

## **Goldman Sachs European Financials Conference**

**Barcelona, June 2006**

**Presentation by David Went, CEO Irish Life & Permanent plc**

### **Slide 1 Introduction**

The title of this session is "Finding growth in a finite market". As I hope you will see from my presentation today there is nothing finite about the growth opportunities in the Irish market, nor do we have any difficulty in Irish Life & Permanent in finding and maximising those opportunities.

### **Slide 2 Agenda**

Much of what I have to say – certainly in relation to growth – applies with equal measure to the group's banking business.

I want to look at the drivers of growth in the Irish life and pensions market and how we have maximised the opportunities that this growth has created. And critically for all you people for whom eaten bread is soon forgotten I will talk to the continuing and sustainable growth story in financial services in Ireland for the next decade and indeed well beyond.

### **Slide 3 Wealth Creation**

Looking at the drivers of growth in financial services in Ireland the starting place has to be the phenomenal economic performance which has created a huge and prosperous segment of the "new wealthy" in the population but has also benefited the population at large in the massive expansion in the numbers at work.

### **Slide 4 Employment Growth**

Over the last eight years the numbers employed in Ireland have increased by 35% from 1.5m to 2.0m.

And contrary to some common misperceptions the growth has not been driven by FDI and the IT sector – although these have made important contributions – but has reflected very strong domestic private sector demand.

### **Slide 5 Baby Boomers Come of Age**

We had our baby boom in the 1970s and early 1980s. This generation in the age groups 20 to 35 years is the biggest driver of domestic demand and the changing pattern of demand as it ages. So today it's housing, tomorrow its pensions and investments.

### **Slide 6 Immigration**

The newest driver of economic activity and demand in Ireland has been the reversal of the historic trend in migration and currently net immigration is running at about 50,000 per annum.

### **Slide 7            Public Policy**

The final driver of demand for financial services in Ireland has been very supportive public policy. This is most evident in the area of pensions where government policy to increase supplementary pension provision has been supported by very attractive tax breaks and by the introduction of portable flexible pensions. For example tax relief is available for pension contributions ranging from 15% to 40% of your income, depending on your age, subject to an annual income threshold of €250,000.

Equally the tax rates on investments in general is reasonable with a CGT rate of 20% and investment income taxed at 23%.

### **Slide 8            Market Opportunities**

This generates tremendous opportunities for us to grow our life and banking businesses.

Perhaps the most dramatic has been the housing market where there has been a massive expansion in supply and for our life business this translates into demand for both regular savings – to accumulate deposits – and for protection policies when the mortgages are drawn down.

Equally the growth in employment, coupled with rising per capita income, has translated into rising demand for pensions, individual and group.

Perhaps the biggest beneficiaries of the Celtic Tiger have been the owners of small and medium sized business. These are the “new wealthy” in Ireland and, because of the generous tax breaks and investment flexibility, pensions are the vehicle of choice for wealth management for this group.

Lastly the massive appreciation in property values over the past decade has meant that this is the first generation benefiting from significant inherited wealth which in turn fuels demand for lump sum investment and mutual fund products.

### **Slide 9            Irish Life**

So how are we placed in Irish Life to avail of these opportunities?

The answer is that we are very well placed.

Our life business provides the full suite of packaged unit-linked investment products – covering regular saving, pensions and investment bonds – to meet the asset accumulation needs (short and long term) of individuals whether employed, self-employed or company directors. And of course we offer traditional life protection policies – providing mortality and morbidity cover – for families, employees and the self-employed.

And our customers can access these products through a wide variety of channels – via independent intermediaries or brokers, in their workplace or home with an Irish Life financial adviser or in our own **permanent tsb** branches or indeed in the various other branch networks with whom we have relationships.

### **Slide 10      Irish Life market Share**

Over the past 5 years we have been winners in the Irish market and our Retail Life market share has grown by 6.5% to just under 23%. Including our corporate life business our total market share has grown to 27%.

The winners have been those with broad distribution. The losers – AIB's Ark Life and Aviva recently merged – both have had mono-line distribution and have suffered from having weak products – such as with-profit – and/or poor product performance.

### **Slide 11      Why?**

Three main ingredients of success:

- The breadth and depth of distribution
- A very large investment in technology, and thirdly
- Our brand presence based on both service and a strong investment story.

### **Slide 12      Distribution**

Financial services is critically about distribution. We have a lot of it and we have been steadily growing it and improving its effectiveness.

The direct sales force productivity is circa €300K APE per head and is a multiple of where it was 5/6 years ago. We know we can grow this more.

We are the largest broker company in Ireland. We have segmented this channel and tailored our support and service offering to reward volume, quality and efficiency.

The **permanent tsb** bancassurance operation is highly productive and profitable. It works because there is full buy-in from the bank and life, pension and investment products

command their shelf-space beside mortgages and current accounts in the bank. There is no argument.

And we have added completely new distribution. Onesource is a franchise operation where brokers tie exclusively to us for their life and pensions business and we provide them with the products, the technology support and the compliance infrastructure. This has grown to 150 producers from zero three years ago.

We have also leveraged our bancassurance skills to become the main provider of products to other institutions who don't have their own in-house life business. Our products are in virtually every branch network – apart from BOI and AIB – and we have largely displaced Aviva as provider in those networks.

### **Slide 13      Technology**

In 2005 we completed a 4 year technology investment – costing circa €60m - raising servicing and sales productivity and improving the service experience for the customer.

### **Slide 14      Brand – Customers**

Branding is difficult for life companies – interaction is infrequent and is often at one remove, via an intermediary or salesperson. So it's difficult to build that warm cuddily feeling.

However we have made real progress on two fronts. Firstly we have worked hard on living by our maxim of treating customers fairly:

- Our products are transparently priced and explained in plain English – we are the only financial company in Ireland / UK to have done so.
- Our needs based sales process is supported and reinforced with the award winning Seibel point of sale advice process which some 94% of customers say they would recommend to a friend.
- And we have steadily improved the quality of interaction with customers across a range of issues with our **Intouch** programme and have seen our annual CSI steadily improve as a result.

### **Slide 15      Brand – Investment Competence**

The area where life companies in Ireland can really acquire / lose a reputation is in relation to their investment performance. The monthly performance table for the pension managed funds is obsessed on by the media.

Over the past 5 / 6 years we have build up a broadly based reputation as both a competent and innovative investment manager.

- We have the top performing actively managed pension fund over 3 and 5 years

- We have an open architecture and offer funds such as Fidelity
- We have led the market in providing property based investments – directly managed by ourselves in Ireland and the UK and done via specialist property managers in other locations.

**Slide 16          Brand – Promoting Consensus Fund**

But undoubtedly our biggest success on the investment front has been our consensus pension fund, now the largest single fund in the country.

It promises to deliver half to one percent above median performance and has done so consistently over the 10 years through bull and bear markets. It is the second best performing fund over the 10 years against the entire universe of active and passive funds in Ireland.

A fantastic platform from which to build our brand and reputation for investment competence. The product has total recognition through the intermediary and advisor channels. By building an advertising campaign around the product we are creating greater awareness in the general public which creates a pull factor and also makes individual intermediaries and pension trustees feel better about their choice of the consensus fund!

Engaging your audience for an advert on fund performance is a challenge but we have endeavoured to bring a bit of glamour and excitement to the world of fund management, I'm sure you can identify with.

PLAY ADVERTISEMENT SOUND

**Slide 17          Strategy**

So the combination of broad and actively managed distribution, investment in technology and brand building have combined to deliver strong volume growth and market share gains in the retail life market.

Together with the productivity gains in new business processing and the reduction in unit costs this has translated into improved new business margins and, in turn, into strong growth in the value of new business.

**Slide 18          Growth Today**

The results for our Retail Life business in 2005 demonstrate this clearly:

1. Retail sales up 33%
2. Market share up 1.4%
3. Value of new business in Retail up 72%

### **Slide 19 Growth Tomorrow – Active Population**

So that's today's or even yesterday's growth. What's in store from here?

Well the drivers of growth for the past decade haven't gone away. The overriding fundamental is that Ireland is a growing economy and population in stark contrast to nearly all of the rest of Europe. We are looking at a strong growth the active population over the next 25 years whereas the EU is in steady decline. Yes Ireland will not repeat the heady GDP growth rates of the last decade but we can expect 4-5% real growth for the remainder of this decade.

### **Slide 20 Growth Tomorrow – Drivers for Irish Life**

And Irish Life will continue to realise its share and more of that growth for all the reasons it has been successful to date.

We are very well placed to capture our share of the opportunities arising whether that is:

- the sale of protection policies on the back of the mortgage boom
- increasing our share of the protection market with the addition of new distribution
- realising the pension opportunity as government addresses the pensions challenge, or
- the SSIA party in 2006 /07.

### **Slide 21 Demographics Drive Mortgages**

The baby boomers and influx of immigrants continue to drive the housing market and, while we are arguably near the peak of new housing construction, we will still be adding 3 to 4 % p.a. to the housing stock which is a very significant underpinning for both the mortgage market and for the accompanying life protection business.

### **Slide 22 Adding Retail Distribution**

And we continue to take opportunities to broaden our distribution. At the start of 2006 we just added the Educational Building Society as another institutional partner. The EBS is the largest mutual building society in Ireland and has over a hundred branches and agencies. This consolidates our dominance as the provider of bancassurance for all bank branch networks in Ireland, outside of AIB and BOI.

In our Corporate life business we have also just bolted on a specialist broker business to our subsidiary Cornmarket which further strengthens our position in the public sector market.

### **Slide 23 New wealth Boosts Pensions**

Positive public policy support on pensions and expanding target markets in the form of the "New Wealthy" and an expanding workforce underpin the continuing growth of the pensions market.

Some recent tax changes on pensions – which were aimed at curbing abuses of the tax breaks by the mega wealthy – have removed uncertainty in the market and provide a sensible, and still generous, framework for pension planning limiting the cap on tax free funding to €5m.

And we know that rising incomes and wealth will inexorably drive increased demand for pensions and other financial services. As this somewhat busy chart – which gives a break down household expenditure in Ireland by income decile – illustrates, expenditure on pensions constitutes significantly larger percentages of the spending of the higher income deciles, indicating such spending is more responsive to income growth.

#### **Slide 24          SSIA Opportunity**

Finally we come to the SSIA phenomenon which sees some €16bn of savings contracts, held by over 40% of the adult population, maturing through 2006 and 2007. There is lots of speculation about what will happen – how much will be spent on flat screen TVs, luxury holidays, BMWs etc. Who knows exactly but there is no doubt that it provides huge underpinning for the economy and for financial services over the next two years.

From our point of view we see two main opportunities. Firstly the chance to get in front of all these customers to discuss their plans and financial needs. We know that this will generate lots of options for savers to utilise the accumulated lump sums either in life or banking products. But the bigger opportunity as we see it is to harness the savings habit built up over the past 5 years and redirect as much of the annual €2.5bn of cashflow into longer term savings. And we are tremendously well placed to maximise on that opportunity for all the reasons I have touched on earlier.

#### **Slide 25          Conclusion**

We have enjoyed exceptional growth in Ireland over the past decade. We will continue for a prolonged period to experience growth far in excess of the vast majority of our neighbours in Europe. That's a great environment in which to have the strong market positions which we in Irish Life & Permanent have. And it gives us huge confidence that we can and will deliver superior growth and returns to our shareholders.