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Slide 1 Introduction

Good afternoon ladies and gentlemen. I am delighted to have the opportunity to address you here today in this sunny setting courtesy of our hosts Goldman Sachs. I am conscious that at this stage of the day that there are possibly more enticing attractions than listening to a discourse from me on life assurance. I am also conscious that my presentation is the last obstacle standing between you and the bar.

I will therefore try to be brief and to the point.

Slide 2 Agenda

The subject of my talk today is entitled delivering on bancassurance. Bancassurance has had a chequered performance across different markets but in Ireland it has been an unambiguous success over the past decade. More recently in the past 5 years we in Irish Life & Permanent have implemented our bancassurance model and have created a bancassurance business second to none in the market.

However before looking at the Irish life and pensions market and the performance of bancassurance I would first like to take a few minutes to:

- ❑ firstly remind you – if you needed it – of the phenomenal growth of the Irish economy over the past decade and the drivers behind that performance, and secondly to
- ❑ emphasise that the drivers of that performance and growth will continue to be with us for the decade ahead and beyond.

So my story is not only about delivering on bancassurance but doing so in arguably the most attractive market in Europe.

Slide 3 Ireland – Population Growth 1993 to 2004

The overriding dynamic in Ireland that sets it apart from most other European countries is our young and growing population. In just over a decade our population increased by almost half a million people – 13% - and for the first time since the 1870s the population exceeded 4 million. This absolute growth in numbers together with the increasing proportion of well educated young people coming into the workforce have been the drivers of Ireland's economic success story.

Slide 4 Ireland – Employment Growth 1993 to 2004

The growth in employment in Ireland over that period has been remarkable – from 1.1 million at work in 1993 to 1.9 million today, an increase of over 60%. Having sorted out the public finances in the late 1980s / early 1990s the main blockages to economic growth and development were removed and the economy was allowed to achieve its full potential. It readily absorbed the increasing number of young people coming into the labour force for the first time as well as the pool of unemployed and a greater number of females returning to (paid) work.

Slide 5 Ireland – Real GDP Growth 1993 to 2004

All this translated into real GDP more than doubling in a decade. An expanding workforce enjoying rising incomes along with the benefit of falling taxes and interest rates. It doesn't get much better than this for providers of personal financial services.

Slide 6 Ireland – Personal Borrowing 1993 to 2004

So not surprisingly on the back of this growth we have seen huge increases in demand for both banking and life & pension products.

The growth in demand for personal credit has been spectacular and the biggest component of this has been mortgage credit to meet both the strong demographically driven demand for housing and the asset inflation which accompanied it. Falling interest rates have of course played their part in this. Clearly this growth has been good for us as the leading mortgage lender in the market.

Household debt in Ireland is now just over 60% of GDP – up from 40% five years ago. This compares with over 100% in the UK and is also exceeded by Netherlands, Portugal and Germany in the Euro area. So we are clearly more leveraged today but are so in a much more benign economic environment and are not out of line with other economies.

Slide 7 Ireland – Life premium income 1993 to 2004

In the life and pensions market we have seen a similar correlation between economic growth and growth in revenues. Annual premium income has increased by 240% over the period to 2004 - driven by steadily rising demand for pension, protection and savings products as employment and incomes have increased. Again as market leader in life & pensions this has been hugely positive for us.

Slide 8 Ireland – Projected Population 2020

And the good news is that growth is set to continue albeit not at the exponential rates we have enjoyed over much of the last decade.

The reason is the continued growth in the population of Ireland in sharp contrast with most of our European neighbours. The most recent forecast from the CSO is for a further 20% increase in the population between now and the year 2020 – with the population hitting 5 million from the 4 million today.

So the 500,000 increase over the last decade is set to be followed by an increase of double that – one million - over the next fifteen years.

Slide 9 Ireland – Employment Growth to 2020

And this population growth is forecast to be matched with a corresponding rise in employment – increasing by over 20% or 400,000 over the next 15 years to 2020.

Slide 10 Continuing Demographic Dividend

The drivers of demand for our core businesses – life assurance and retail banking – are set fair to remain robust for some time to come. The challenge for us is to ensure we get our share of that growth and more.

We are confident we can do so given both our undivided focus on Ireland and the strength of the business model we have created.

Slide 11 Ireland – Life & Pensions Market

Having dealt with the positive economic backdrop I want now to turn to our life assurance business in Ireland and look at the market and how we have successfully executed our bancassurance model there.

The first point to notice from this chart is that the top two companies – Irish Life and Bank of Ireland – had almost 50% of new business generated in 2004. Both of us have adopted a multi-channel distribution strategy and have steadily gained market share over recent years.

The second point to note is that 3 of the top four companies – who between them control 2/3rds of the market – are bancassurers. Bancassurance now accounts for just under 40% of retail life and pensions today growing from zero in the late 1980s. And it has been this success which has propelled the three Irish companies to the top of the league displacing the broker dependent companies such as Aviva and Standard Life who historically would have had much larger market shares.

Slide 12 Irish Life – Distribution Model

Key to our market position in the retail life and pensions market is the multi-channel distribution model which we have built over the past 5 / 6 years. The are four elements to this:

- ❑ Direct business through our 250 strong employed sales force and 130 self-employed franchisees
- ❑ Bancassurance through the 100 branches of our banking business, **permanent tsb**.
- ❑ Intermediated business from over 1,000 brokers or IFAs, and
- ❑ Our partnership arrangements where we are the product supplier for the bancassurance business of other credit institutions.

This spread of distribution provides two important benefits. It enables us to reach into all market and customer segments with different product offerings and, critically, it ensures that we are not overly dependent on any one channel.

Slide 13 Irish life – Distribution Mix

You can see how the mix has developed since 1998 before we had acquired our own bancassurance business. Today we have a balanced spread of distribution with three channels at about 30% each and the partnership business accounting for the remaining 10%.

The dramatic increase here is in bancassurance which has grown from zero to over 30% of distribution. And importantly we are now in the position where about 60% of business comes through controlled channels – either the direct sales force or through the bank branch network.

This contrasts with 1998 when in practice we had minimal control over our distribution notwithstanding that almost half the business came through our direct sales force.

Also the partnership business in 1998 was a tied agency with a single bank – First Active – whereas today it consists of relationships with 6 /7 different credit institutions.

Slide 14 Irish Life – Retail Market Share

The creation of this distribution matrix has been the key factor behind the increase in market share by our retail business, rising by 5% to 21% over the past five years, and we are confident that we can make further gains. This is likely to be at the expense of broker / IFA dependent companies who are struggling to make an economic return through this channel.

Slide 15 Bancassurance – Acquisition of own Branch Network

The impetus for Irish Life to acquire bancassurance distribution in the first instance was the loss of market share to the two main Irish banks – AIB and BOI – in the 1990s. Both banks had established bancassurance subsidiaries in the late 1980s and took share from Irish Life the market leader.

The merger with Irish Permanent – then a de-mutualised mortgage lender – gave the life company direct access to its own branch network and captive customer base. Irish Life quickly rolled out its bancassurance model in the network with immediate success. This was followed in 2001 with the acquisition of TSB Bank which added to the customer base and greatly expanded the opportunities for cross-selling.

Slide 16 The Most Productive Bancassurer

And how have we done? Well In just five years the productivity of our branches has outstripped that of both AIB and BOI in terms of sales of life products per branch. That's a significant achievement as it is a tough comparison given that the branches of the main banks would typically be bigger and would have a greater proportion of higher income and self-employed customers than a **PTSB** branch.

Slide 17 Bancassurance Partnerships – Access to other Networks

Side by side with developing our own in-house bancassurance business we have also greatly expanded our partnership business where we are a provider of own label life products to other credit institutions.

Whereas in 1998 we had a single – and unsatisfactory – partnership with First Active we now have a wide range of relationships with virtually every retail credit institution in the country apart from AIB and BOI. In all these institutions we are the preferred provider and have displaced other competitor life companies.

Slide 18 Bancassurance – Why Successful?

So what are the features of our bancassurance model that account for its success?

And let me make it absolutely clear its not down to the jumbo sized toaster given away free with every life product that is sold to a bank customer!!!! Definitely not! We wouldn't dream of treating our customers that way.

There are a number of ingredients in the mix that we use to successfully sell life, pension and investment products to bank customers. The chief amongst them include:

- The complete integration of bancassurance into banking activities
- Use of CRM technology to support lead generation and sales processes
- Aligning seller competence, customer profile and product fit
- Rigorously managing and monitoring activity at every stage

I will look at these in a little more detail.

Slide 19 Bancassurance – a Core Branch Activity

In my view the sine qua non of a successful bancassurance operation is to achieve the maximum integration of sale of life, pension and investment products alongside the banking suite of products. This is not easy given the traditional demarcations and the different cultures associated with life assurance and banking activities.

It requires that everyone in the bank branch from the manager and the financial consultant to the counter staff all share the same objectives and targets in relation to the sale of life, pension and investment products. It requires an incentive system based on the achievement of these targets in which all staff participate. And most critically there must be no room for ambiguity in terms of conflicting messages or different sales priorities coming down from management outside the branch.

In IL&P we have worked hard and successfully to put these structures in place. We have also invested hugely in training branch staff in relation to life products and sales processes. We now have circa 400 counter staff licensed to sell bancassurance products and team of 70

financial consultants who either have, or are acquiring, external accreditation as qualified financial advisors.

Slide 20 CRM Technology

So branch staff have the capability to sell life products and are facilitated and incentivised to do so just as they would sell a mortgage loan or a current account.

Another critical piece of the infrastructure that we have put in place is the CRM technology support. We have invested heavily in implementing a Siebel CRM system in both our controlled channels – the branch network and the DSF. This provides a wide range of functionality:

- ❑ Sellers have a single customer view and are equipped with electronic factfinds, needs analysis and report writing tools
- ❑ We have a marketing database populated from bank customer records, life policies and individual financial reviews, and
- ❑ Using the database we operate centralised marketing campaigns for the generation of leads which are then used to populate the appointments diaries of sellers.

The technology support hugely improves seller confidence & productivity. It manages compliance and reduces time spent on lead generation as opposed to selling. For the customer it delivers a very positive experience and for management it provides a comprehensive activity management tool.

Slide 21 Sales Process – Customer Segments

The other important feature of our bancassurance model are the sales processes we operate in the branches. This about aligning the customer's profile and needs with the competence of the seller to ensure that we make the right product recommendations and maximise the sales opportunities.

At a high level this involves segregating the bank's customer base which in the case of PTSB falls into the two lower tiers of this pyramid – what we refer to as the mass market and it's better off neighbour the mass affluent. Their different financial needs are met by different sales processes with branch counter staff typically handling straightforward product based needs and branch financial consultants undertaking a full financial review with customers who have more complex financial needs.

Slide 22 Sales Process – Branch Model

So the branch counter staff concentrate on the simple products like mortgage protection, regular savings and lower value – less than €25K – lump sum investment products. Where the customers needs fall outside this range then the branch staff pass the customer over to the branch financial consultant.

For customers with more complex financial needs the sales process involves a full financial review by the consultant. The product suite offered is wider and more sophisticated covering higher end investments, pensions and stand alone life protection cover.

In terms of the pattern of sales in the branches some 60% by volume are generated by counter staff and these would represent about 40% by value. So the consultants are handling lower volumes of sales but the average value of each sale is significantly higher.

Slide 23 Bancassurance Lead Generation

Currently we are generating in the order of 1,200 leads per week for the branch network. Of these some 40% come from our centralised contact centre which is generating leads from

marketing campaigns, from customer initiated contacts and from diary “triggers” in the customer database – e.g. annual financial review date.

The other main source is the leads generated within the branch itself where staff are trained to identify events or enquiries which might indicate a product need.

Slide 24 Full Financial Review

Just to finish with a comment on our sales process from a customer perspective least you get the impression of a traditional life assurance sales pitch pushing products on unsuspecting customers.

Our sales processes are needs based. They must be and they are. In fact the sales technology we use has built in parameters to screen the appropriateness of product recommendations. This is before we apply our head office QA process.

And we have very positive feedback from our customers. We surveyed a large group of customers who had undergone a full financial review with one of our consultants. This would normally take about one hour and the customer would get a full written report within two days. The satisfaction rating was 95% and 92% of those surveyed said that they would recommend the process to a friend.

That’s a hugely positive endorsement.

Slide 25 Leading Product Range

The final piece of our bancassurance mix is the product offerings.

The bulk of the products we sell are uncomplicated and match clearly defined needs. This suits our customers. And we have made huge strides in ensuring we keep our products simple. The language is clear and avoids the jargon that invariably goes with life assurance. Uniquely in Ireland we are the only financial services company whose products carry the crystal mark for plain English and the honesty mark for transparent charging.

With Irish Life products the PTSB bank customers have a strongly recognised brand and one associated with innovation, and more recently, with excellent fund performance.

But if they don’t like being tied to our investment management we provide choice offering a number of external managers including Fidelity Investments for whom we are the sole distributor in Ireland.

Slide 26 Diversified Product Range

And for me one of the most encouraging aspects of our bancassurance has been the broadening of the range of product sold in the branches. In particular pensions, which in 2001 constituted only 6% of sales, whereas this year we estimate that pensions will make up about 20%.

We now have a broader and more balanced suite of products catering for a wide range of customer needs.

Slide 27 Current Developments

There is no doubt that the introduction of the life assurance sales culture and its accompanying activity management into the branch network has been positive and has created some constructive tension in the organisation.

However to realise the full opportunity in the bank customer base – for both life and banking products – we have more to do in transforming the branch network into dedicated sales outlets.

And this is what we are engaged in at present. Centralising branch administration – taking out functions such as credit control, account opening, D.D.s, S.O.s etc from the bank and centralising them. At the same time we are migrating large elements of customer service out of the branches onto our OPEN 24 telephone/internet platform and extending self-service technology within the branches.

These changes are designed to turn on its head the traditional preponderance of administration activity over sales in the typical branch bank.

The second major push is for new customer acquisition and the levers we are using for this are our competitive checking account and credit card offerings.

And its working with the addition of 1,000 customers a week since the start of the year, half of whom are switching from other banks. More customers strengthen our market position and open up new opportunities to utilise our proven cross-selling skills.

We are on track for our target of 60,000 new checking account customers for this year.

Slide 28 Summary

So that brings me to the end of my pitch for Ireland and for the success of our bancassurance model.

It's a pretty straightforward message:

- Ireland is a great place to be in business and it's a market that has our undivided focus
- The demographic drivers of demand that have driven economic growth and prosperity for the past decade are set to continue for another decade and beyond
- Financial service companies with distribution reach have been and will continue to be winners
- Bancassurance – well executed – is a key component of that distribution mix and has further potential, and

We in IL&P believe we have the focus, the business model and the management to ensure that we take our share, and more, of those opportunities in the Irish market.

Thank you for your attention.