



Consequences of Bancassurance regulation

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This is Aviva



employees
31,200

34m
customers

300 years of
history

Annual
£23bn
Life & GI gross
written premiums

over
£300bn
funds under management

16 operating in
markets



Bancassurance at a glance

The business in figures



CUSTOMER



7 million
customers

access to

45m
bank
customers

INVESTOR



£6.2bn
PVNBP in 2012

25%
of Aviva's total
business

DISTRIBUTION

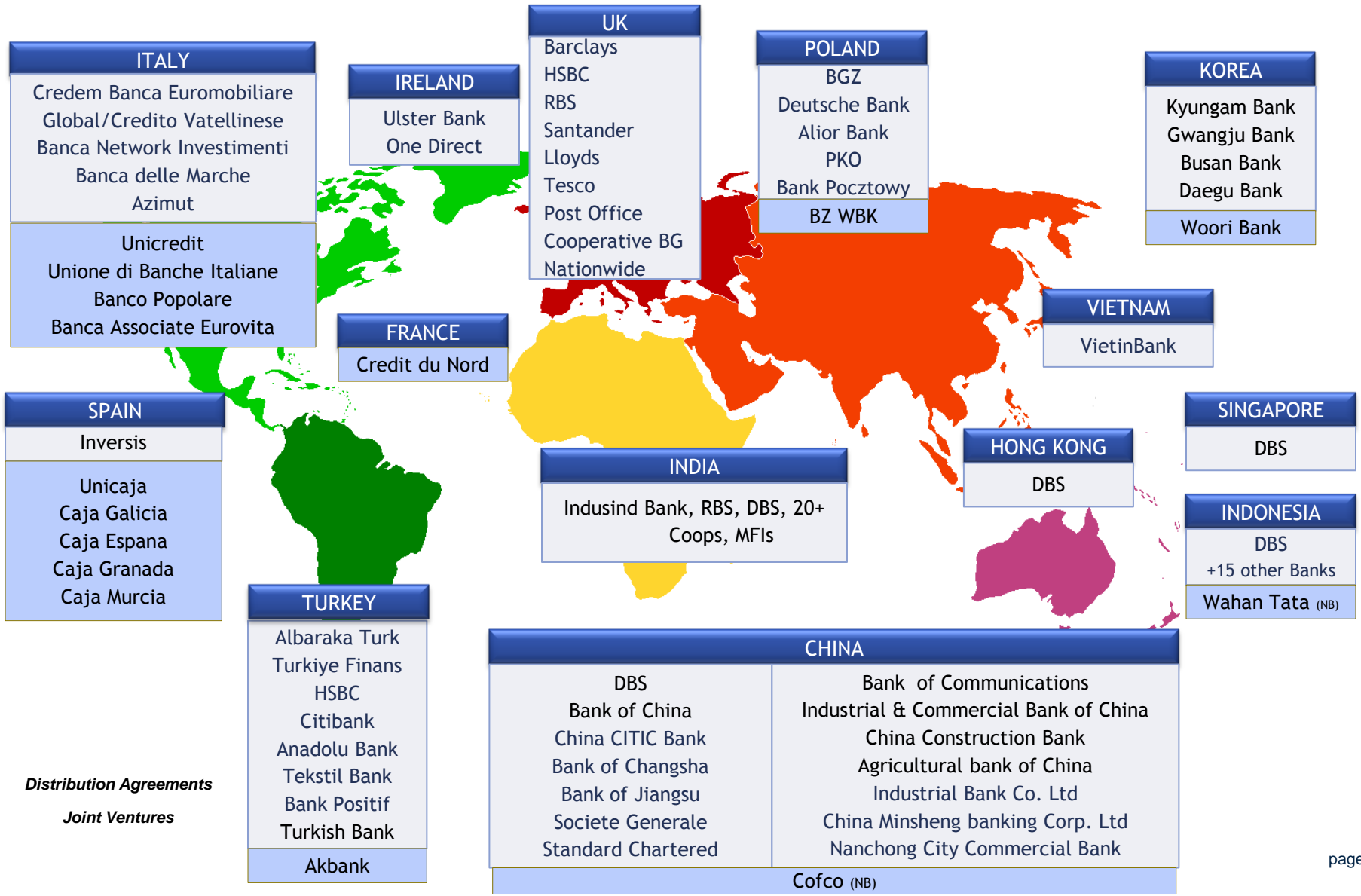


network of over
40,000
branches

100+
agreements and
partnerships

Bancassurance footprint

One of the world leader bancassurers



Adequate bancassurance requires understanding banking networks and customer expectations

Customer experience to be designed according to bank definition

Processes and training adapted to banking network dynamics

Products to be designed to cover mass market, simple to understand and simple to explain

Distribution and products conditions to be transparent to the customer

Products have to provide customer value for defined segments

Regulation a key driver to define success of bancassurance models

Anglosaxon Model

- UK and Ireland markets
- Low bancassurance market share (<20%)
- Highly regulated distribution with complex requirements
- Market dominated by IFA s and intermediaries

Continental model

- France, Italy and Spain markets
- High bancassurance penetration (>50% in life)
- More integrated model

Aviva operates in multiple markets adapting bancassurance distribution to local market conditions

European consumers under insured by €10.000bn according to Swiss Re

€68.8bn pensions gap in Poland according to Aviva Pensions Gap report

Polish consumers need to save €3.400 per annum to prepare for retirement

Insurance industry still underdeveloped & has to contribute to society:

- **Educating population and raising awareness**
- **Providing the instruments for adequate cover**

Customer needs

- Insurance exists to cover customer demands (individuals and businesses)
- Protection needs are, in most markets, underinsured:
 - Life protection (credit related & standalone)
 - GI protection (household, SMEs,..)
- Retirement is an issue in developed markets, that can be covered through retirement solutions
- Life insurance investments can become an alternative to traditional banking savings

Accessibility

- Banking channels make insurance accessible to most of the population
- Have the capability to provide “one-stop shopping” opportunity
- Affordable channel for most of the population

Education

- Banks’ contact with customers can help to raise awareness on “hidden” issues: protection and retirement needs
- Knowledge of the customer’s situation enables provision of a full proposal
- Improve financial culture with “fit for purpose” investments

State

- Transferring risk from the State to the private sector to support future challenges
- Educating population on a day to day basis
- Making insurance solutions available to most of the population creating a mass market
- Supporting a healthier financial system
- Generating long term investment funds from the mass market

Banking sector

- Allowing provision of a “full” range of products to customers
- Covering banking assets (credit life and general insurance)
- Generating additional and stable sources of income

UK market is being heavily impacted by regulatory developments

Retail Distribution Review (RDR)

- Applies to distribution and the way customers pay financial advisers
- Moving from commission to a fee based approach
- Clear description of advisers' services as independent or restricted
- This affects investment and annuities; it does not affect protection, GI and equity release

Concurrenza regulation

- The UK payment protection market was referred to the competition commission that introduced significant interventions to address competition failings
- As a result a ban on selling at the point of credit sale was introduced

What products will be affected by RDR?

- Bonds
- Collectives
- Individual personal pensions
- Group personal pensions
- Annuities

RDR changes how customers can receive advice on products:

- **Independent** – Advice that is based on a comprehensive and fair analysis of the customers' relevant market, which is unbiased and unrestricted
- **Restricted** – Advisers who only offer advice on a single or limited range of products or providers
- **Simplified** – Advice for customers with relatively straight forward needs, delivered through a decision tree process, with limited range of products
- **Basic** – Advice using pre-scripted questions to identify whether a product is suitable

What are the key changes?



1 PAY

Customers will now pay an explicit fee for advice from their financial adviser

2 ADVICE

Advice will now fall under: Independent, restricted, simplified and basic



3 QUALIFICATIONS

Advisers now need to be qualified to diploma standard – QCF Level 4

4 BUSINESS

Advice firms will need to reconsider their business models



Case study: RDR expected impacts

Customer

- Customers will have to agree to an explicit fee for advisers' services
- Charge transparency will allow customers to compare
- Elimination of commission should remove any perception of the adviser not working in the best interest of the client and;
- Increase persistency rates as customers might be unwilling to cancel or surrender products that they have "paid for"
- People will be less willing to seek advice in the future
- Cost will increase as costs incurred due to RDR changes will be passed to customers
- Higher advisory cost may move advice "up market"

Distribution

- Business models will need to be reconsidered
- Compliance costs will increase and therefore the cost of advice
- Number of advisers will eventually reduce

Industry

- Operational processes and technology heavily impacted by new advice charging processes and restructure of commissioning models in existing contracts
- Tax implications of new models
- Additional compliance requirements and document compilation
- Finance and actuarial impacts as charging structure of the products will change significantly

Number of independent financial advisors (IFAs) and tied advisers fell by 20% as at inception of RDR

Bank advisers network were down by 44%

RDR regulation, intended to provide further transparency and protection to the consumer, may have unintended consequences

Will increase costs and price associated to services and products

Advice to move “up market” for upper classes and expel middle classes

Reduce distribution capacity making insurance products less accessible

Alternative distribution channels (e-platforms) and non advice expected to grow

With a huge protection gap we cannot afford for regulatory developments to reduce access to insurance services for the majority of the population

Information Requirements

- Key messages in any marketing communication (written and verbal) including the cost, that it's optional and available from other providers
- A personal PPI quote (the cost and cover provided)
- An annual review showing the cost and cover and the customers cancellation rights
- Monitoring information to the OFT
- Product and price information to the Money Advice Service to publish product comparisons tables (albeit they haven't)
- Claim ratios to anyone on request and no obligation to disclose commission
- Compliance reporting including commissioning 'mystery shopping' by the largest providers

The Prohibitions

- A ban on selling PPI at the point of credit sale (see next slide for detail).
- A ban on selling PPI before the start of the credit sale (within 7 days of a credit discussion which may result in a credit application)
- A ban on selling single premium policies
- A requirement for pro-rata refunds and a ban on any additional charges (e.g. set up or termination charges)
- A duty to offer retail PPI separately when sold in a package of insurance

Unexpected consequences have resulted from the implementation of point of sale prohibition on PPI on market and distributors

All players struggled to understand actual requirements

A number of distributors withdrew rather than implement

Encourages stand alone sales which present a different u/w profile

c+10% drop in sales conversion attributed to the ban

PPI becomes a lower priority in the distributors hierarchy

Point of sale prohibition has increased risk and costs for distributors

Different customers behaviours change in different ways

No evidence that customers are shopping around

Customers going “cold” during the prohibition; difficult to re-contact

Reduction in seller confidence – difficult conversations with customers

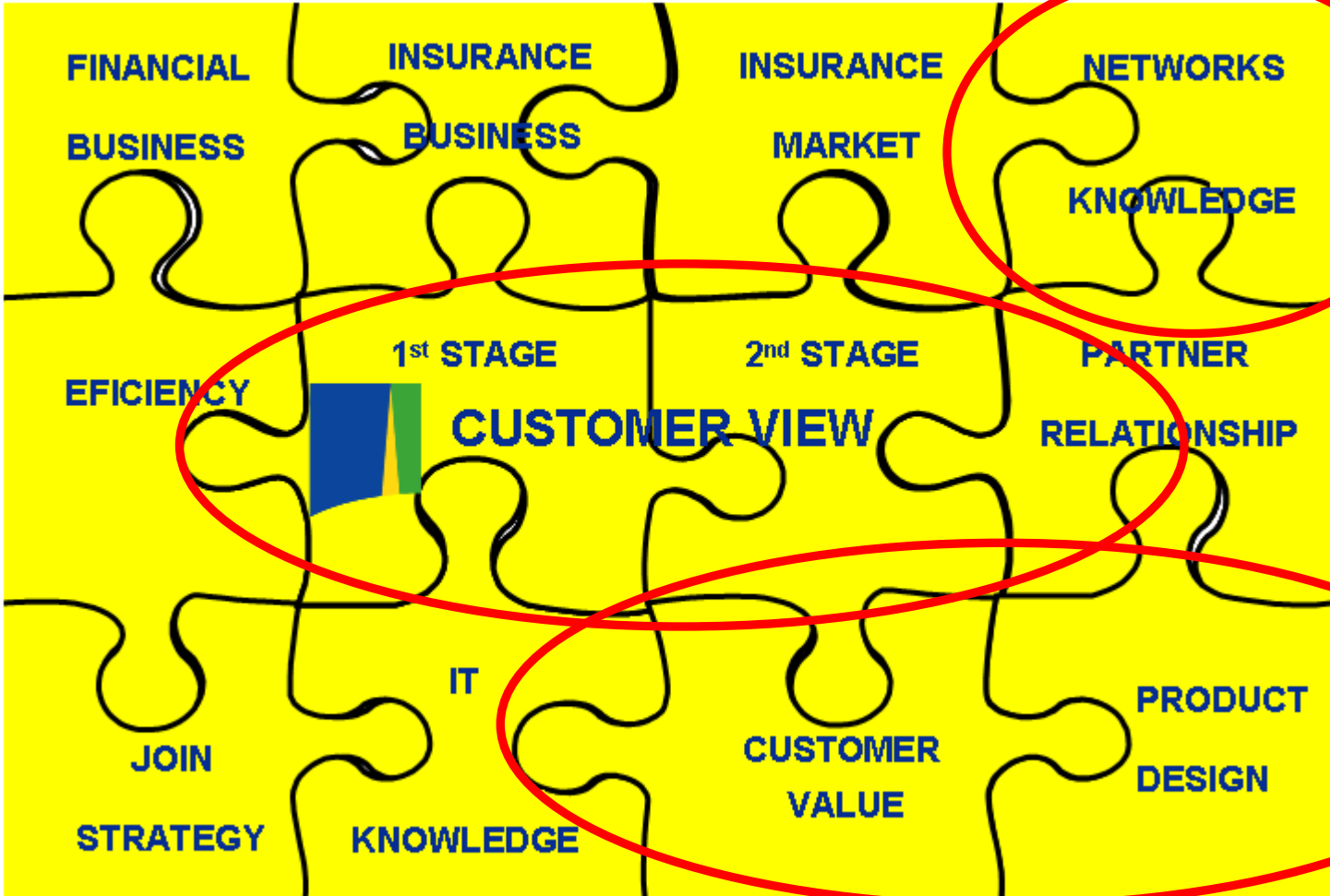
Reduction in protection cover for borrowers

It is not clear that the change achieved Competition Commission targets

- Heavier regulation is no guarantee of the customer protections initially desired
- Additional requirements may increase costs ultimately paid by customers
- Lack of clarity in regulation can have a catastrophic impact in the market
- Customer behaviours cannot be regulated
- Regulatory changes can result in reducing the access to protection products in an environment where there is still a significant protection gap
- Regulation should provide clear guidelines for distribution behaviour
- Products, customer segmentation and distribution need to be properly aligned

Regulation under certain circumstances may have negative results for consumers

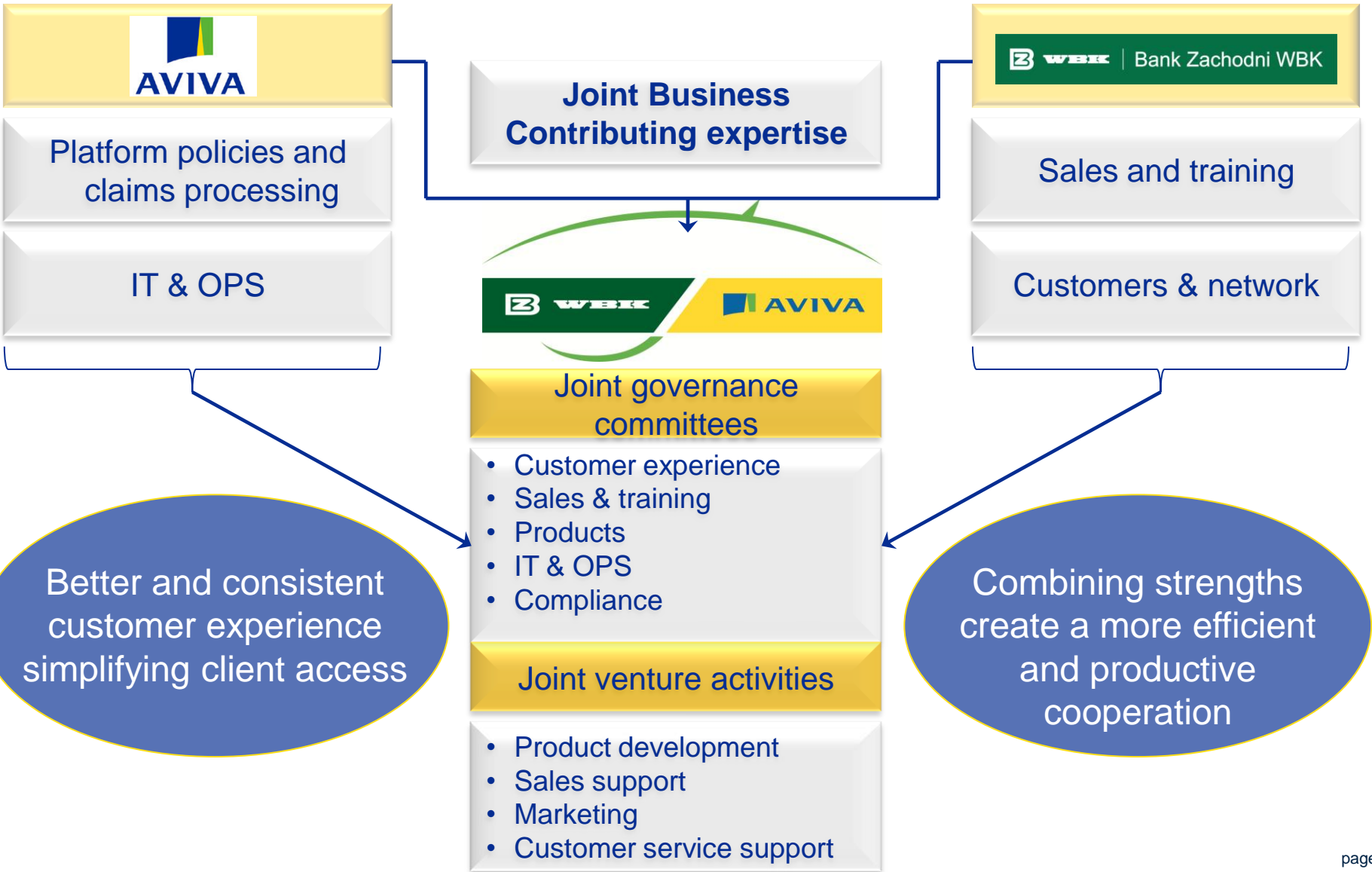
Insurance need to be adapted to banking distribution



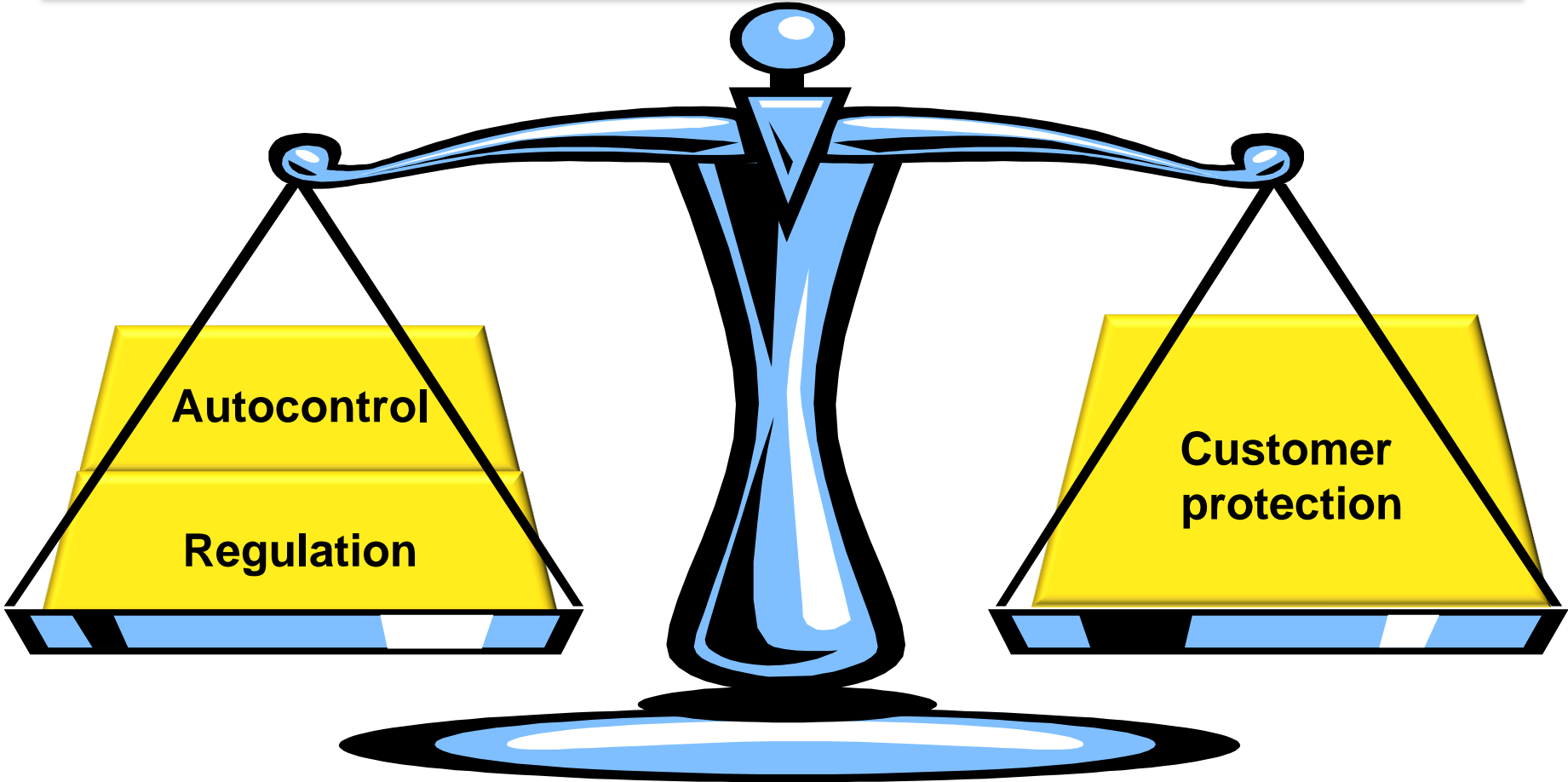
A customized Bancassurance model



Joint Ventures an efficient bancassurance cooperation model: BZWBK-AVIVA case



Customer protection and regulation need to be balanced



Excess of legal regulation may have counterproductive effects



AVIVA