



PHOENIX GROUP

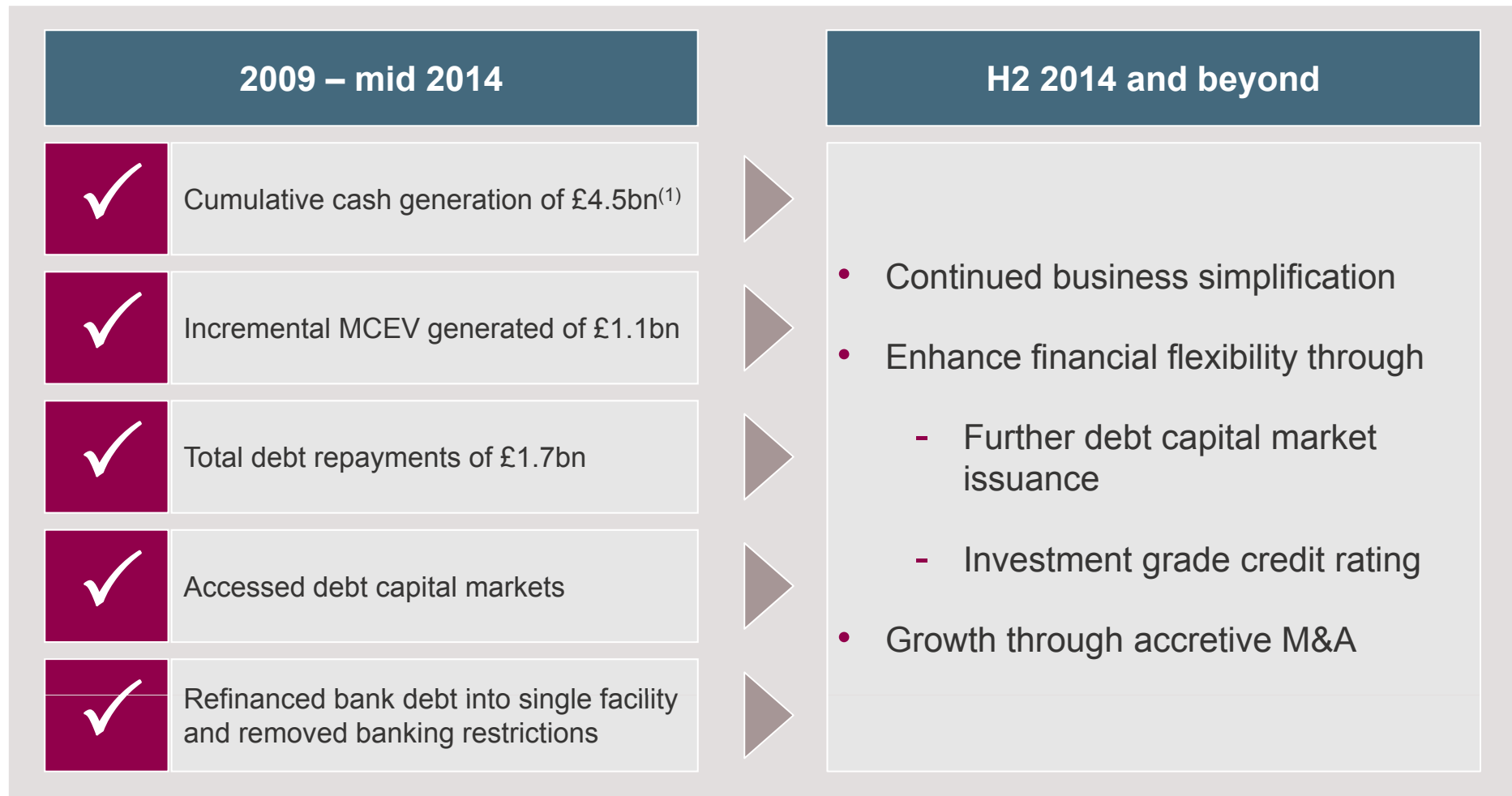
Investor Day Presentation

25 November 2014



Welcome
Clive Bannister

Phoenix Group repositioned for future growth



Notes: (1) Including Ignis divestment proceeds of £390m

Agenda

The Evolving UK Life Sector

Andy Moss | Chief Executive, Phoenix Life

Our Operating Model

Tony Kassimiotis | Managing Director, Operations

Our Customers

Susan McInnes | Customer Director, Phoenix Life

Opportunities for Growth

Fiona Clutterbuck | Head of Strategy & Corporate Development

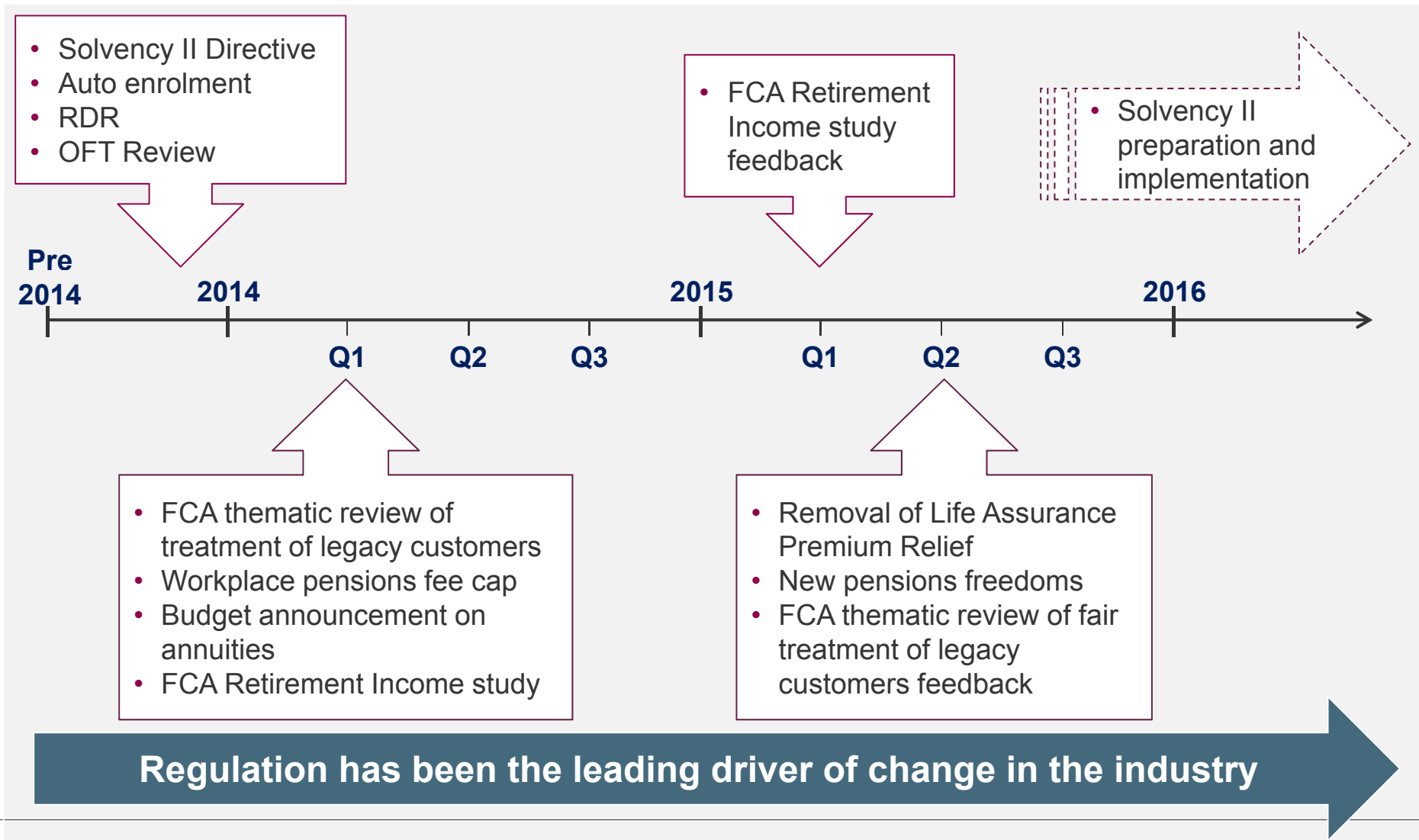
Wrap-up

Clive Bannister | Group Chief Executive

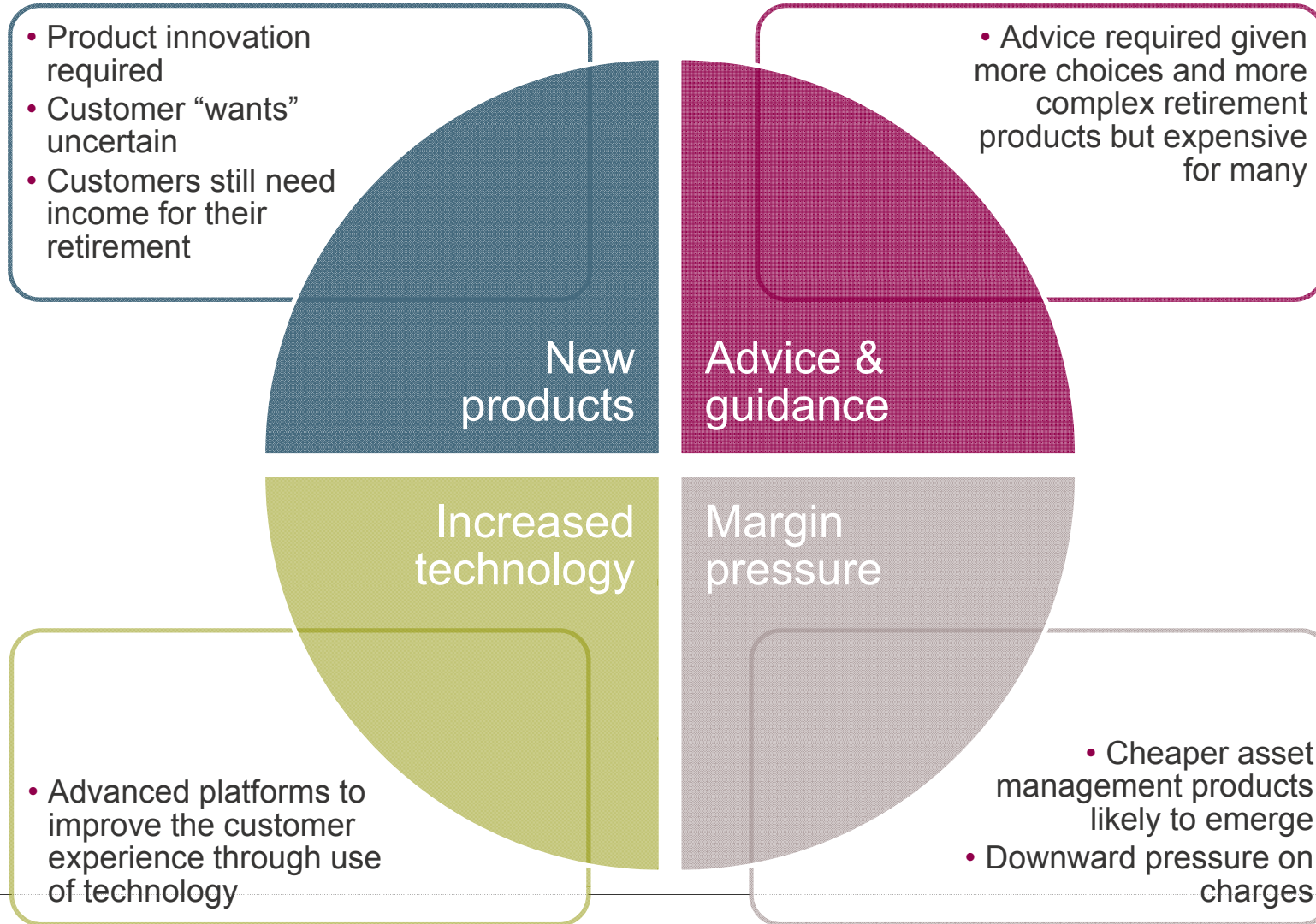


The Evolving UK Life Sector
Andy Moss

The UK life sector is evolving...so what's happening?



A 'new world' is emerging for new business writers



Closed funds are facing a significant uplift in complexity and cost

Regulation / legislation

- Long term political focus on accumulation / decumulation / support in old age
- Peers will be challenged by cross-subsidisation of open and closed books
- Increased regulatory focus is here to stay
- Most legacy customers are now orphaned from advice – decline of direct sales forces
- Focus on legacy products – customer outcomes and service levels

Challenges for closed funds

- ✗ Legacy products are complex to administer and manage
- ✗ Increased regulation may lead to requirement for further system investment
- ✗ Legacy book migrations are complex and expensive
- ✗ Fixed cost pressure as book runs-off
- ✗ Requirement to maintain specialist expertise
- ✗ Risks to persistency given new pension freedoms

Opportunities to deploy the Phoenix closed life operating model

Phoenix position on key regulatory and legislative challenges

	Annuities	FCA thematic review	Workplace pensions cap
Industry impact	<ul style="list-style-type: none"> Volumes predicted to fall by between 20% - 90% Other country experience of annuity take-up rates between 10% - 80% Full cash take-up predicted between 24% - 56% Need for different products 	<ul style="list-style-type: none"> Customer communications Back end charges Allocation of expenses 	<ul style="list-style-type: none"> 0.75% for qualifying schemes Further downward pressure on charges
Phoenix response	<ul style="list-style-type: none"> ✓ Guidance Guarantee should support GARs but provided for £17m MCEV impact ✓ New business value from non-GARs was £7m in H1 ✓ Continue to write annuities and provide access to alternative products 	<ul style="list-style-type: none"> ✓ Strong product governance framework ✓ Back-end charges less than 1% of funds under management ✓ No new business 	<ul style="list-style-type: none"> ✓ Cap does not apply to conventional with-profit schemes ✓ Approximately 90% of membership non-premium paying ✓ £40m MCEV impact assumed at HY14

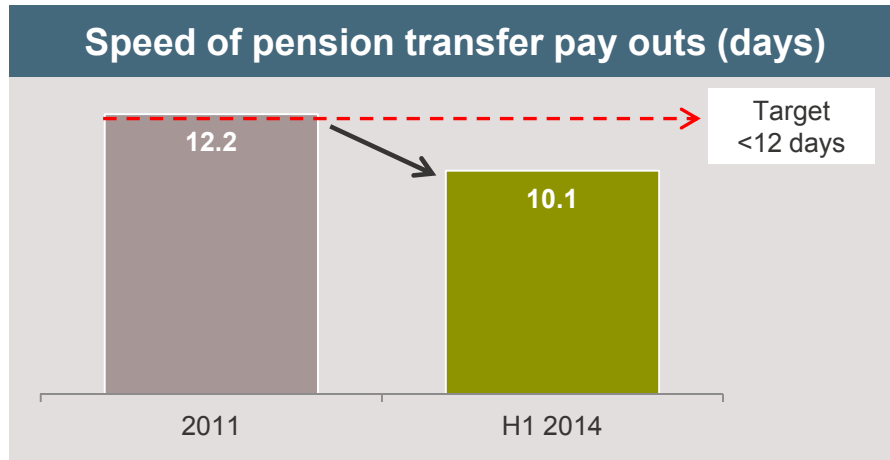
Key industry challenges do impact but we predict are of a manageable scale

Phoenix's focus on legacy management starts with an effective and targeted operating model

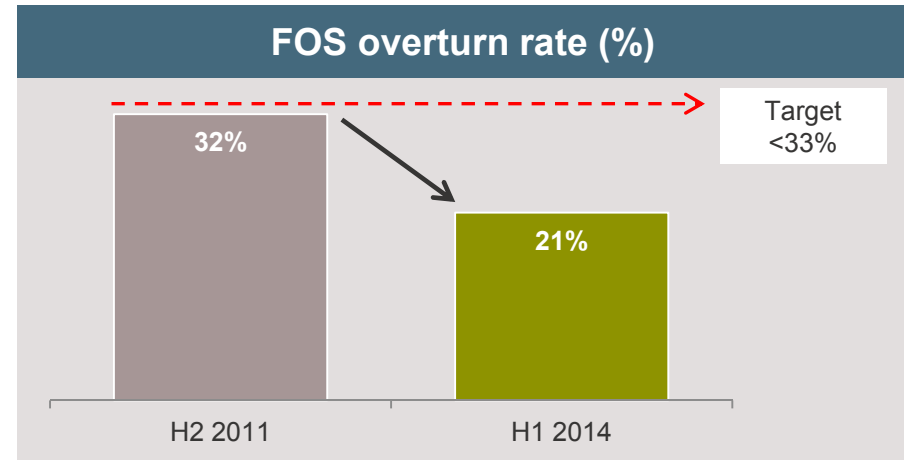


Phoenix has an effective operating model already in place

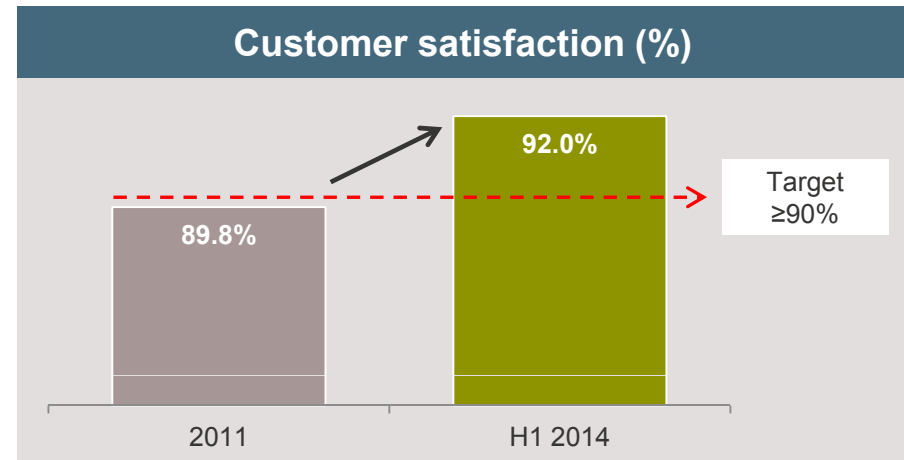
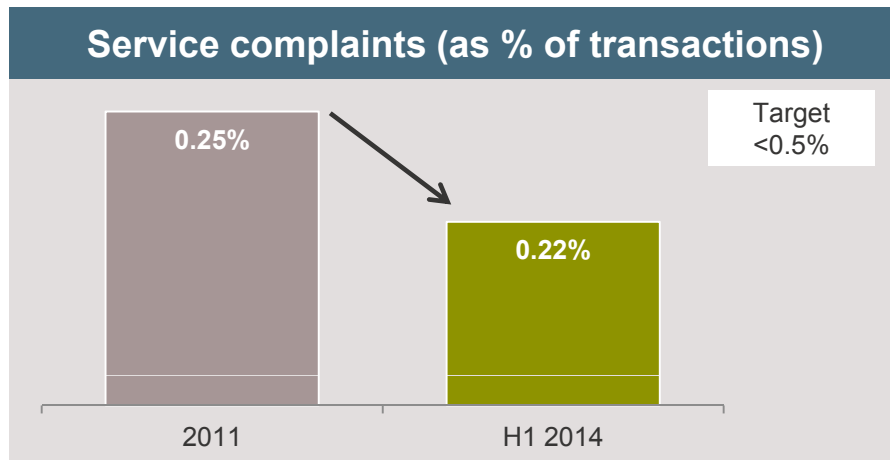
Customer service levels have also improved



Note: Phoenix first joined the ABI-sponsored Origo service for pension transfers in 2010

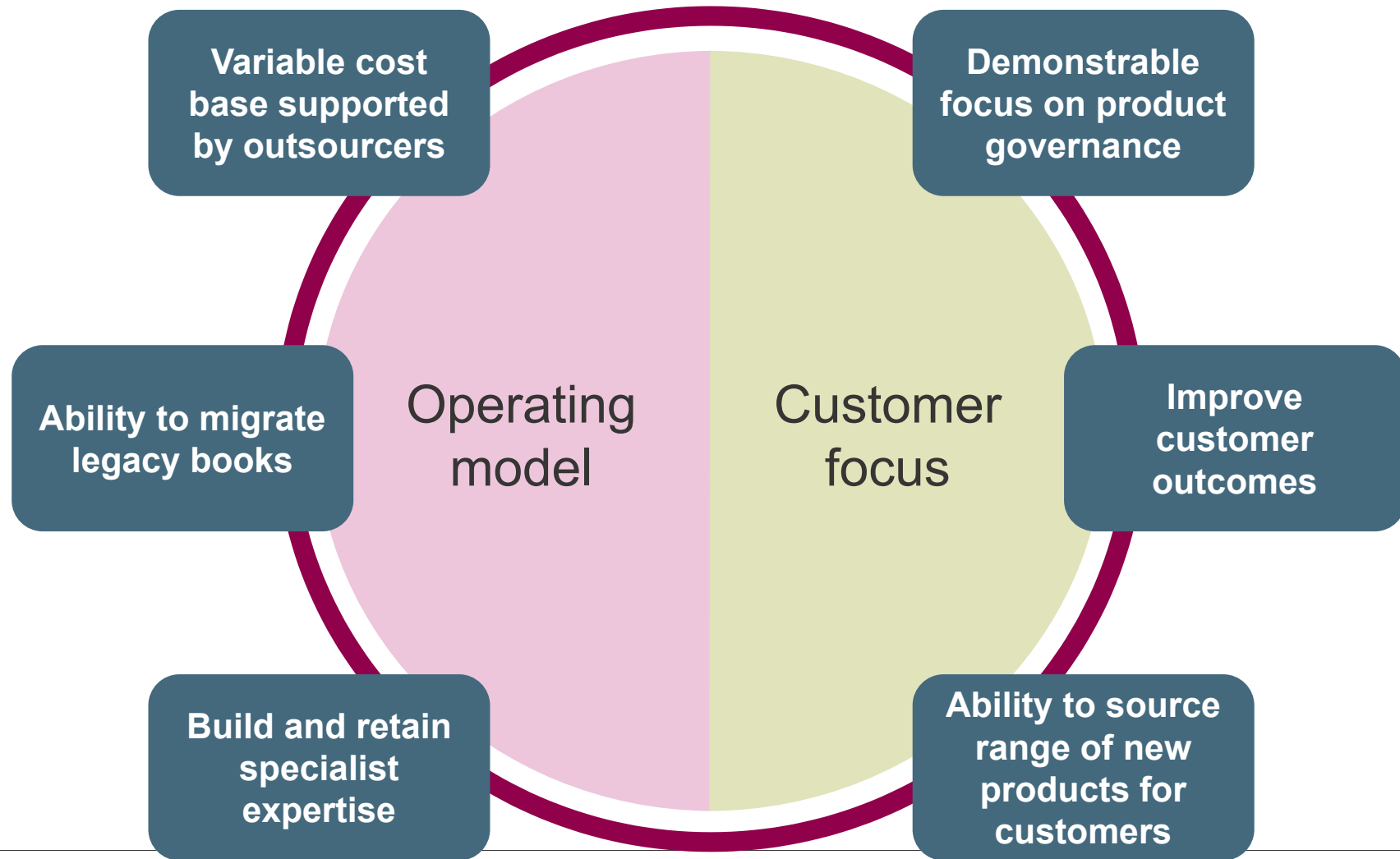


Note: Consolidated FOS information only available from H2 2011



- In addition, Phoenix has increased the distributable estate by over £900 million between 2010 – 2013, helping improve policyholder returns

Key requirements for success in the closed life market





Our Operating Model

Tony Kassimiotis

Key operational challenges facing the UK life industry

Regulation

- More intrusive regulatory regime
- Focus on Solvency 2 implementation
- Use of skilled person reports / more deep dives

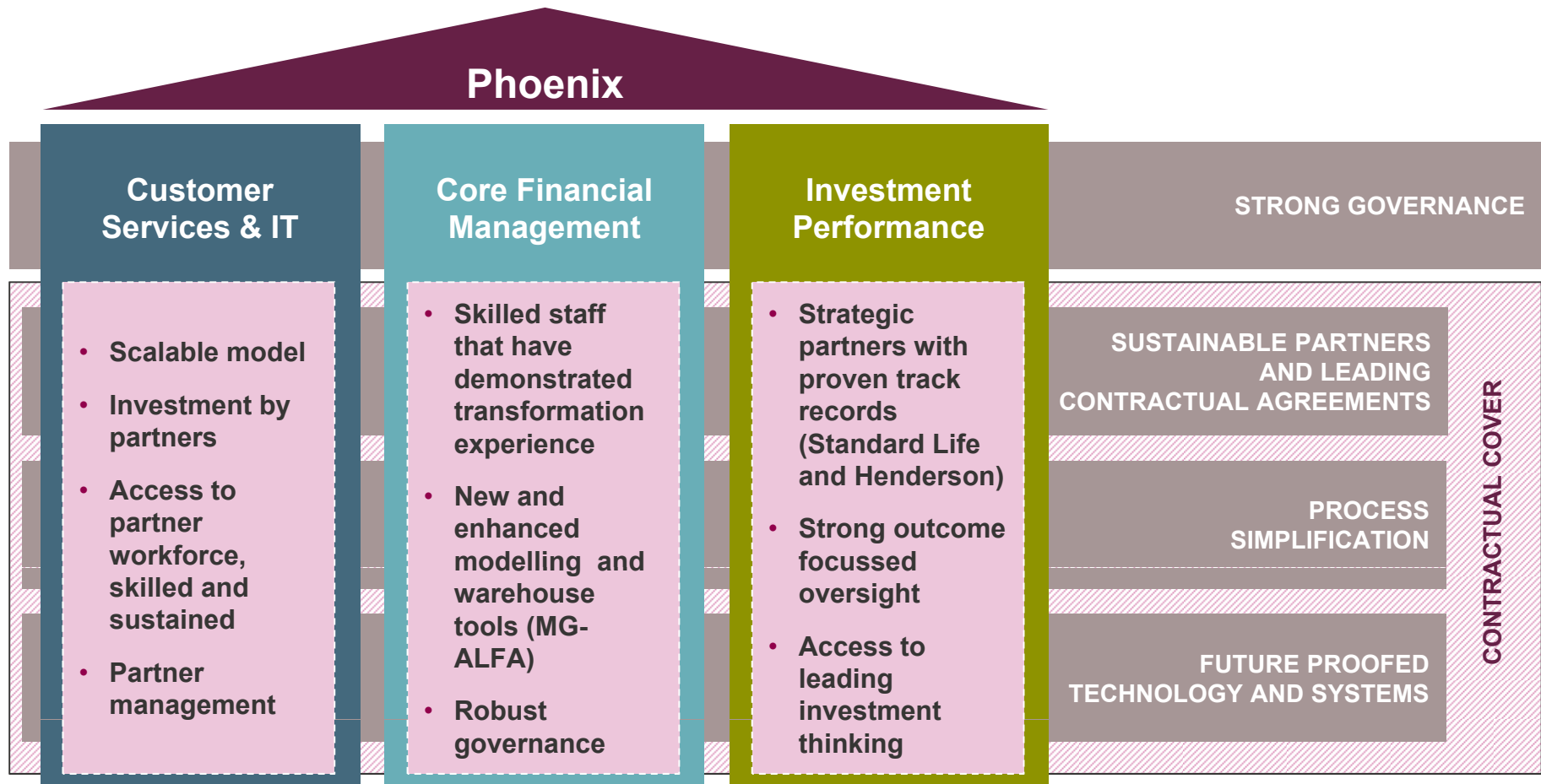
Costs

- Costs of regulatory change, with focus on investment in systems
- Increasing fixed cost ratio as back books run off, with recent annuity changes accelerating long term cost issue
- Requirement to retain specialist experts to manage legacy products e.g. with profits

Customer service






- FCA focus on treatment of legacy customers requires enhanced product governance
- Challenge of low customer engagement, with knock-on impact of poor customer service on persistency and customer retention
- Increased propensity to complain with increased Claims Management Company activity

“Industrialising” effective closed fund management



Scalability comes from common systems, simplified processes and market leading partners

How does our operating model help Phoenix meet the challenges facing closed life funds?

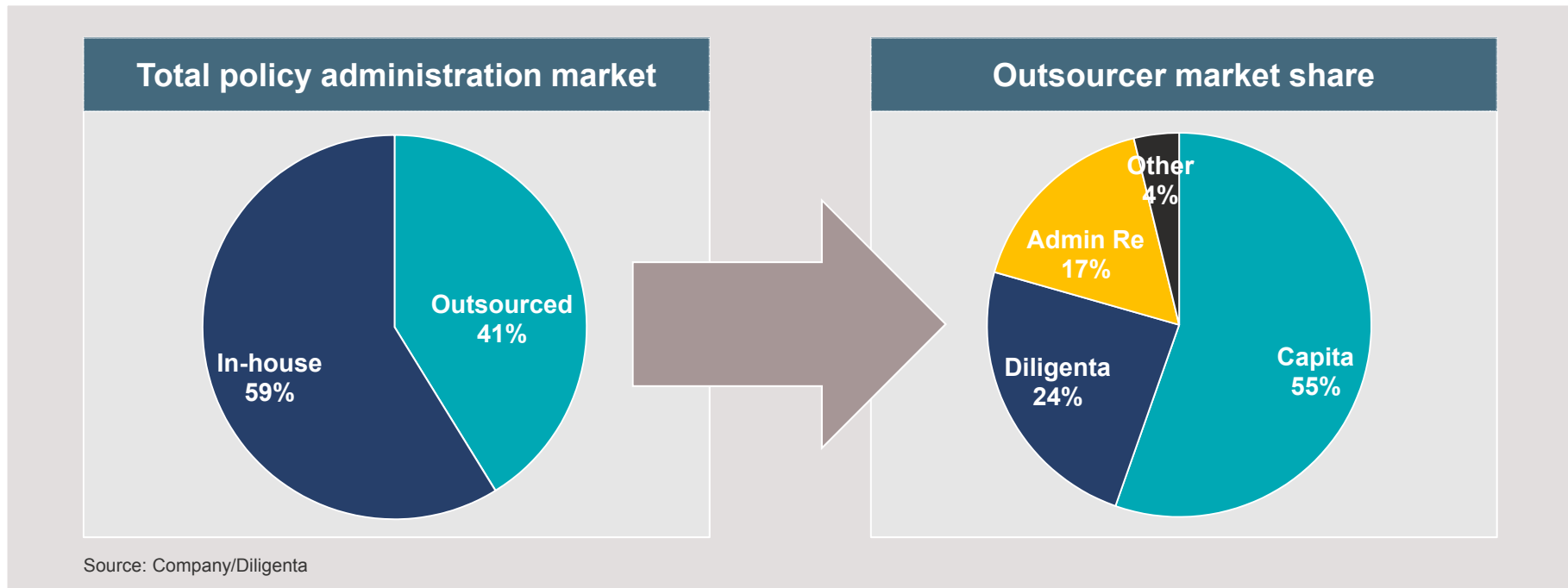
Our key principles	Advantages
<ul style="list-style-type: none">• “Transformational” - at the core we deploy in-house expertise, expert modelling systems and sustainable partners• Phoenix remains accountable for all customer outcomes and experience• We want to be recognised as the industry leader in Outsource Management• We seek to build successful, profitable and sustainable partnerships with our Outsource Service Providers	 Converts fixed to variable costs – vital for policy run off
	 Reduces future investment costs
	 Technology future proofing our administration capability
	 Reduces our operational risk
	 Reduces the major cost of regulatory change

Phoenix's outsource model goes further than just policy administration

Phoenix Operating Model		Partnerships	Established
Customer Services and IT	<ul style="list-style-type: none"> Mature operating contracts, with demonstrable risk and cost transfer Diligenta our largest partner, with transformed operation, modern platforms 	Diligenta Capita HCL IFDS	2006
Core Financial Management	<ul style="list-style-type: none"> Relationships established in 2013/14 in Fund Accounting built on previous experience Consolidation of 8 suppliers to 2 Consolidation to one actuarial modelling system 	HSBC Milliman	2012
Investment Performance	<ul style="list-style-type: none"> Our most recent relationship, will benefit from streamlined interfaces, transformed Investment Platforms 	Standard Life Investments	2014

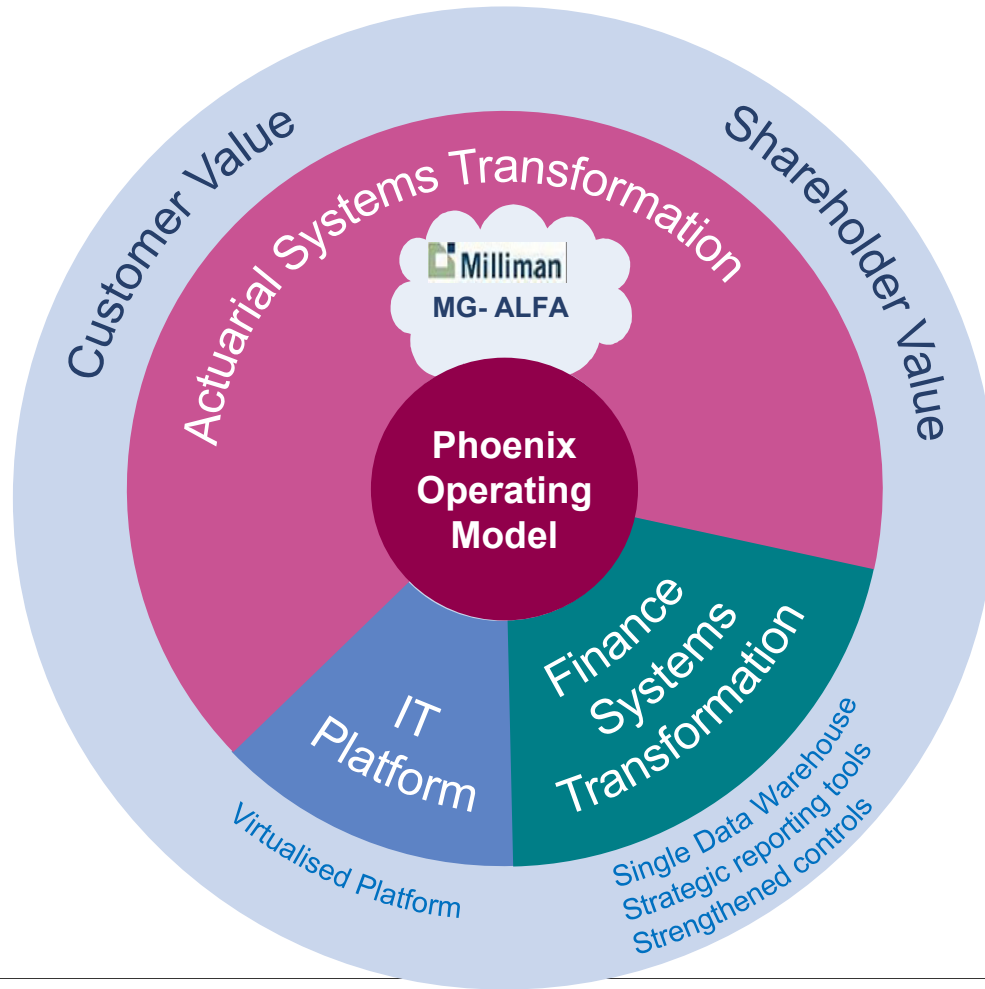
As a first mover, we are in a great position to leverage our partnerships

The administration outsourcing market is maturing



- UK outsourcing market has seen significant consolidation in recent years
- Market is not attractive to new entrants as overall market is shrinking as policies run off and start-up/investment costs are high
- However, there is a market opportunity for existing players with proven systems and transformation expertise
- Position of new buyers of policy administration services is weaker than during the 2000s - we are in a strong position as an early adopter to leverage our existing agreements

We have transformed our actuarial and finance systems



New Technology, Simplified Processes

Target Operating Model

- Virtualised services
- Cloud-based modelling technology
- Scalable finance systems
- Actuarial manual processes reduced from 900+ to 64
- ICA production time reduced from 4 months to 3 days

Benefits

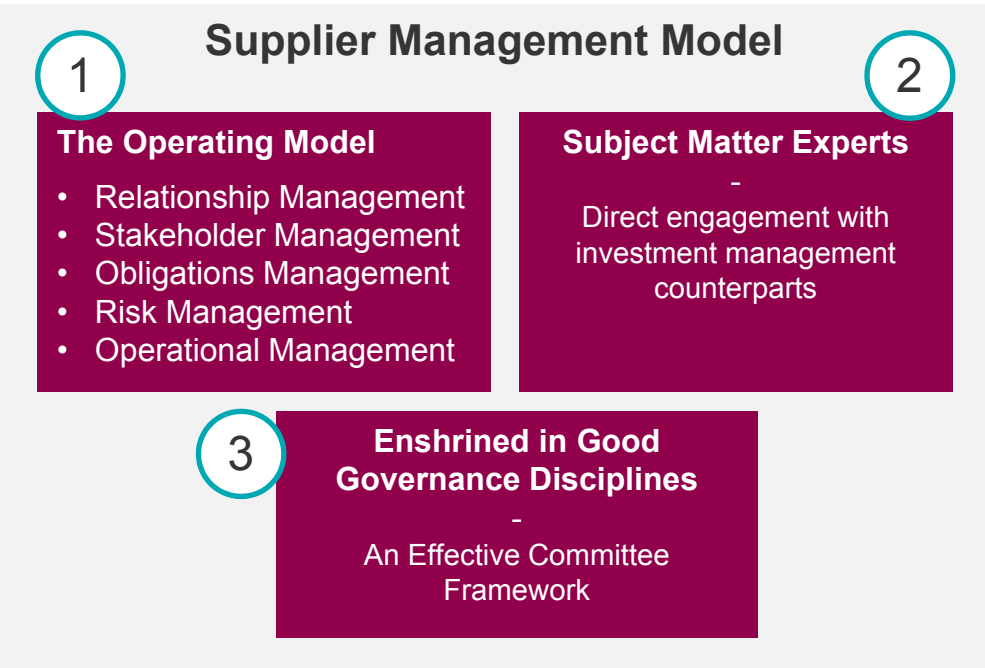
- Fixed to variable costs on desktop and actuarial modelling runs
- Cost of change 30% cheaper
- £132m MCEV uplift

Next Steps

- Efficient access to single data source
- Faster decision making

Phoenix's outsource model goes further than just policy administration

- Asset management partners are Standard Life Investments, Henderson and Castle Hill
- Transition to SLI follows the same Phoenix Life Supplier Management Model principles
- Close oversight of the transition process
- Agreed governance structure provides a simplified interface
- Simplification of front and back offices improves both cost efficiency and risk management



Progress of Standard Life Investments transition to date

Equities
Transition in Aug 14
£10bn AuM

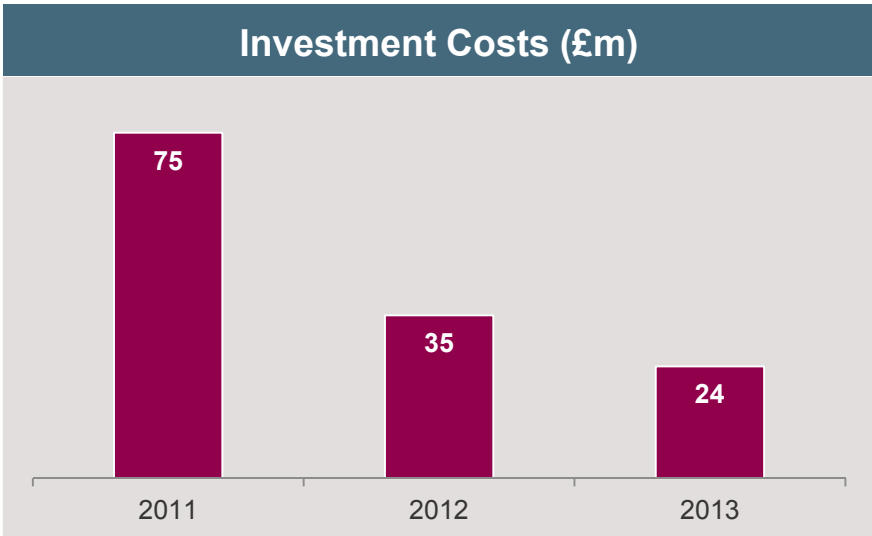
Real Estate
Transition in Oct 14
£2.8bn AuM

Liquidity
Transition by FY14
£8.5bn AuM



- Almost 50% of AuM expected to be on SLI's target operating model by year end
- Further transitions expected in 2015

Financial benefits continue to be harvested



- Multiple legacy environments have been transformed and rationalised
- Annual investment reduced from £75m in 2011 to £24m in 2013
- Strategic change management is a core competence

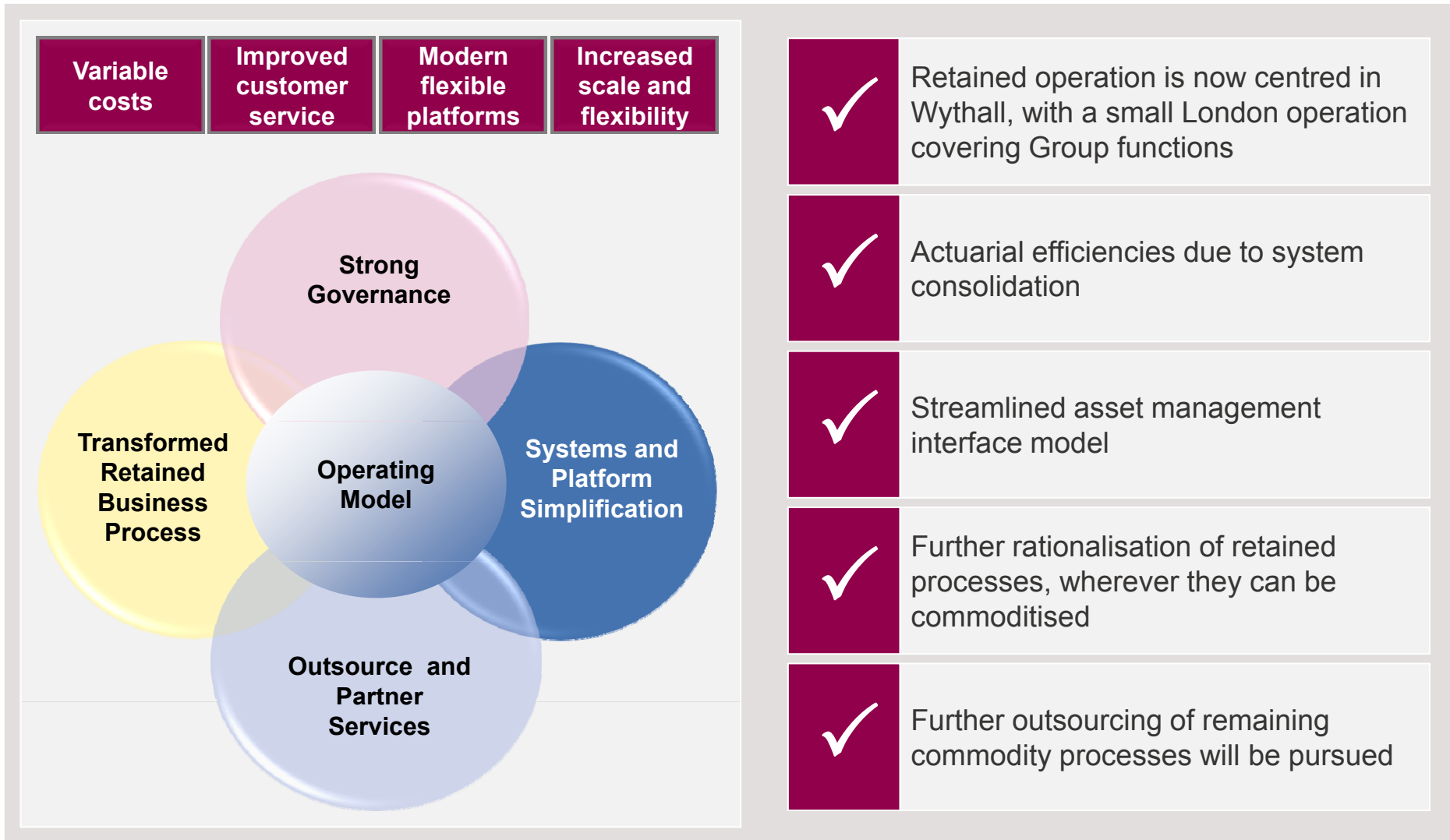
	Policy run-off	Costs ⁽¹⁾ run-off
2010 - 2011	6.9%	9.2%
2011 - 2012	6.7%	7.2%
2012 - 2013	11.2% ⁽²⁾	9.6%
Cumulative since 2010	22.8%	23.8%

- We are leveraging scale and capability of industry leaders
- Cost of change reduced by minimum of 20%
- 2010-2013 cost run off @ 23.8% exceeds policy attrition rate @ 22.8%

All underpinned by significant operational and financial risk transfer to our outsourcing partners

Notes: (1) Cost measures based on Phoenix Life direct and allocated costs for running the closed life book operation
 (2) Includes impact of annuity transfer to Guardian, resulting in a transfer of 322,000 policies on 1 October 2013

Phoenix is well placed for the future

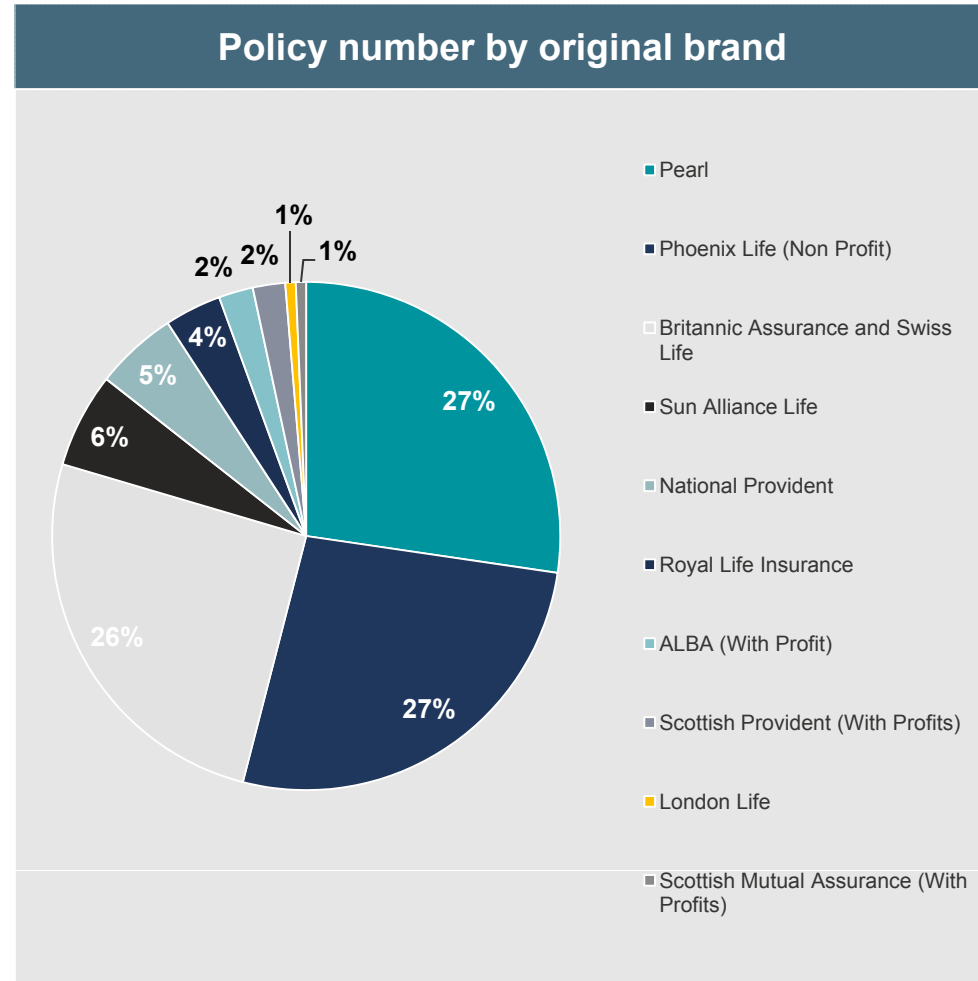




Our Customers
Susan McInnes

We have a large and diverse customer base

- We currently have c.5.5m customers
- Originate from several hundred historic brands – now all closed to new business other than contractual increments
- Most are no longer independently advised
- Many customers originated from brands with in-house sales teams and continue to have strong loyalty to the original brand
- Move to single Phoenix Life brand as funds have merged
- Phoenix has a key role to play in helping decision making

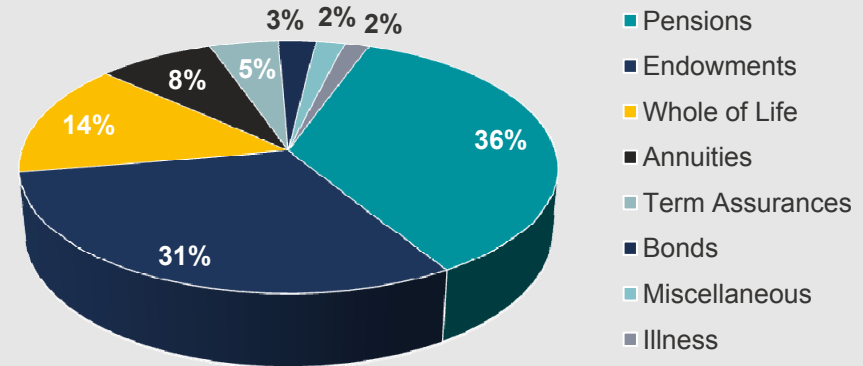


Our objective is to generate value for customers and shareholders

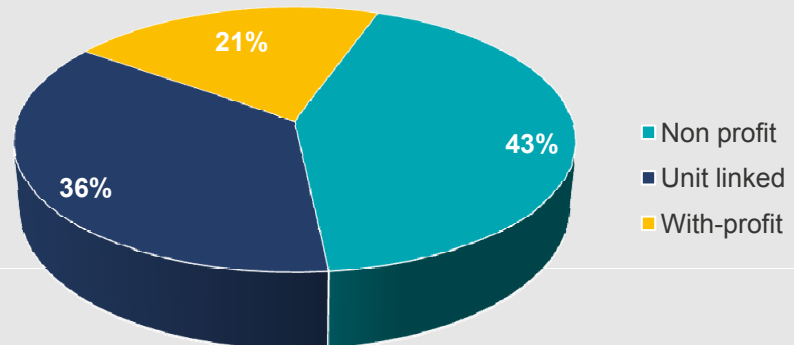
We manage a wide range of legacy products

- Full range of complexity of product structure from simple savings through to income protection and pensions drawdown products
- Largest categories are Pensions, Endowments and Whole of Life policies
- Typically products were purchased for a long term need – house purchase, pension or funeral planning which results in little need to engage for long periods
- We have built expertise in a wide range of products
- Our pensions book contains a high percentage of non-premium paying policies

Policy number by product type



Policy number by fund type



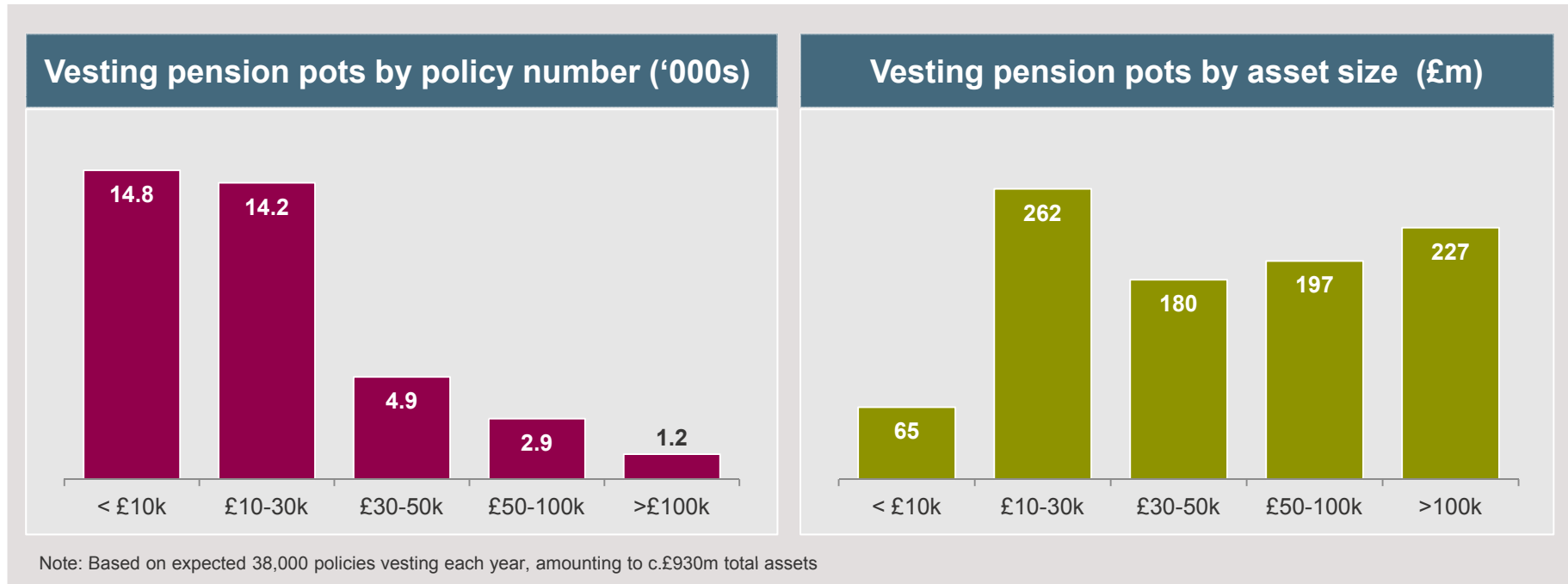
Complex product set but limited exposure to any single product issue

Our customer agenda is complementary to the regulatory and political agenda

Key challenges	Actions we have taken to date
<ul style="list-style-type: none">• Customers are confused by the extent of change in pensions• Need to keep customers engaged enough to make informed decisions• Simplifying communications for complex products• Ensuring customers have product flexibility when needed	<ul style="list-style-type: none">✓ Enhanced tracing to keep in touch with “gone away” customers✓ Enhanced communications to remind customers of the product and benefits✓ Offered buy-outs for unwanted products✓ Allowed full freedoms for any permissive regulation

Track record of customer actions will be built on in future

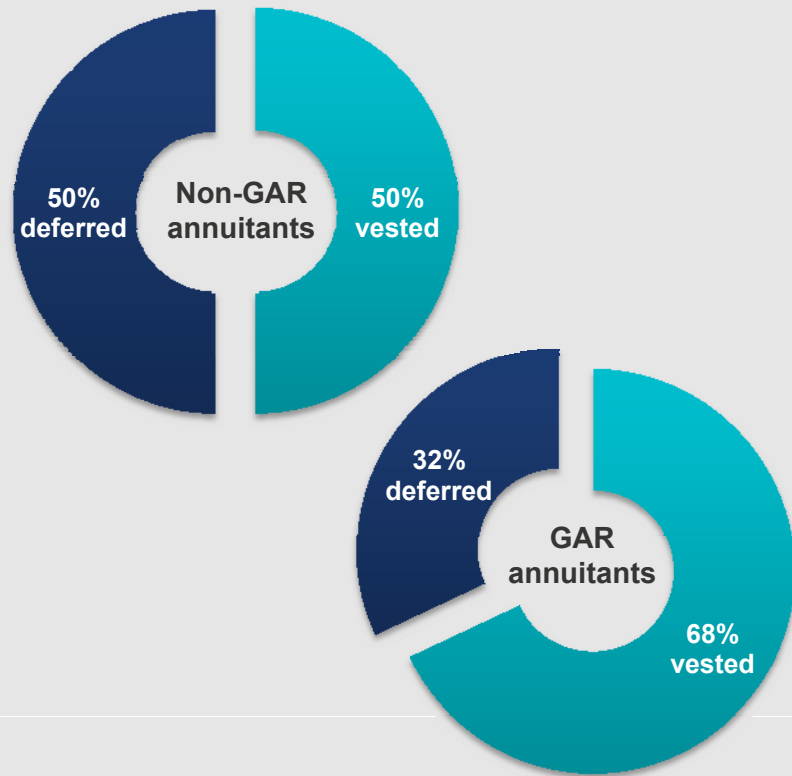
Majority of Phoenix customers have smaller pension pots



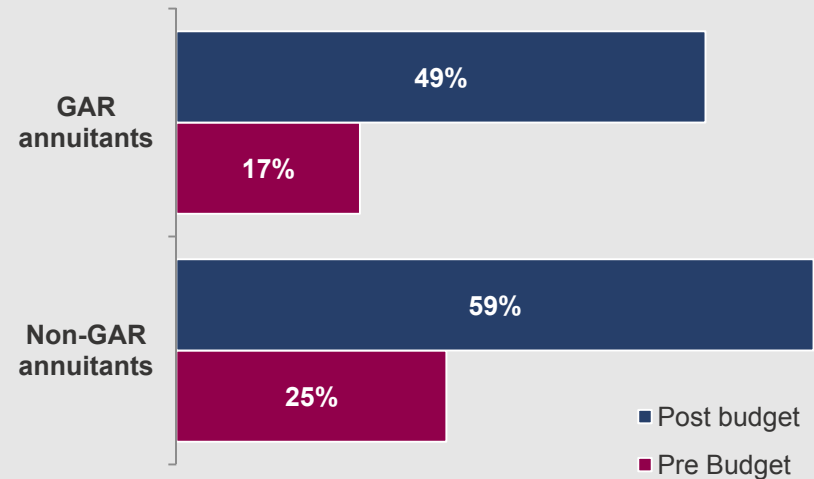
- Over 75% of vesting policies have less than £30k, with only around 10% of Phoenix customers having more than £50k
- However, pots greater than £50k make up 46% of vesting policies by total assets
- Wide range of pension pot size, average being c.£25,000, with opportunity for Phoenix to satisfy a wide range of customer needs in future

Retirement Journey: Our experience of customer behaviour to date

Current high levels of deferral







Increased commutation of smaller pots (<£10k)



- Current Phoenix assumption that non-GAR take up will decline by two thirds and GAR take up to decline by 20%
- Annuities remain popular for larger fund sizes
- Interest in “doing nothing” for smaller pots

Decisions are heavily dependent on pot size but to date in line with our financial assumptions

New product offerings being explored by Phoenix Life will satisfy the range of possible customer requirements

Customer needs	Phoenix solution
<ul style="list-style-type: none">Income for lifeTax efficient way to take full cash over timeImmediate cashInheritance planning for small non-critical pots	<ul style="list-style-type: none"> In-house annuity or provision via partnership Existing products being explored to allow flexibility of drawdown Full freedom of cash being offered for all DC products Existing maturity dates can be extended to allow pots to remain invested

Flexibility from the existing product set with partnerships developed to complement

Our reaction to the change in pensions landscape

Outlook

- ✓ Our expectation is that there remains a need for income for life and we will continue to write annuities for both GAR and non-GAR customers

Product Innovation

- ✓ We expect the market and customer behaviour to evolve over the next few years
- ✓ We intend to operate a “test and learn” approach to amending products and will use partnerships to test more complex product offerings with our customer base

Exit Charges

- ✓ We expect political pressure to continue on exit charges which may in time drive change
- ✓ Our total exposure to exit charges is less than 1% of our unit-linked pensions funds under management



Opportunities for Growth

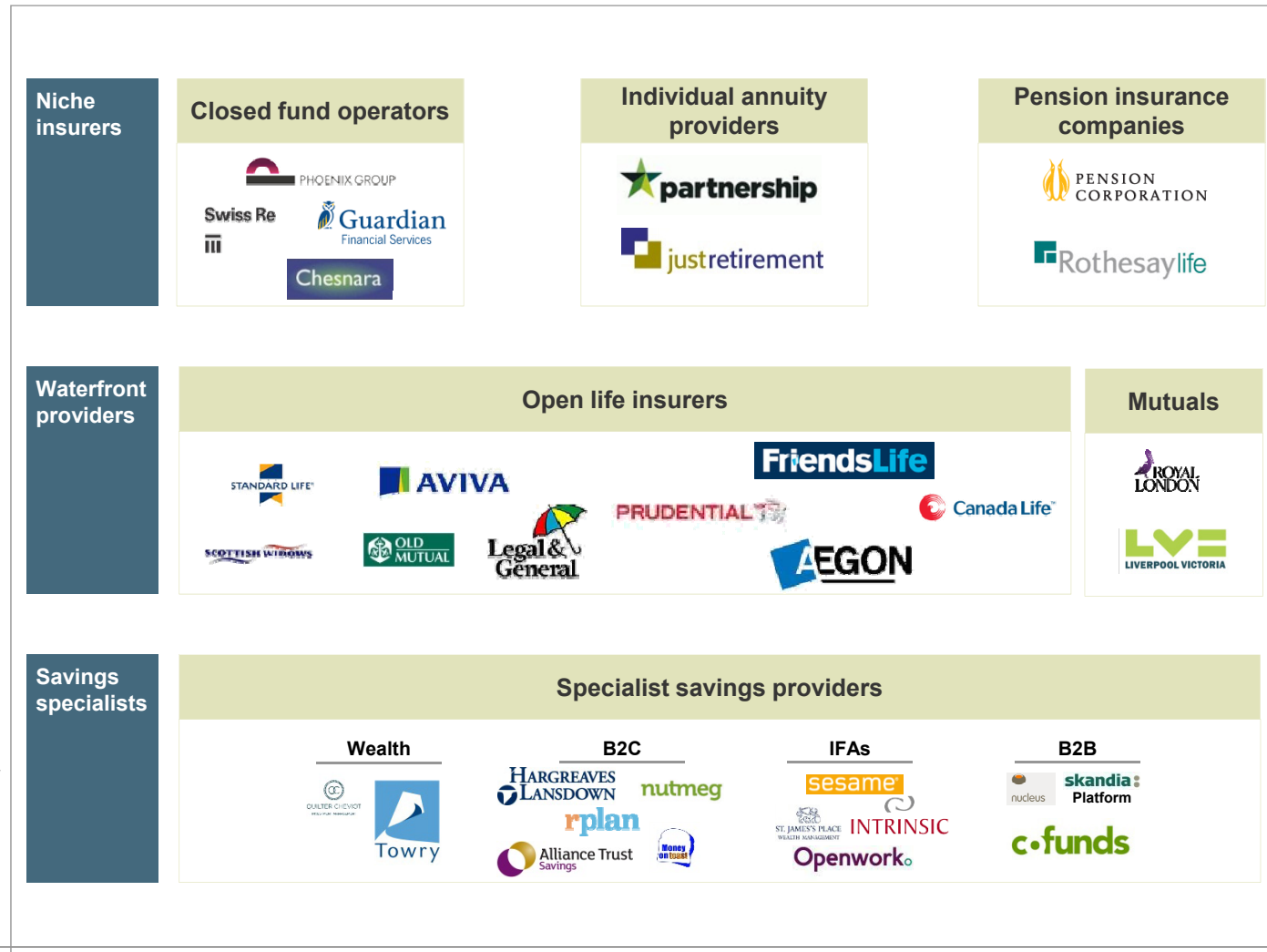
Fiona Clutterbuck

The UK life sector is evolving

- Annuity writers impacted by recent reforms
 - Potential to result in “effective” closure for some

- Back books could consolidate given high fixed costs to manage

- SIPP and income drawdown expected to grow substantially



What might things look like in 2020 for those without new business scale?

- Loss of profitable income stream from writing annuities
- Rising fixed cost ratio as back books run-off
- Focus of Regulator on customer outcomes limits ability to cut costs
- Retention issues for experienced staff to manage legacy products and platforms

Consolidation through M&A activity is the logical conclusion

Long term consolidation drivers impacted by short term unknowns

Key drivers for consolidation

- ✓ Evolving regulatory regime, including impact of Basel III on bancassurers
- ✓ Old world policies and back books less of a focus for open life companies
- ✓ Cost of legacy back books will approach sub critical mass
- ✓ Investments required in technology/platforms to achieve economies of scale
- ✓ Specialist skill sets required to manage back books

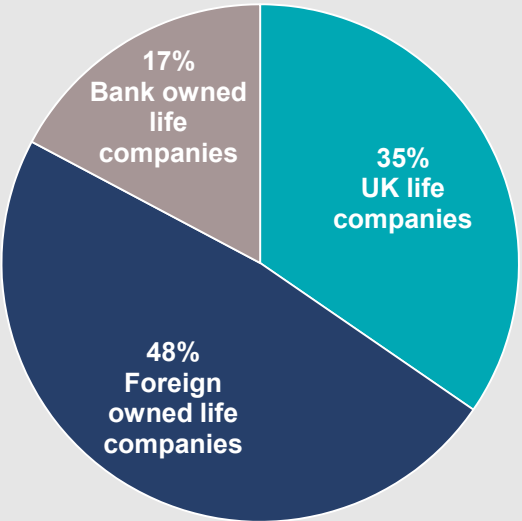
Issues on timing

- ? Ability of larger players to focus on driving value from back books internally
- ? Awaiting clarity on Solvency 2 impact on capital positions
- ? Outcomes from FCA legacy customer review still unknown
- ? Success of open players in writing profitable new business in future
- ? Costs pressures from a declining book may take time to bite

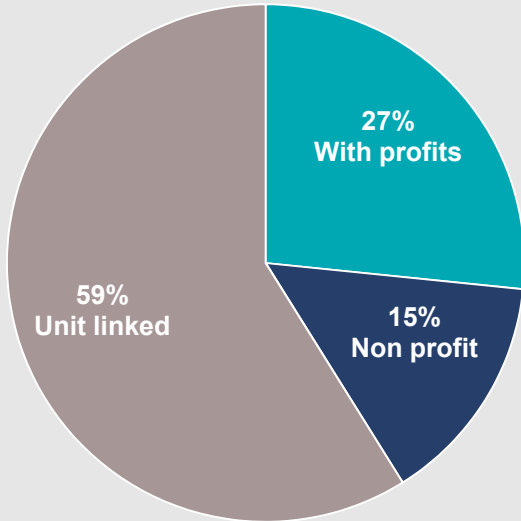
Timing of consolidation is unclear given ongoing regulatory uncertainty

Potential opportunities of up to £340 billion are held by various types of owners across a range of product types

Potential market opportunities by owner



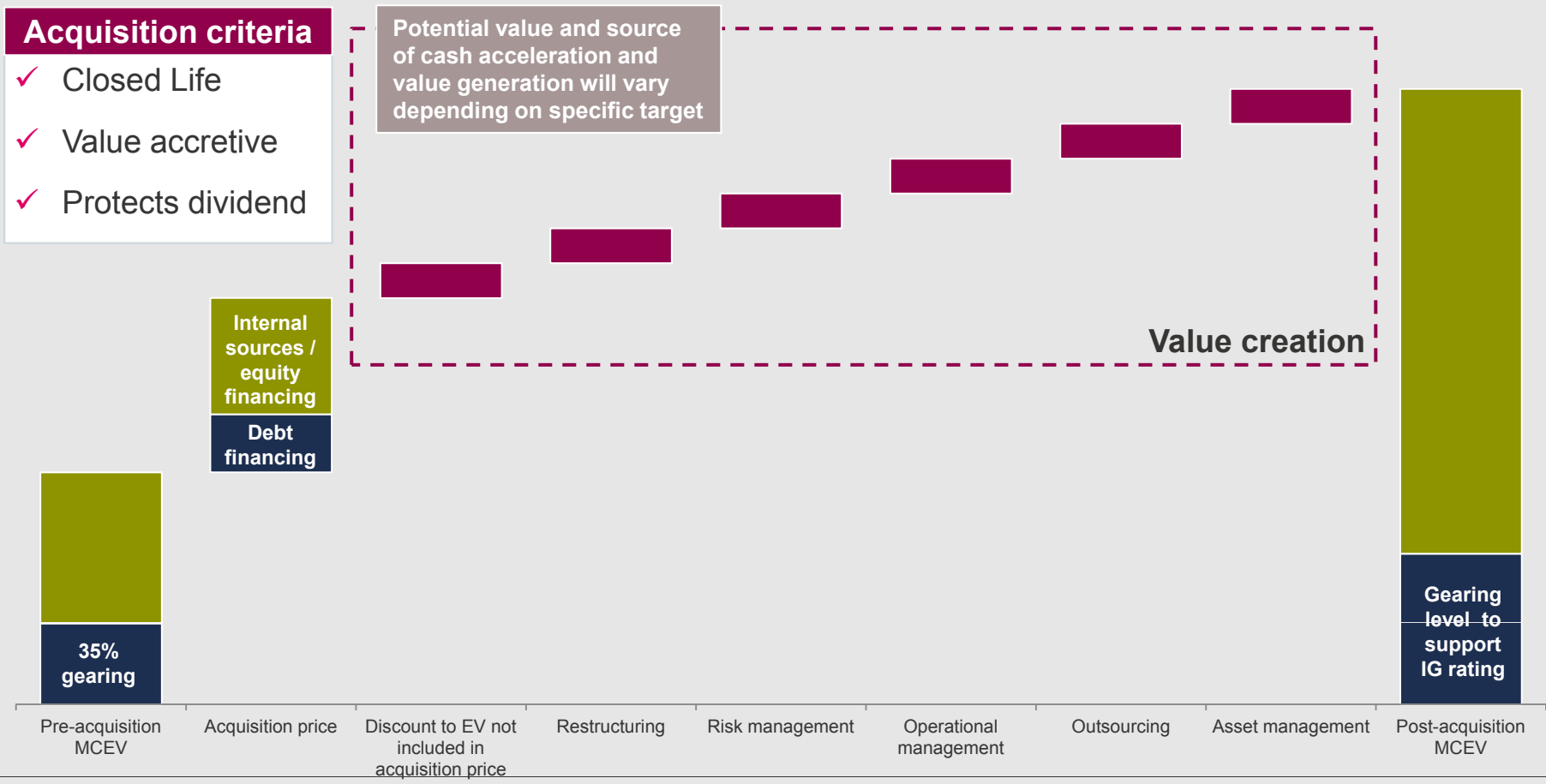
Potential market opportunities by product type



Source: Company. Analysis based on 2013 FSA returns. Excludes Phoenix Group.

Flexibility to finance transactions and potential to deliver significant value generation and cash

Acquisition financing and potential sources of cash acceleration and value generation¹



¹ Not to scale

Phoenix is well positioned to capitalise on the inevitable consolidation of the closed life sector



- UK's leading specialist consolidator of closed life funds



- Simple and scalable model, focused on improving policyholder and shareholder returns



- Efficient administration platform with a variable cost base, together with an effective outsourcer oversight model



- Track record of enhancing value through management actions



- Financial flexibility to fund acquisitions







- We are M&A ready, with an experienced deal team and proven integration capability



Wrap-up

Clive Bannister

Phoenix remains the solution for legacy book management

Phoenix's key advantages	2015 and beyond
 Size and scale across all product types	Ability to manage wide range of products gives significant economies in an acquisition environment
 Specialist operating model	Operating structure designed purely for closed life consolidation Established partners provide strong capabilities
 Management focus, skills and expertise	Enables the highest value to be extracted from a deal whilst ensuring our customers are not disadvantaged
 Scalability of operating model	Costs run off as the business runs off In M&A scenario, management action benefits of moving acquired business to our operating model



Q&A

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