

The effect on investor confidence from government policy, regulation and consumer behaviour.

Just Retirement Leaders' Annual Summit

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What do investment analysts do?

Present **the investment case** to professional investors/ fund managers looking to review investments



Numis Life Insurance
For FCA purposes this is a Marketing Communication

8 June 2016

JRP Group
Initiating Coverage

BUY Being careful with capital

Current Share Price 1420
Target Price 1500
Market Capitalisation £1.2bn
Shares in Issue 855,724
Avg. Daily Volume (3M) 185,724

Current share price shown at 4:58pm on 08/06/16

Share Price

2016
2015
2014
2013
2012
2011
2010
2009
2008
2007
2006
2005
2004
2003
2002
2001
2000

Perf. vs. S&P 500 Index 14 Jun 16
Perf. vs. FTSE 100 Index 14 Jun 16

Performance (%) 1M 3M 6M 12M

Absolute 3 1 -147

Relative 1 -4 -102

Source: Companies released in UK 01:00pm GMT

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BUY Being careful with capital

Annuity writers have always had to be careful with their capital. They have faced challenges from a combination of improving longevity, falling interest rates, unisex annuities, the 2014 budget freedoms and now Solvency II. They have always adopted one of two solutions: either re-price the business to earn an acceptable return on capital, or withdraw. In most cases until pricing reforms. With this in mind, we believe investors should now review JRP Group. The shares sit at a low valuation, despite having completed the merger and shown it has sufficient Solvency II capital. The company is positioned for growth from de-risking DB Schemes and a modest recovery in sales of individually underwritten annuities.

- **Defined benefit de-risking** of final salary schemes presents a large potential market, with £1.5bn of pension liabilities, of which £300bn relate to pensions in payment. Many sponsoring companies are effectively becoming the owners of captive and poorly capitalised life insurers writing annuities. If sponsoring companies are serious about managing their own shareholder risks, then they need to at least consider some sort of risk transfer. In our view.
- **Sales of individual annuities** have now stabilised, and are starting to recover slowly. Low interest rates and a lack of competition means that we do not expect rapid growth. We believe retiring individuals will still want to secure a maximum level of income and with advancing age and volatile stock markets, the risk of running out of money in old age will encourage many to invest annuities. Regulation could help, since individuals using The Open Market Option is now at a five year low, and action by the regulators could see a rise in quote activity. In our view.
- **Profitability, Capital and Premium rates.** We explore the interplay between capital, new business profitability and volumes in this note. With Solvency II having increased the capital requirements of annuity writers, the industry should either reduce annuity rates, commit more capital or slow the growth of new business. In our view. Our JRP forecasts, assume a modest improvement in pricing, an increase in new business volumes and a Solvency II capital ratio that declines by three points a year.
- **Recommendation and valuation.** We initiate coverage on JRP with a BUY recommendation and a price target of 200p per share based on its earnings and embedded value relative to the rest of the sector.

Year to	PER	Div. Yield	Op. Ints	Op. Ints	Op. Ints	EV/EBITDA	P/E	Op. Ints	Div. Yield	PER	Div. Yield
2015A	150.6	4.3	6.87	8.9	3.20	190.7	676	12.4	2.3	5.74	
2016F	89.8	19.0	4.9	8.9	3.20	202.9	29.9	14.0	2.3	5.70	
2017F	84.8	19.0	7.4	10.1	3.20	219.2	19.9	16.7	2.3	6.65	
2018F	86.1	19.0	10.7	11.0	3.20	249.8	9.1	8.3	2.3	5.87	

Source: JRP Group financials and Numis Securities Research forecasts

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Agenda

- **Regulatory change & Government policy**
- **Investor confidence & sentiment**
- **Consequences? - Does it matter?**
- **Message**
- Sentiment is hard won and easily lost.

Regulatory change & Government policy

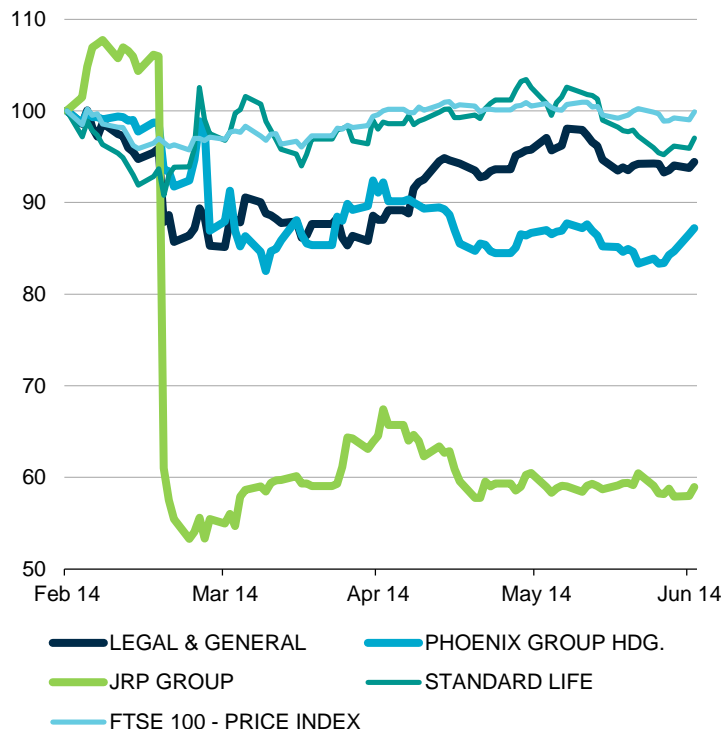
Can have a dramatic influence on investor confidence

2014 Budget “No one will have to buy an annuity”

- Sell off in shares of UK annuity writers



Source: <http://www.equidity.co.uk/blog> (2016 budget)



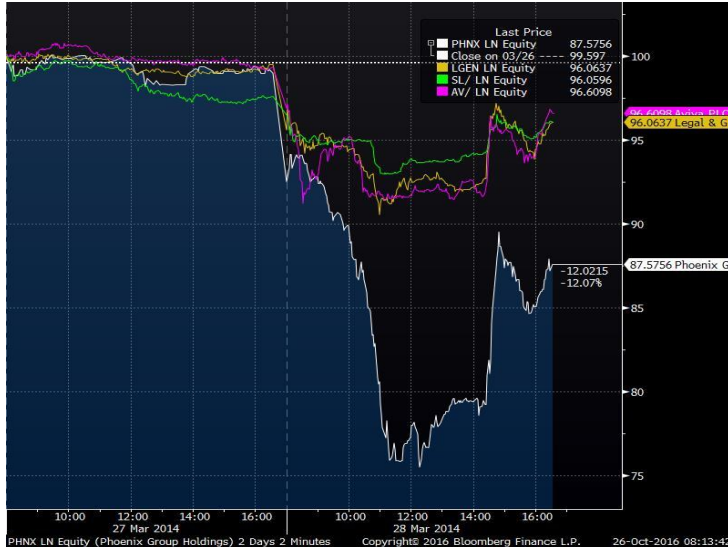
Source: Datastream

Regulatory change & Government policy

Can have a dramatic influence on investor confidence

“Savers locked into 'rip-off' pensions and investments may be free to exit, regulators will say”

Intra-day sell-off: Life assurers off 3-12% by close



Source: Bloomberg

Telegraph article, 27 March 2014

Home Video News World Sport Business Money Comment Culture Travel Life Women Fashion Luxury Tech Film

Savers locked into 'rip-off' pensions and investments may be free to exit, regulators will say

The City watchdog is planning an inquiry into 30 million policies sold by insurance companies from the Seventies to the turn of the Millennium, The Telegraph can disclose

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Regulatory change

Solvency II (Introduced Jan 2016)

- Volatile measure, difficult to predict future moves
- Little clarity on how to model
- Firms still unsure what they can say
- Investors and analysts facing mixed messages
- Point measures, replacing years of data
- Confusion

Grant Thornton Survey

- 91%, felt Solvency II principles were appropriate
- One quarter thought the best way to run business
- 40% said it distracted senior management
- 17% felt it has been worth the effort,
- 70% thought the value of Solvency II did not justify the cost.



Solvency II - In the brave new world

Results of a market survey

OCTOBER 2016



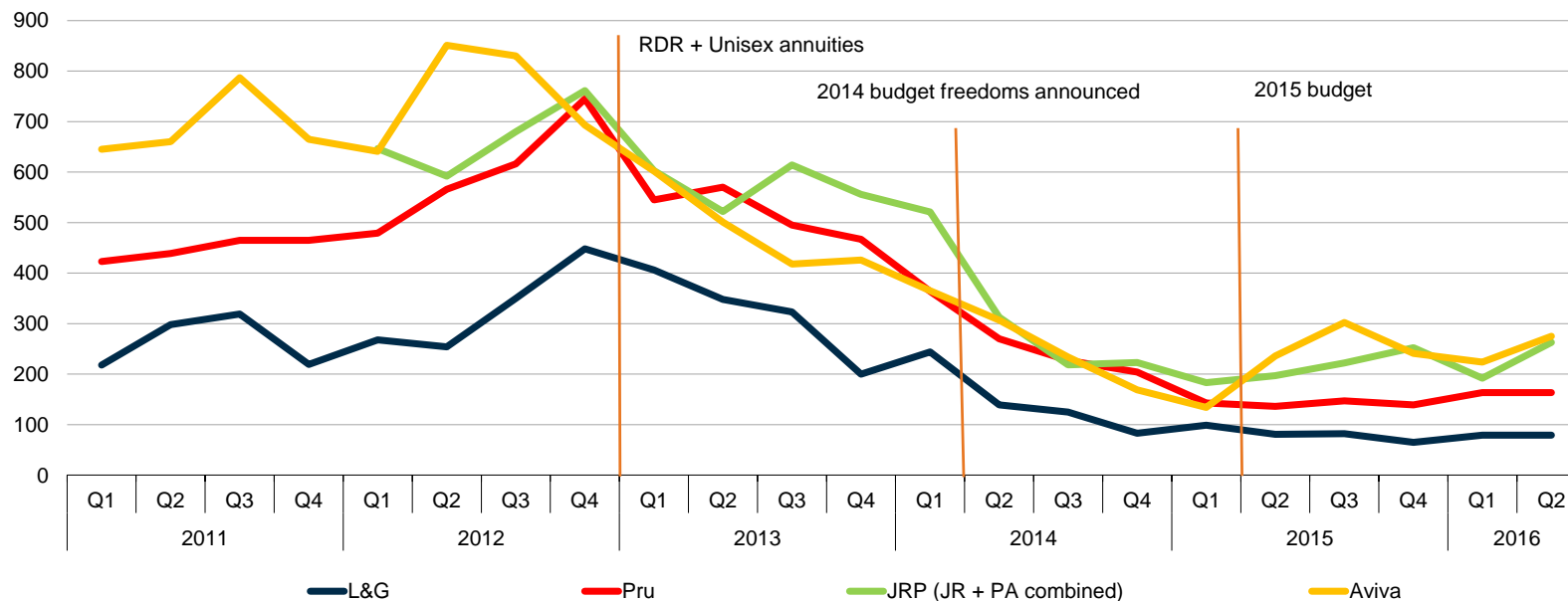
“It is apparent from our survey results that much negativity continues to surround Solvency II.

What is more, this negativity appears to have increased since our last survey in 2014. There is certainly no sign at this early stage that, now the regime is in place, insurers are starting to recognise that the benefits justify all the grief of the last few years.”

Consumer behaviour: sales of annuities

Annuity sales at end 2012 reflected RDR and unisex annuities

The Budget freedoms announced in 2014 lead to a 60% fall in individual annuity sales



Source: individual companies. Note Q1 and Q2 2016 sales for L&G and Prudential are 50% of H1 sales

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- Regulatory change & Government policy
- **Investor confidence & sentiment**
- Consequences? - Does it matter?
- Message
- Sentiment is hard won and easily lost.

Boilers and Investor Confidence

All types of plumbing work done



But,..... I don't do boilers



Boilers and Investor Confidence

All types of plumbing work done



But,..... I don't do boilers



All types of investment work done



But,..... I don't do Life insurers



Confidence & Sentiment

Why so little confidence?

Boilers and life insurers are

- Complex
- Highly regulated
- Difficult to explain
- Expensive to fix (capital commitment)

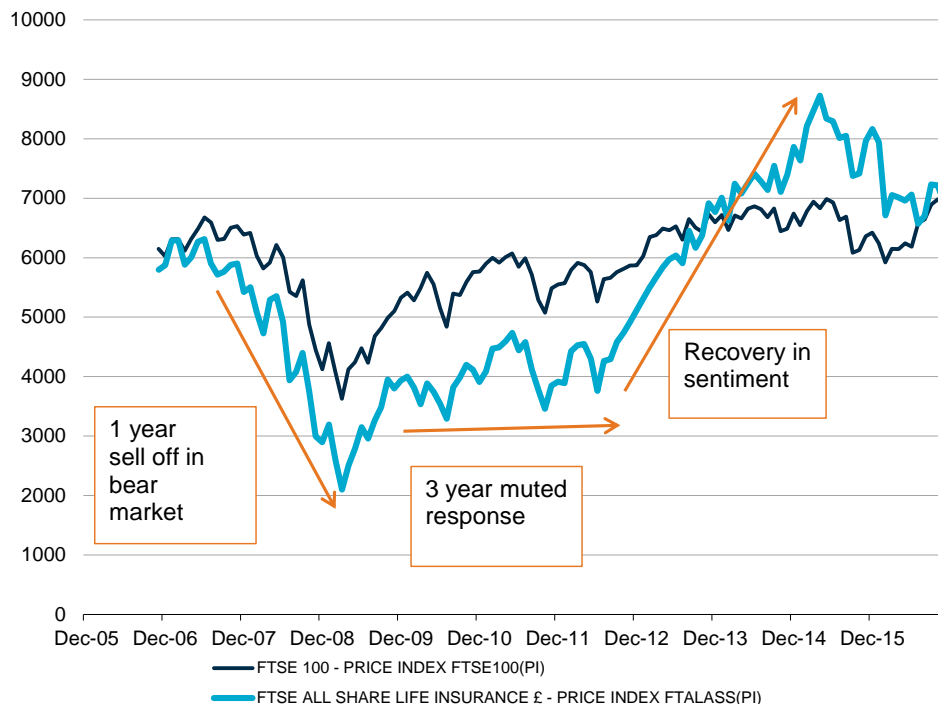
Investor confidence

- “I got burnt in those last time” (2009)
- “I don’t invest in things I don’t understand”
- “In fact I don’t know why your sector exists”
- “I don’t understand the accounting”

This is on a good day!

Sentiment is easily lost (2007-9)

and hard won (2009-2015)



Source: Datastream

Agenda

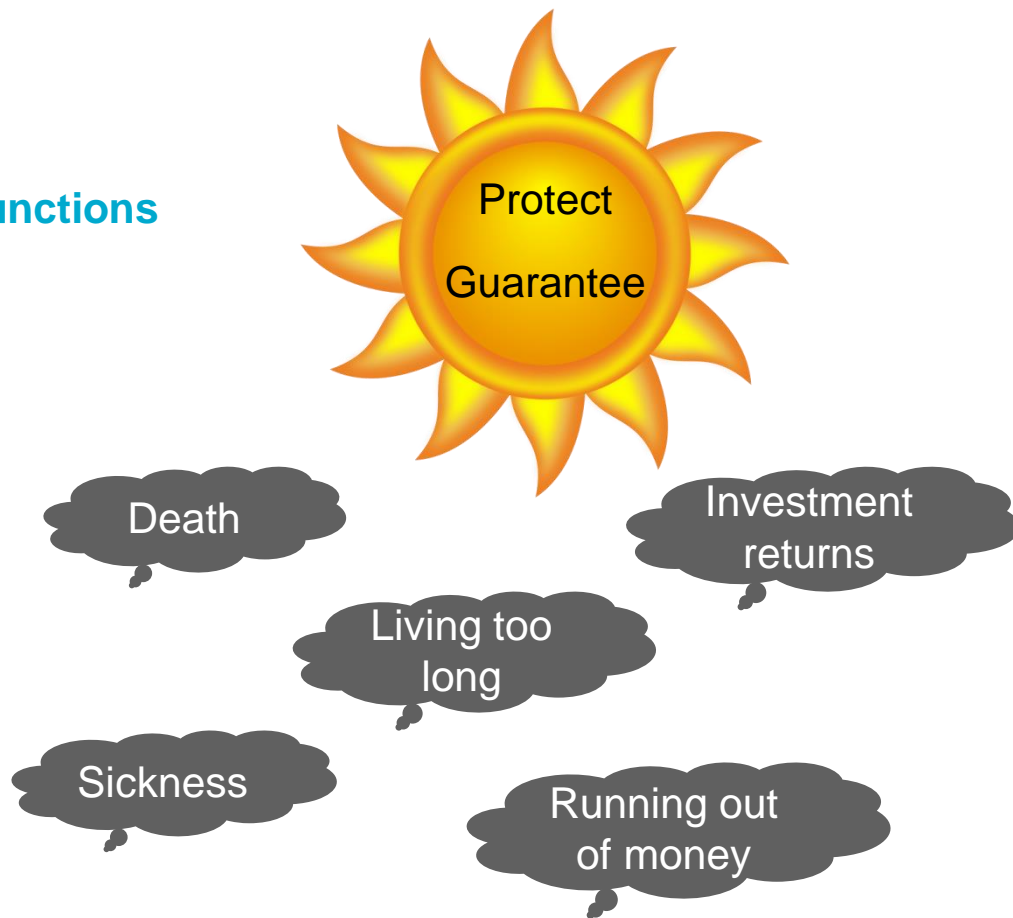
- Regulatory change & Government policy
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- **Consequences? - Does it matter?**
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Consequences: does it matter?

Do share prices matter?

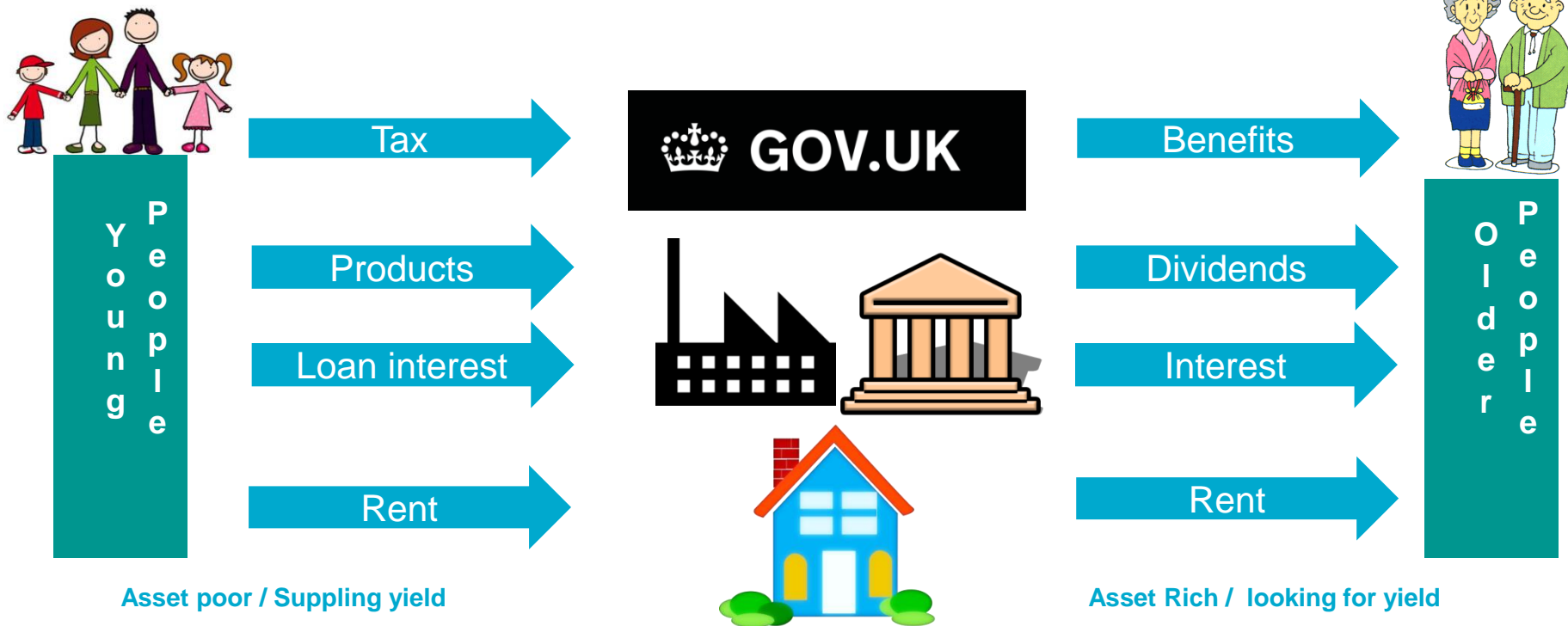
Life Insurers perform some important functions

- **Protect against risks**
- **Offer guarantees**
- **Help savers**
- **Investors: provide long term capital to**
 - Government
 - Industry
 - Infrastructure
 - Lifetime mortgages
- **Alternative to public provision**
- **Export insurance services overseas**
- **Employers**



Ageing populations, dependency & intergenerational wealth transfers

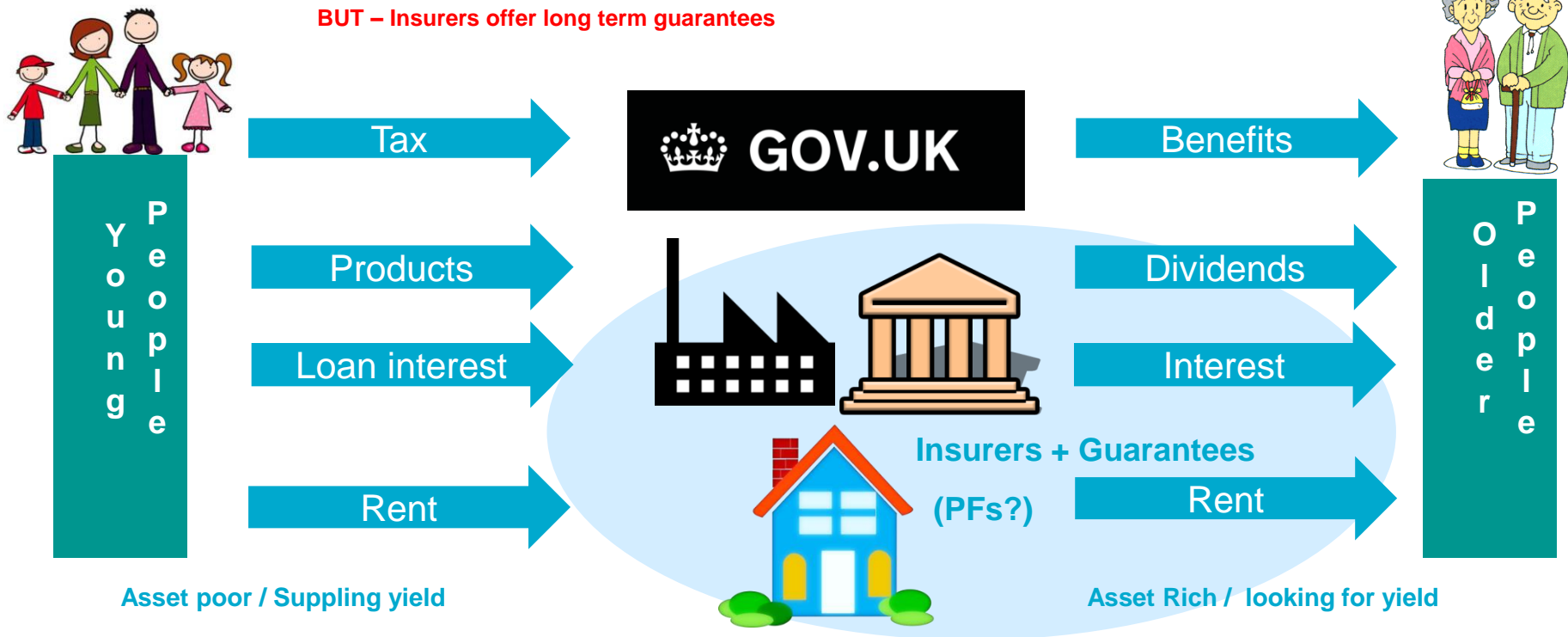
Insurers and Asset managers have a role to play in wealth transfer, converting assets to income



Ageing populations, dependency & intergenerational wealth transfers

Insurers and Asset managers have a role to play in wealth transfer, converting assets to income,

BUT – Insurers offer long term guarantees



Consequences: does it matter?

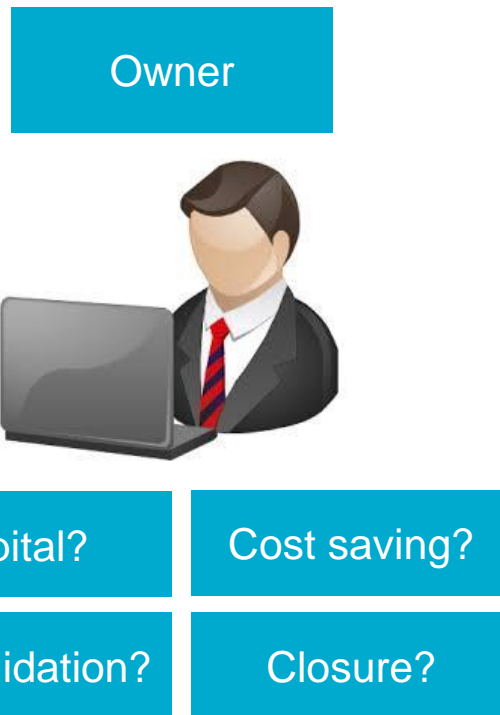
Do share prices matter?

Investor confidence and sentiment affects:

- Share prices
- Returns made by owners / investors

Who will in in turn:

- Influence management
- The availability of capital / return of capital
(cancel expansion / pay higher dividends)
- Accelerate cost savings
- Encourages consolidation, (Aviva, Resolution, Phoenix)
- Closing to new business (AXA)
- Reduces access to financial services



Conclusion: Sentiment is hard won and easily lost

The insurance industry provides a private sector means of protection and provision.

To function most effectively it needs :

- Stable and effective long term regulation
- Long term capital / long term investors and profitability

Return to public provision ?

Owner



Capital?

Cost saving?

Consolidation?

Closure?

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