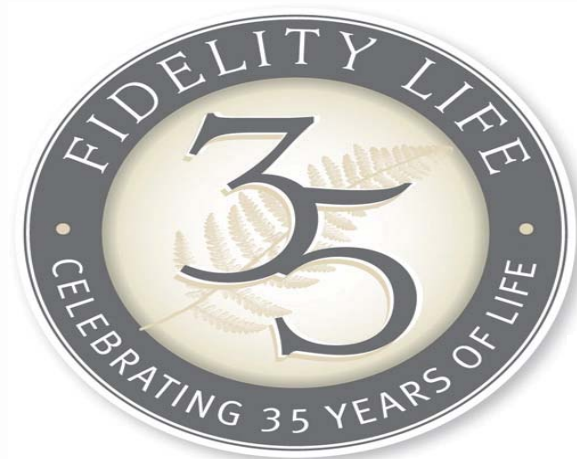


Commission War & Profitability

NZSA Conference

Taupo, 21 November 2008

John Smith



1973 - 2008



Big commission? No Problem!

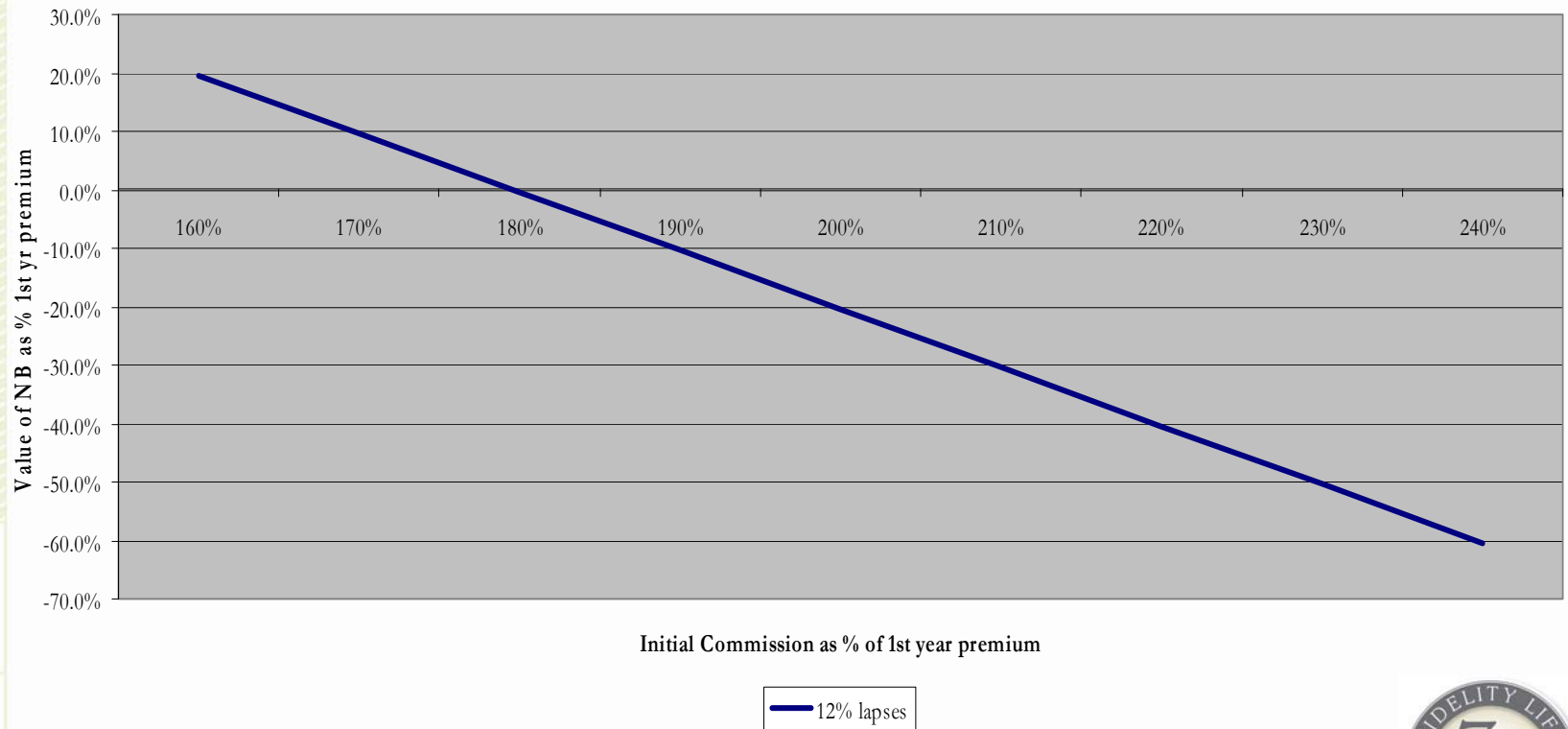


1973 - 2008

Whoops!

Value of new life insurance cash flows discounted at 15%

(\$ 500,000 sum assured for 40 year old male; premium 1.75*NZ04; Claims nil in 1st year, NZ04 thereafter
Renewal Costs 5% + \$50; Set-up costs \$ 250 + IC + 20%; no duration discounts)



1973 - 2008

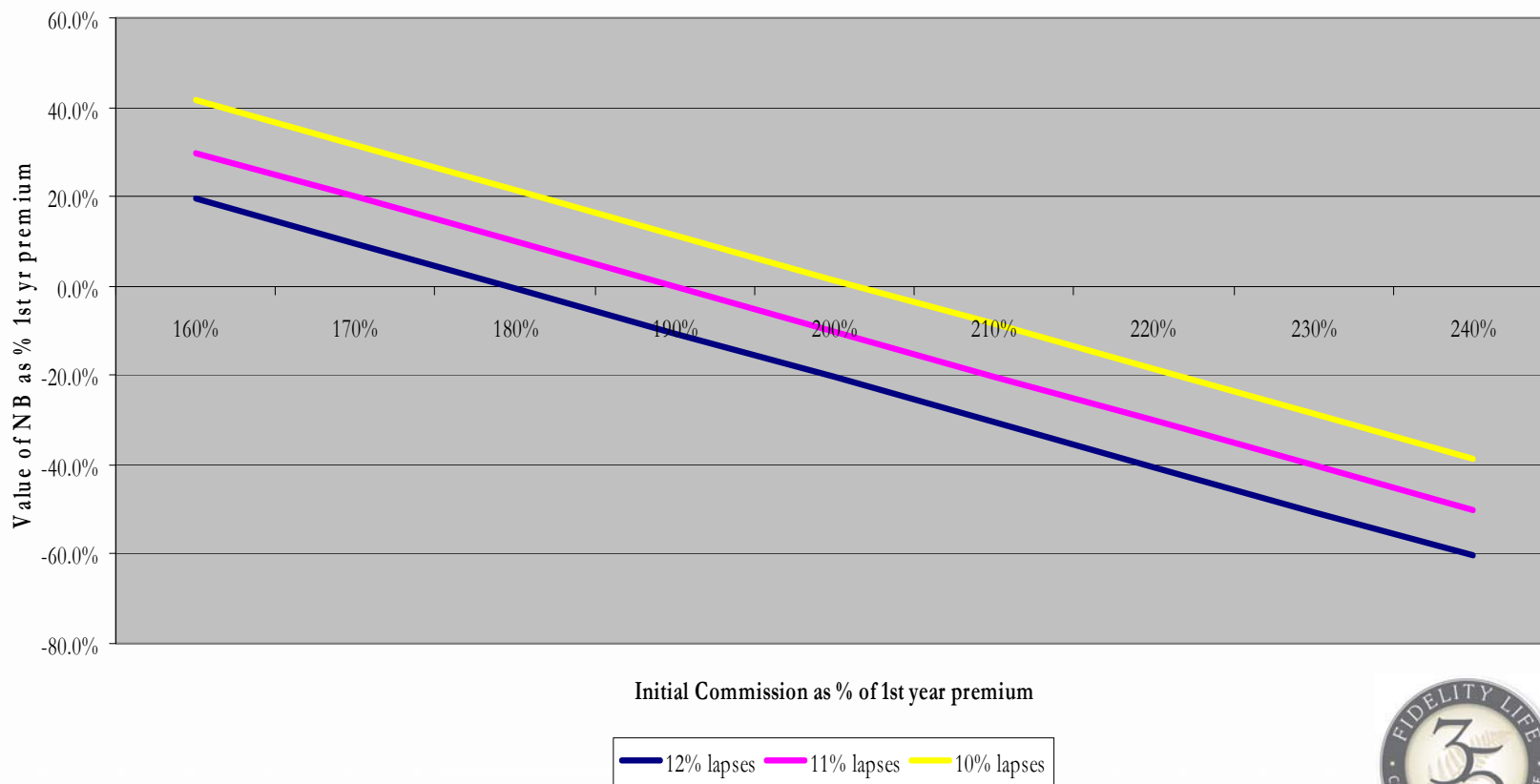
Dividends? Sorry, no money!



Fewer lapses => More Commission

Value of new life insurance cash flows discounted at 15%

(\$ 500,000 sum assured for 40 year old male; premium 1.75*NZ04; Claims nil in 1st year, NZ04 thereafter
Renewal Costs 5% + \$50; Set-up costs \$ 250 + IC + 20%; no duration discounts)



1973 - 2008

Let's twist again!



1973 - 2008

Sales strategies

- Economies of scale (pay more for bigger share)
- Loss leader (grow share before new tax regime)
- Adjustable bonuses (big payout for good advisers)
- Others are not stupid (let's follow the lemmings)
- We've still got planned profit margins!



Tax on the horizon



Options?

- Less Commission
- Less Profit
- Higher Premiums
 - Life only + 20% to 30%
 - All lines + 10% to 15%



Endangered specie?



AMERICAN OCEANIC WORLD



1973 - 2008