in the same geographies

Direct penetration globally



Very Low Low Medium High



Three broad direct business models are adopted

	1 Latent Demand	2 Cross-sell		3 Active customer pull		
Business Models	Broadband marketing	Outbound Database marketing	Cross Sell (inc Partnerships)	Destination Site	Offer pull	Online Broker
Players (Brands)	 	 	 			
1st Aust. example	1999	2003	2007	2007	2007	2007
Volume	50%	25%	12%	1%	2%	10%



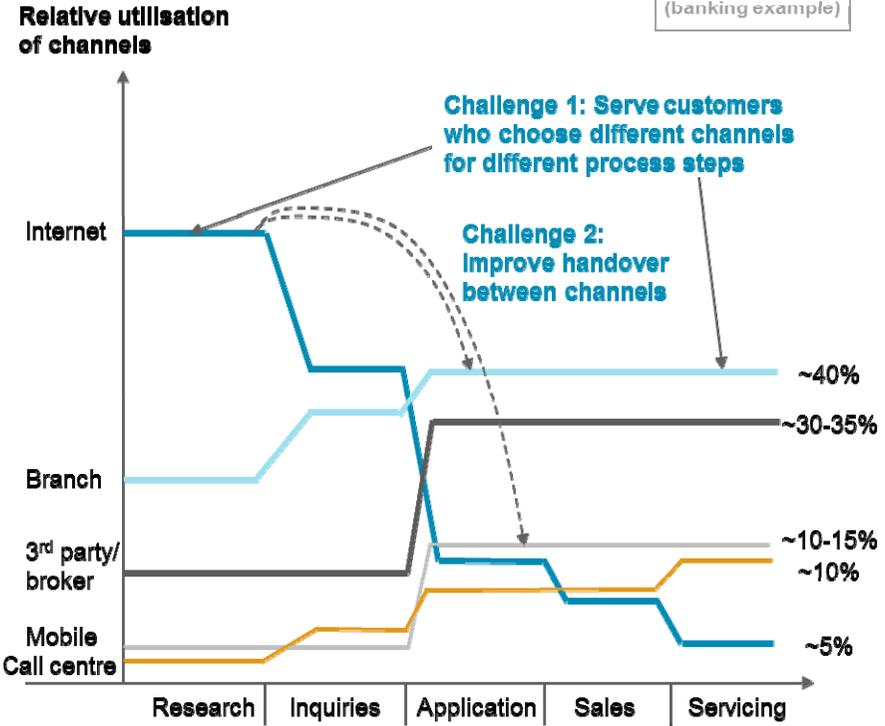
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Players (Brands)	 	 	 			
Trend						
Volume	▲	➤	▲	▲	▲	▲▲
Margin	▼	➤	➤	➤	➤	➤
Australian success	✓✓✓		✓✓			
European success	✓✓		✓✓✓		✓✓ (mandated products)	

Multi-channel access is increasing as customers demand it and technology allows it

Customer channel usage throughout process

Illustrative (banking example)



Example



What else can we learn from global case studies?

1 Customer segmentation



2 Business/marketing efficiency



3 Managing channel conflict



4 Brand Innovation



5 Value adding offers





Summary

- Fundamental distribution changes are occurring globally:
 - Legislation is driving intermediated channels
 - Direct is an emerging reality
 - Traditional Channel boundaries are decreasing
- Australia is leading the way in several areas
 - Legislative impetus to drive customer-centric advice
 - Next cycle of distribution ownership
 - Richer direct distribution landscape
- But many lessons that can be learnt from innovative players in each channel overseas