



How capital is used in business decision making

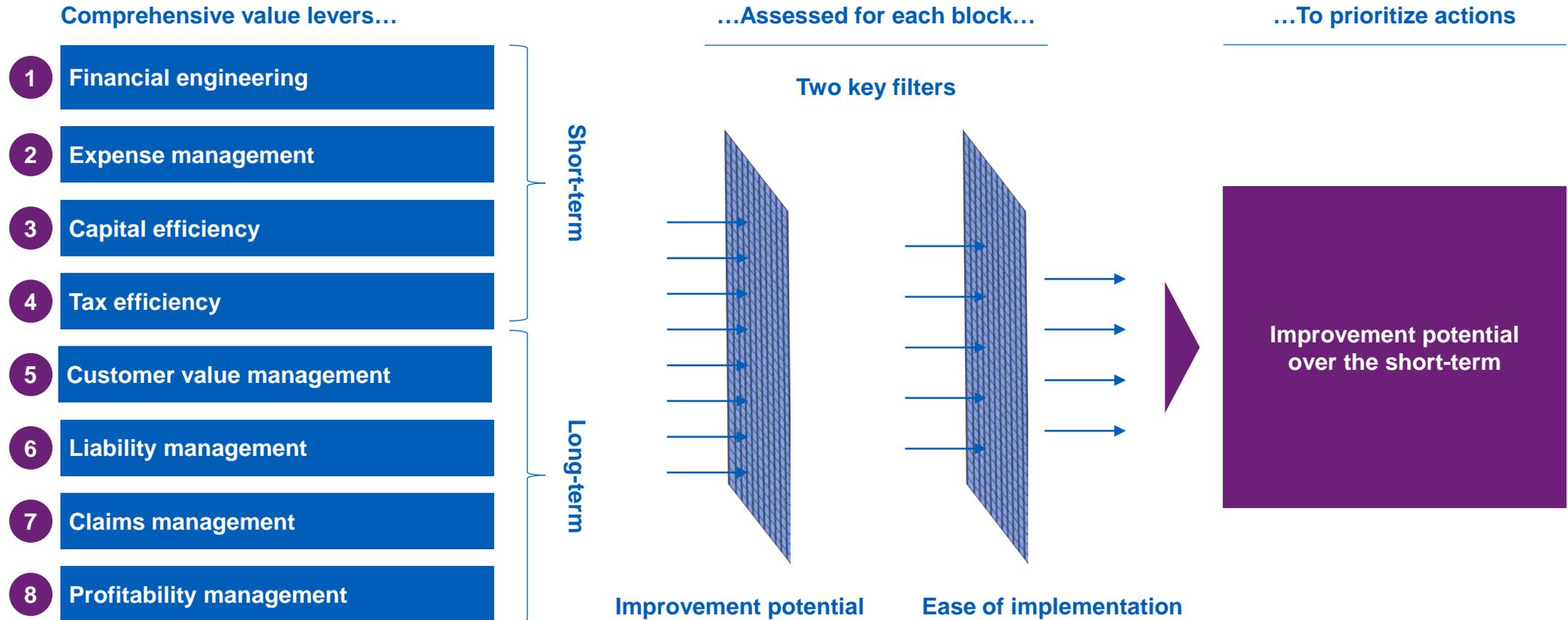
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Strategy and Framework

Prioritizing key value levers



Measuring success

Key performance measures

Earnings

- Operating ROE (ROE)
- Embedded Value and Value of New Business
- Cash generation (Cash)
- Internal Rate of Return (IRR)
- Payback period (PayPer)
- Operating earnings (OE)
- Loss Ratio for P&C (LR)
- Effective tax rate
- Policy volumes (Vol)

Capital and Solvency

- Required Capital (Regulatory/Rating Agency) (Reg RC)
- Solvency Ratio (Regulatory/Rating Agency) (Sol RC)
- Dividend Capacity (Div)
- Equity
- Debt to Capital Ratio (D/C)
- Parent liquidity (Liq)
- Target surplus (TS)

Expense

- General Operating Expenses (GOE)
- Policy Admin Unit Cost (Adm Cost)

Key value levers

Key value levers	Required actions	Business implications
1 Financial engineering	<ul style="list-style-type: none"> — Adjust exposure to unprofitable LoBs — Use reinsurance techniques 	<ul style="list-style-type: none"> — Cost implications — Ability to diversify capital holdings
2 Expense management	<ul style="list-style-type: none"> — Seek efficiencies in policy administration 	<ul style="list-style-type: none"> — Costs and counterparty risk — Loss of control/governance
3 Capital efficiency	<ul style="list-style-type: none"> — Release capital and bring forward cash release — Adjust Investment — Use of derivatives and swaps to manage risk profile 	<ul style="list-style-type: none"> — Requirements — Ability to diversify capital holdings — Cost implications — Availability of assets — Derivative expertise
4 Tax efficiency	<ul style="list-style-type: none"> — Accelerate realization of tax attributers — Defer losses 	<ul style="list-style-type: none"> — Requirements — Cost implications — Impact on Future ROEs
5 Customer value management	<ul style="list-style-type: none"> — Change customer service approach 	<ul style="list-style-type: none"> — Cost implications
6 Liability management	<ul style="list-style-type: none"> — Improve pricing — Use incentive payments 	<ul style="list-style-type: none"> — Loss of some policies
7 Claims management	<ul style="list-style-type: none"> — Replace products on maturity — Early warning indicators 	<ul style="list-style-type: none"> — Need claims management and predictive analytics capability



Execution

Actionable areas

Action area	Key changes
Integrated reporting processes	— Establish and embed processes to provide relevant and useful capital metrics values across the annual reporting calendar.
Enhanced analysis	— Integrate analysis into business decision making.
Lean and Effective Governance	— Creation of a governance and assurance structure that provides optimal level of control against effort.
Embedded Materiality	— Creation of a materiality framework to explicitly define the thresholds and tolerances accepted by management across deliverables based on all user needs.
Integrated Data and Systems	— Development of current systems architecture and data processing to fully support speed and quality ambition of reporting.
Simple Organisation	— Ensure skillsets are appropriately deployed and communication effective.

Integrated reporting processes

Action area	Key changes
Integrated reporting processes	<ul style="list-style-type: none"> — Upfront agreement on key metrics to be produced and frequency of recalculation.
Enhanced analysis	<ul style="list-style-type: none"> — The level of supporting analysis should be defined.
Lean and effective governance	<ul style="list-style-type: none"> — Specify whether projected KPIs are required and the process for ‘landing’ to these projected numbers.
Embedded materiality	<ul style="list-style-type: none"> — Consider approximations/‘lite’ solutions/roll-forwards. — The organizational design may have to adjust for capital reporting to be fully embedded.
Integrated data and systems	<ul style="list-style-type: none"> — The level of integration between systems will have to be considered.
Simple organization	<ul style="list-style-type: none"> — Automation of processes likely to be incorporated. The amount of automation should be carefully considered with a robust assessment of costs versus benefits as implementation can be expensive. — Flexibility must be built into the capital reporting process such that adhoc analysis can be supported through the appropriate trade-off between speed and accuracy

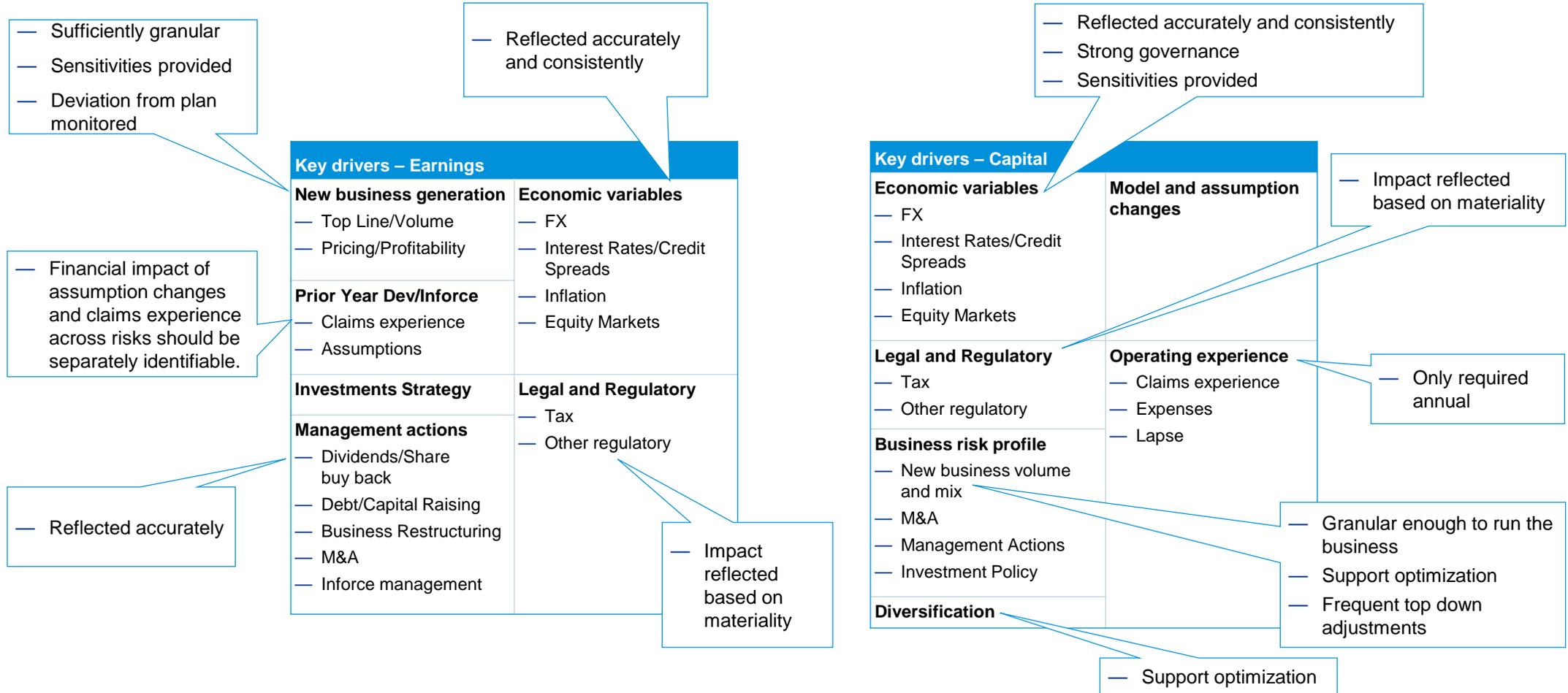
Enhanced analysis

Action area	Key changes
Integrated reporting processes	<ul style="list-style-type: none"> — Often there can be frustration around the ability to use the capital position to manage the business: objective is to break down historic and projected movement based on the key drivers which impact the results.
Enhanced analysis	
Lean and effective governance	<ul style="list-style-type: none"> — The key is to understand what the key drivers are on capital position and what is the relative level of impact and influence we have on the drivers.
Embedded materiality	<ul style="list-style-type: none"> — Understanding the key drivers and their behavior allows you to consider how to account for these during the annual reporting cycle e.g., the level of accuracy and governance when allowing for their impact.
Integrated data and systems	<ul style="list-style-type: none"> — Movement in earnings represents true cash generation (and dividend capacity), whereas capital position (i.e., solvency ratio) represents capital constraint on distribution of earnings and hence movement should be considered separately.
Simple organization	

Enhanced analysis (cont.)

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Enhanced analysis (cont.)



Lean and effective governance

Action area	Key changes
Integrated reporting processes	— Roles and responsibilities for all governance process stakeholders are clearly defined and adhered to.
Enhanced analysis	— Sign-off responsibility at each governance level are clarity defined and transparent to all governance process stakeholders.
Lean and effective governance	— Consistent application of management-defined materiality thresholds.
Embedded materiality	— The governance process promotes management by exception by focusing on instances where landing/actual results are not in line with expectations.
Integrated data and systems	— Governance of results under different valuation bases is delivered simultaneously through parallel sign-off enabled by joint production timelines and shared cut-off dates.
Simple organization	— Governance is driven by outcomes (e.g., achieve regulatory compliance, inform a major business decision) and not by the information production process.

Embedded materiality

Action area	Key changes
Integrated reporting processes Enhanced analysis	<ul style="list-style-type: none"> — Constant materiality thresholds are applied for each reporting cycle. — Different materiality thresholds apply at Group vs legal entity levels.
Lean and effective governance	<ul style="list-style-type: none"> — Formal thresholds defined including floors (only) for legal entity and ceilings/floors from Group results.
Embedded materiality	<ul style="list-style-type: none"> — Materiality applies to cumulative errors.
Integrated data and systems	<ul style="list-style-type: none"> — Application of materiality thresholds is not absolute and senior management can use their holistic understanding of the Company in light of alternative sources of information.
Simple organization	<ul style="list-style-type: none"> — Materiality thresholds are driven by a need to balance between the requirements of external (e.g., auditors, regulators) and internal (e.g., management) stakeholders for reliability and accuracy of information and production speed.

Integrated data and systems

Action area	Key changes
Integrated reporting processes	<ul style="list-style-type: none">— Automation and interfacing of systems can provide speed benefits— Harmonization of data repositories should be sought
Enhanced analysis	
Lean and effective governance	
Embedded materiality	
Integrated data and systems	
Simple organization	

Simple organization

Action area	Key changes
Integrated reporting processes	— Clear roles and responsibilities of functions should be defined for capital reporting process. This includes production, analysis, governance and risk management.
Enhanced analysis	— Team sizes will be appropriate to activity and complexity of operations assigned to functions.
Lean and effective governance	— Efficient interaction and ways of working across all functions involved in capital reporting.
Embedded materiality	— Team skillsets and people capability should be appropriate to activity and complexity of operations assigned to functions supporting capital reporting cycle.
Integrated data and systems	
Simple organization	

Target State Ambition





Thank you



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