



THE EQUITABLE LIFE ASSURANCE SOCIETY
FOUNDED 1762

1999



Annual Report

Equitable

Values & benefits of The Equitable's mutuality

The Equitable is a mutual society. Our overriding philosophy is to maximise the benefits and service we provide to our clients. As a key part of that, we aim to distribute the rewards of our investment strategy to our members, **both fairly and fully.**

Despite recent trends in the financial services sector, we remain committed to the **concept and practice of mutuality.** We don't have shareholders, we don't pay commission to third parties and our **operating costs** are generally acknowledged to be the lowest in the industry – benefiting you, our clients.

As a self-financing, mutual organisation we are free to **focus solely on your needs,** developing products and providing advice that enables you to achieve your financial objectives.

Mutuality for The Equitable means delivering our **services at cost, allocating fairly the benefits of our investment performance and fully distributing profits** to each generation of policyholders. These principles have served our clients well for more than 200 years.

Now we are taking these principles into a new era with enhanced products and greater choice of delivery channels. We are embracing the **benefits of new technology** and improved communications to build a Society that continues to be *your* Society and that will continue to meet *your* needs in the years ahead.

Welcome



John Sclater CVO, President

1999 was a challenging year for The Equitable and I am pleased to say that it was a year of considerable achievement.

We cannot, however, escape from the fact that the year was overshadowed by adverse publicity surrounding a single issue – guaranteed annuity rates. This is a complex matter and it is important that our members have a full and accurate explanation of the central points. We have therefore devoted a special section (pages 30 to 32) in this report to explaining this issue and the background to the recent court actions. I hope that you will find this section informative and that it will help you understand how we are trying to find the best and fairest resolution for all of our clients.

The highlights of 1999 are featured in the pages overleaf...

Highlights of 1999 Despite difficult trading conditions across the industry, and the guaranteed annuity rate issue, there were a considerable number of achievements for The Equitable in 1999. I would like to draw your attention to some of these:

We achieved a total return on the with-profits fund of 16% in 1999.

We maintained our declared bonus rates at the same levels as in 1998.

We increased the overall rates of return allotted to policies.

At the end of 1999, the market value of our assets stood at over £33 billion.

Our expense ratio was 4.2%, close to our previous lowest level, and we expect this again to be the lowest in the industry.

Our total premium income for the year was £3.5 billion.

Our total new premium income for the year was the 4th highest for the UK life assurance industry on the standard industry measure.

We earned the title 'Group Personal Pension Provider of the Year' from *Professional Pensions*, the pensions industry magazine.

Our web site was rated above all others for pensions information by *Investors Chronicle* – see why at www.equitable.co.uk

We launched our ISA in March 1999 and sales to date have been excellent.

You can read more about these and other achievements in the *Management Report*, which begins on page 9.

We increased the overall rate of return allotted to policies for 1999 to 12% p.a. for pension business and 10.25% p.a. for life business.

Bonuses

We achieved a relatively high return on our investments in 1999. We have taken a disciplined approach to declared bonus levels in recent years and we were able to maintain our rates of declared bonus at last year's levels – for example, 5% p.a. for the current pension products. We increased the overall rate of return allotted to policies for 1999 to 12% p.a. for pension business and to 10.25% p.a. for life business, which is subject to a different tax regime.

I believe our bonus rates provide competitive policy results over a wide range and duration of policies and it is clear from our standing in surveys conducted by financial publications that this view is shared by objective commentators. At the heart of this performance is our commitment

to the fair and full distribution of profits that is central to our approach to mutuality.

Our mutual status

The way in which The Equitable operates as a mutual and the benefits our particular approach to mutuality brings to our clients are set out at the beginning of this report. The directors, management and staff of your Society remain fully committed to mutuality because we believe that it is in the interests of our clients. The *Mutual together* section of this report on page 9 further explains our thinking on this issue.

Financial regulation

Changes in the regulation of the financial services industry are underway, with the enactment of the Financial Services and Markets Bill expected soon

and the formal establishment of a single regulator, the Financial Services Authority (FSA). To this end we have played an active role in the FSA's consultation process over how it will exercise its role under the new regime.

We have also continued with the review of past sales of pension transfers and opt-outs, in line with the requirements of our regulators. We met the deadline for phase I of this review in 1998 and we are on schedule and making good progress towards meeting the deadline for phase II. Further detail on our work with the regulators is featured on page 24.

Corporate governance

During 1999 the Turnbull Committee published its report on internal control systems and reporting requirements. These have now been included

in the Combined Code on Corporate Governance published by the London Stock Exchange. We strongly support the principles of good corporate governance and have applied this new code to our own practices even though, as a mutual society, we are not strictly required to do so.

In addition, we have reviewed our internal control systems, with the help of Ernst & Young, and have decided to strengthen certain aspects still further. We have appointed a senior business risk manager and have continued to develop our internal audit and risk review functions in order further to safeguard our clients' interests.

Looking forward

Many of you will have recently received a bonus statement. This was accompanied by

Equities performed well during the year. Our investment in quoted UK equities produced a return of 23% and our overseas equities generated a return of around 35%.



a more extensive and improved explanation of our bonus system and policy benefits. This is part of an ongoing strategy to improve our communications with our clients. The revisions we have made to the style and content of our Annual Report are also part of this process.

Looking to the future, we are committed to providing innovative, high-quality and value-for-money products, supported by excellent service and delivered through the channels that our clients find most practical and convenient. Our investments in our web site and direct telephone sales channels are already bearing fruit and we expect to

see further development in these exciting new areas as our clients select service options to match their busy lifestyles. In terms of new products, we have already introduced a new personal pension plan that closely matches the expected form of the Stakeholder Pension. And we plan to be a major player in the Stakeholder Pension market once these pension plans are introduced early in 2001. Our low operating costs and advanced systems will give a powerful platform for this new product, enabling us to sell comfortably within the demanding charging structure which will be required by the Government.

The Board, management team and staff

I would like to pay particular tribute to Alan Tritton, one of our Vice-Presidents, who retired in 1999 after 23 years as a director. Alan served the Society with distinction over that long period in many roles. In addition to being Vice-President he was also Chairman of the Audit Committee and of two of the Society's subsidiary companies, Permanent Insurance Company Ltd and University Life Assurance Society.

The past year has placed many demands on our staff, on our management and on my fellow directors. I thank them all

for the manner in which they have handled a period which has been one of the most testing in our long history. I can assure you all that we have learned from recent experience and face the future with renewed vigour and commitment to continue the Society's success.

Ours is a Society of which we can all be proud and which is in a fine position to continue its strong development.



John Sclater, President
22 March 2000

The Annual General Meeting of the Society will be held at Westminster Central Hall, Storey's Gate, Westminster, London SW1 at 10.45a.m. on Wednesday, 24 May 2000. Only members are entitled to attend the meeting. Formal notice of the meeting and an attendance card are enclosed for members only.

John Sclater CVO, 59
President * (a.i.n.r)
Appointed a director in 1985 and President in 1994. Chairman of Foreign and Colonial Investment Trust plc, First Church Estates Commissioner and a director of a number of companies.

Peter Sedgwick 64
Vice-President * (a.i.n.r)†
Appointed a director in 1991 and a Vice-President in 1995. Deputy Chairman of Schroders plc, as well as being a director of a number of investment trusts.

Peter Martin 65
Vice-President * (a.n.r)
Appointed a director in 1984 and a Vice-President in 1999. Solicitor. Chairman of Permanent Insurance Company Limited and University Life Assurance Society.

Alan Nash 51, Managing Director and Actuary (i.n)
Appointed an executive director in 1993. Joined the Society in 1971 and has held various senior management roles. Became Managing Director and Actuary in 1997.

Peter Davis 58* (a)
Appointed a director in 1995. A director of Provident Financial plc and Boosey & Hawkes plc. Formerly Director General of the National Lottery.

Jonathan Dawson 48*
Appointed a director in January 2000. A Managing Director of Lazard and a director of The Securities Institute.

Chris Headdon 43 (i)
Appointed an executive director in July 1999. Joined the Society in 1978 and has held various senior management roles. Became the Society's Appointed Actuary in 1997.

Jennifer Page CBE, 55*
Appointed a director in 1994. Formerly Chief Executive of The New Millennium Experience Company Limited. A director of Railtrack Group plc.

David Price 52 *(i)
Appointed a director in 1996. Chairman of Foreign and Colonial Management Ltd and Govett Asian Recovery Trust. A director of Booker plc and a number of investment trusts. Formerly Deputy Chairman of Mercury Asset Management Group plc.

Jonathan Taylor 64*(n)
Appointed a director in 1995. A director of Equitable Services and Consultancy Limited and MEPC plc. Formerly Chairman of Booker plc and Ellis & Everard plc.

David Thomas 55 (i)
Appointed an executive director in 1989. Joined the Society in 1984, following other senior investment management roles, and took over responsibility for the Society's investment area.

General Management Team

Roger Bowley – General Manager – Corporate Projects
Chris Headdon – General Manager – Finance and Appointed Actuary
Alan Jones – General Manager – Management Services
Alan Nash – Managing Director and Actuary
Phil Stone – General Manager – Customer Services
David Thomas – General Manager – Investments
John Weller – General Manager – UK Sales & Marketing

JS	AN	CH	JT	AJ
PS	PD	JP	DT	PS
PM	JD	DP	RB	JW



We face the future with renewed vigour and
commitment to continue the Society's success.

'Mutuality makes sense to me – the benefits of strong performance go to us, the policyholders, rather than to paying shareholders. For us, mutuality means greater fairness and better returns from our investments. Why change something that's worked so well for so long?'
Dr Sarah Benney, Equitable policyholder and general practitioner.



Management report

Mutual together We remain committed to our mutual status and the benefits it delivers to our clients.

Here we look at the arguments for remaining mutual.

Mutuality was at the heart of the foundation of The Equitable Life Assurance Society in 1762 and it remains central to our philosophy today. Many other organisations have surrendered their mutual status. But we are as committed to the idea and practice of mutuality as we ever have been. Why? Because we believe mutuality – as practised by The Equitable – enables us to offer you, our clients, an unbeatable range of benefits:

> **the provision of financial and associated services direct to our clients at cost**

> **full distribution of profits, to each generation of clients**

> **the fairest possible allocation of bonuses between all classes and durations of policies**

Why do other companies demutualise?

The arguments for demutualisation generally focus on the need for capital to fund growth and to access new distribution channels, and these are normally accompanied by financial inducements to existing members. We do not feel that these arguments apply to The Equitable:

> **Capital requirements place no restriction on our plans for growth – our impressive growth in recent years demonstrates this.**

> **We have already invested substantially in making The Equitable the most efficient company in the UK life insurance industry.**

> **We have no need for the assistance of other companies in distributing**

our products. Further, we have recently seen the early benefits of our investment in our direct telephone sales and on-line operations.

> **Our clients recognise and value the benefits of our particular approach to mutuality and our cost-effective operations. These would be lost if we gave up our mutual status and had to generate profits for shareholders.**

Full distribution of profits

The free-asset ratio of a life company is often quoted as a measure of its financial strength and an indication of whether it will be able to deliver high bonuses in the future. It is these free assets which have been used to provide the financial incentives behind so many of the recent demutualisations of our competitors. The Equitable's

policy of giving a full distribution of profits to each generation of policyholders, rather than retaining profits in order to create an impression of greater strength, means that we have traditionally operated with much lower free assets than many other life offices. This approach has neither restricted the way we operate nor limited our investment in the business.

In reality, our approach offers greater fairness and better returns to all our clients by ensuring that they, rather than future generations of clients, receive the benefit of their investments.

We remain firmly convinced that a well-focused and well-managed mutual, like The Equitable, is the most effective corporate form to continue to deliver superior benefits to our clients. For this reason, we have no intention of surrendering our mutual status.

Delivering results to you The ultimate aim of all our activities is to deliver products and investment performance that enable you to face the future with confidence and security.

This section describes how we have allocated the profits on your investments.

You will see from the *Investing for you* section of this report that we achieved an overall return on our with-profits fund of 16% during 1999.

In considering the allocation of bonuses we had to take into account the volatility of the markets, which rose and fell sharply during the year. In our view, 1999's year-end market rises were short term and we have observed further market weakness during the early weeks of 2000. With these factors in mind we have allocated an overall rate of return on pension products of 12% p.a. – which

compares favourably with the 10% allocation for the previous year.

Allowing for the effects of taxation, we have allocated an equivalent rate to our life contracts and ensured that this rate of return is also reflected in the final bonus rates for traditional contracts such as endowments.

We have maintained the interim rate of return* at the 1999 level of 9% p.a. and have applied net-of-tax equivalents for life contracts. Our decision here was shaped by the expected continuation of relatively low inflation in the UK and the erratic behaviour of markets across the globe.

*Applying from 31 December 1999 for policies becoming claims after 1 April 2000.



Money Management Personal Pensions Survey

Five Star 'Best Buy' for monthly premiums
March 1999, October 1999 and March 2000

Source: Money Management, Mar '99, Oct '99 & Mar '00

Money Management Personal Pensions Survey

Fund	Contract Performance
Far East	1st Quartile 2/18
Managed	1st Quartile 10/55
Money	1st Quartile 4/44
Pelican	1st Quartile 4/61
Property	1st Quartile 1/32
Ethical	1st Quartile 4/48
Gilt & Fixed	1st Quartile 9/38

monthly contributions 5 years
monthly premium of £200 to 1 July 1999
Source: Money Management, October 1999.

Money Marketing Unit-Linked Personal Pensions Survey

The Equitable Life unit-linked Managed Pension Fund

5 Years 3rd out of 36 managed funds surveyed

The Equitable Life unit-linked Pelican Pension Fund

5 Years 1st out of 33 UK equity funds surveyed

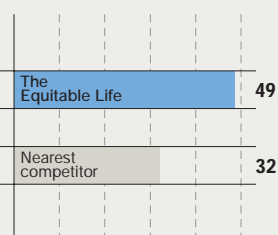
Source: Money Marketing Focus, June 1999.
Monthly contributions to unit-linked personal pensions.

Similarly, we have kept declared bonus rates at their 1998 levels for all products. Interest yields on long-term Government stock rose a little during 1999 as investors discounted a modest upturn in inflation following stronger economic growth. Any further upturn is, we believe, likely to be restrained by fiscal and monetary policy limiting any further increases in long-term yields. For most products, we passed the return on as a 5% increase to guaranteed benefits in 1999. Having taken a disciplined approach to the setting of declared bonus rates in previous years, we felt that no further decreases in declared bonus rates were appropriate for 1999.

Holders of with-profits policies will recently have received a bonus notice from us and a statement showing the effect of the 1999 bonus on their contracts. To help put these figures in context, the table below shows how the yields from The Equitable's various contracts maturing on 1 April 2000 compare with investments in a building society account and the Retail Price Index (RPI).

We believe our bonus rates offer extremely competitive policy returns over a wide range and duration of policies, and it is clear from our continued high standing in independent surveys conducted by the financial press, that objective commentators share this view.

Top ten appearances for Personal Pension Plans 1974-1999



Source: Planned Savings surveys of regular contribution with-profits personal pension plans published 1974 to 1999

Yields on maturing policies

	The Equitable Life %p.a.	Building Society %p.a.	Effective Rate of RPI* %p.a.
With-profits bond 5yrs	8.3	3.9	2.7
10yrs	8.9	5.5	3.4
Endowment assurance 10yrs	9.4	4.2	2.6
Bond figures are for a single premium of £10,000. Endowment assurance figures are for a monthly premium of £50 for a male age 30 next birthday at outset. Building Society figures are for a typical high income account, net income reinvested. Past performance is no guarantee of future performance.			
Pension contracts	The Equitable Life %p.a.	Building Society %p.a.	Effective Rate of RPI* %p.a.
5yrs	9.5	4.4	2.3
10yrs	10.2	5.5	2.6
15yrs	11.8	7.3	3.4
20yrs	14.2	8.5	3.9
Results are for a monthly premium of £200. Building Society figures are for a typical high income account, gross income reinvested. Past performance is no guarantee of future performance. Since July 1997, pensions can no longer recover tax credits on the dividends from UK equities.			
*The effective rate of RPI takes into account the frequency of the investment. Source of Building Society and RPI figures: Hindsight			

Investing for you 1999 was a year of strong performance for The Equitable. Here we offer a brief overview of the macro-economic factors affecting our investment decisions and explain where we have invested the with-profits fund and why.

Economic overview

At the beginning of 1999 it was widely predicted that economic growth in the western world over the year would be low, but that a 'full-blown' recession would be avoided.

Some recovery in Asia was thought to be likely and, in the event, this proved to be quite rapid, boosting the stock markets in the region. The US economy continued to grow ahead of its estimated long-term sustainable rate and the labour market there experienced further tightening. These developments put upward pressure on commodity prices, including oil, and although published inflation in the developed world remained low, western monetary authorities attempted to curb any increase in inflation

by raising interest rates at the end of the year.

Rising commodity prices and other cost increases have so far been offset by productivity improvements. However, concern about inflation and the expectation of rising interest rates led to rising bond yields in the UK, US and most of Europe, with the exception of long-dated gilts, which have seen strong demand and limited supply. The FTA All-Stocks Index delivered a negative return of 0.9%. This vindicated our decision not to add significantly to our fixed-interest investments in late 1998 or early 1999.

Our investments

Our investment in quoted UK equities produced a return of 23% and our overseas equities a return of around 35% – the

overseas portfolio helped by a considerable appreciation of Far Eastern stocks.

However, much of the demand for equities focused on telecommunications and Internet-related companies, while many more traditional companies actually saw their share prices fall over the year.

Together with gains from property and other assets, these movements produced an overall return of 16% for our with-profits fund over the calendar year. Our pensions managed (unit-linked) fund fared even better with a return of 22.7%, having less fixed-interest stock than the with-profits fund. This return was above the average achieved by comparable pooled funds. Other Equitable unit-linked funds also generally produced

January 2000

Equitable Ethical Fund
3 Years Performance
1st

Sunday Times
Survey of Ethical Funds

Source: *Sunday Times*, 30 January 2000

December 1999

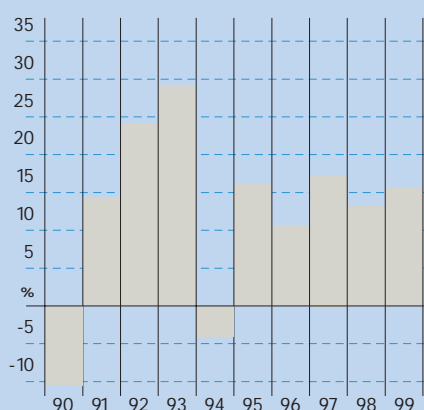
Professional Pensions
Best Major Balanced Fund

1st

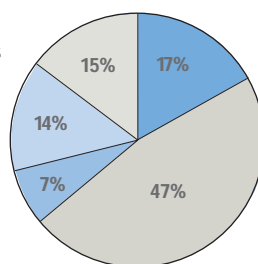
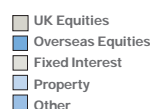
Over 1 Year

Source: *Professional Pensions*, December 1999

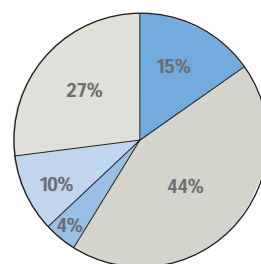
**Equitable with-profits
annual returns since 1990**



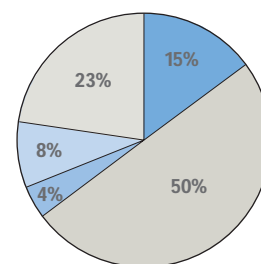
Investment mix of with-profits assets



31 December 1989



31 December 1994



31 December 1999

competitive returns and we picked up several awards as a result.

Comparisons of investment performance with other with-profits funds are not possible as the majority do not publicise the relevant information. However, one comparison that is available is at the asset category level as published by the Combined Actuarial Performance Service (CAPS) in their survey of Pooled Pension Funds. The latest data shows that, over the three year period to 31 December 1999, the main categories within the Society's with-profits fund (UK Equities, Overseas Equities and UK Fixed Interest) outperformed the relevant medians by 0.4%, 1.1% and 2.7% per annum respectively.

The amount of new money available for investment by the with-profits fund was £1.15 billion in 1999 and our investment decisions were largely determined by long-term considerations. For example, we invested a substantial proportion of this cash flow in property, given the yields currently available and the prospects for rental growth in selected areas.

We also instigated a number of joint ventures with other property investors during the year. These enabled us to gain exposure to new assets and to benefit from expertise not currently existing within our own property management team, such as in mainland Europe. Future returns from some of these ventures should also be enhanced by judicious, but limited, gearing.

We achieved an overall return of 16% for our with-profits fund and a return of 22.7% for our pensions managed fund.

Otherwise, we favoured equities for new investment, though we also made a significant additional commitment to fixed-interest assets in late September after 10-year gilt yields had risen to almost 5.75% p.a.

We believe that this mix of assets, taking account of risk and the build-up of guarantees under our policies, is the most appropriate and will produce the best results for our with-profits clients.

We continue to pursue an active role in corporate governance, exercising voting rights wherever possible which, in 1999, amounted to 94% of resolutions arising

in UK companies in which we held shares. We also have a continuing and valuable dialogue with directors and executives of those companies, which includes reference to ethical and environmental issues when relevant. We have stated previously that companies that clearly depart from acceptable ethical and environmental policies are unlikely in the longer term to produce sustained growth in shareholder value. That continues to be our view and we therefore take account of such issues in managing investments in the best financial interests of our clients.

Standard & Poor's Investment Funds Performance Awards March 2000

Equitable Far Eastern	1st Place	10 Years UK Individual Pension Fund, Far East including Japan
Equitable Far Eastern	1st Place	10 Years UK Insurance Funds, Far East including Japan
Equitable Ethical	1st Place	1 Year UK Insurance Funds, International Sector
Equitable Group	3rd Place	1 Year UK Insurance Funds, Larger Group Category



'Sixty three years ago my grandfather took out an Equitable with-profits endowment in my name. With around £8 per year going into it I didn't give it much thought, so I was absolutely staggered when the Society told me it was now worth over £11,000. My brother, who cashed in his policy when he was 21, is kicking himself now.'

Retired farrier David Craig, Equitable policyholder and group pension scheme member.

Developing the business for you Throughout 1999 we continued to grow and develop new areas of business. We launched a major new product, expanded internationally and continued to develop the systems that enable us to deliver outstanding service.

New business and marketing

Considering the challenges we faced during 1999 our total sales held up well. Overall, The Equitable's global new business decreased by 7.9% compared with 1998. New single contributions were £2,030 million, representing a decrease of 7.7%, while new annual contributions decreased by 9.3% to £382 million.

There can be little doubt that our new pensions business was hit by the adverse publicity surrounding the Guaranteed Annuity Rates issue (see page 30). However, the industry in general was also affected by further publicity over pensions mis-selling and by what has been termed 'pension planning blight' where individuals deferred pension purchase in anticipation of new Stakeholder Pensions, scheduled to arrive in April 2001.

Towards the end of the year, a number of pension providers attempted to counter this sales deferral by introducing pre-Stakeholder-style products and we faced increased competition from other low-cost providers as a result. However, we anticipate that our careful planning through 1999 will reap rewards in the new Stakeholder environment that is developing.

New products for a new age

This new environment, where the product is tightly defined and controlled, is typified by the Individual Savings Account (ISA). We launched our own ISA in April 1999 through our wholly-owned subsidiary,

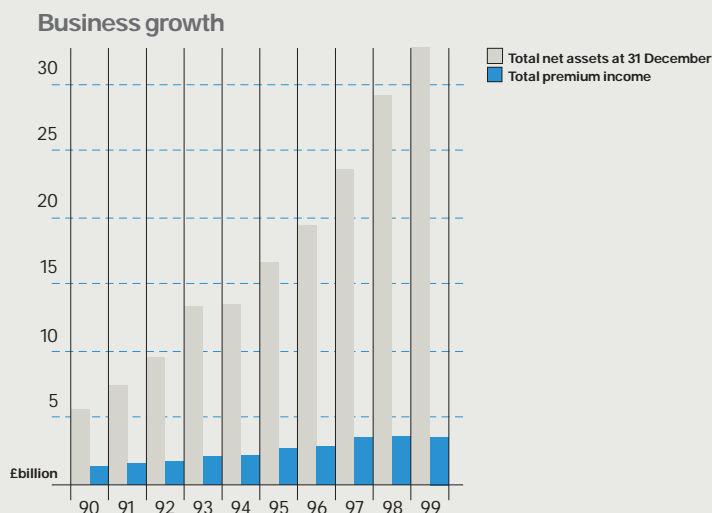
Equitable Unit Trust Managers Limited, and it proved to be an immediate success. Nearly 18,000 of our clients made investments totalling more than £70 million during the year and, importantly, around 25% of cases took the maximum allowance of £7,000 or its monthly equivalent. The Equitable ISA was the first of our products to be available on-line, through our web site – www.equitable.co.uk – and a substantial number of our clients took advantage of the simplicity and convenience of this new delivery channel.

We also began offering completely integrated sales and servicing channels during 1999. Clients can

now buy ISAs and service many types of plans through the Internet, as well as over the telephone or face to face, depending on their requirements, objectives and lifestyle. We plan to enable other products to be bought over the Internet in the near future. Few other companies can provide this level of flexibility and convenience.

The Internet has already proved to be a popular and valued means of communication, of purchase and of self-servicing and we are looking forward to further strong growth in this area. Indeed, the availability of our acclaimed Client Service site has been very well received

Clients can now buy ISAs and service many types of plans through the Internet, as well as over the telephone or face to face, depending on their requirements, objectives and lifestyle.



by clients, with several thousand new users visiting us on-line.

Branch improvements

Our development of new high-tech channels is not, however, at the expense of more traditional areas of business. In fact, during 1999 we introduced a new structure to our branch sales support operation to maximise efficiency and ensure that best practice permeates every area of our branch administration for the benefit of our clients. Our representatives also benefited from a continuous programme of training and development which ensures that they continue to offer the high level of advice demanded by our discerning clients.

We have always sought to provide leadership in our marketplace, and were especially pleased with the response to our national programme of seminars for company directors, on the future of pension provision. More than 2,000 directors of significant companies in the UK used our programme to develop their understanding of the

changing pensions landscape. The opportunities arising from these discussions will benefit both the Society and our clients.

International growth

Looking further afield, during 1998 we focused our energies and resources on our existing international markets – Germany, the Republic of Ireland and, via our Guernsey and Dubai operations, the expatriate population – with the aim of building a cost-effective share of each respective marketplace.

This approach began to pay dividends in 1999 and our international business grew strongly with a rise in premium income from £180m to £259m, an increase of 44%. This includes an exceptional transfer from one pension scheme but even excluding that we achieved an overall

growth of 24%. International business now accounts for 11% of our total new business.

Most of the growth in international business came from our operations in Guernsey, Dubai and Germany. We doubled our premium income in Germany, partly due to the expectation of the withdrawal of tax relief on certain life assurance products. Happily this change did not materialise and our performance bodes well for our future prospects in Europe's largest market.

Systems

Throughout the 1990s, we have sought to use advanced information and telecommunications systems and services to support and enhance all aspects of our business. In particular, we have developed systems to help our staff to provide improved and expanding customer service

at lower cost, such as the on-line services already mentioned.

Our major systems initiative in 1999 was to start the design and development of a new computer system to support our UK branch sales organisation and to enable us to deliver a more responsive service to our clients. The first part of this development will provide sales representatives with immediate access to all client data and an electronic library of corporate and departmental information. At the same time, they will be able immediately to create electronic product illustrations. Future phases of the project will include more sophisticated sales tools and further streamlining of systems support for both branch and Equitable Direct-based sales operations.

We have introduced an advanced call centre system to support client-facing staff in Equitable Direct and the Client Servicing Centre. We undertook a number of other important systems developments during the year to support investment accounting

Our web site now allows you to access product information, buy ISAs and even undertake certain servicing tasks yourself – all at the click of a mouse.

Our major systems initiative in 1999 was to create a new computer system to support our UK branch sales organisation and enable them to deliver a more responsive service to our clients. The first part of this development will provide sales representatives with immediate access to all client data and an electronic library of corporate and departmental information. At the same time, they will be able immediately to create electronic product illustrations.

including enhancements to facilitate multi-currency cash deposit management in 30 currencies. From January 1999, we successfully introduced the ability to process business in euros, enabling us better to serve our growing client base in Germany, the Republic of Ireland and beyond.

We also continued developments on our customer service systems to support new products such as the ISA and the UK All-Share Index Tracking Fund, and to enable clients to pay premiums by debit card. You can now use a debit card to pay single premiums by post, telephone or through our web site.

The Internet was a major focus of our systems investment in 1999. The on-line purchasing of our new ISA has already been mentioned and we have also introduced a Group Pension site to assist scheme trustees and members with their pensions investments. Our web site now allows you to access product information, buy ISAs and even undertake certain servicing tasks

yourself – all at the click of a mouse. In support of our growing international business, we introduced computing support for group pensions scheme processing for Germany, and work started on a comprehensive international web site.

Systems consultancy

Equitable Services and Consultancy Limited (ESC), our wholly-owned subsidiary, provides IT systems and consultancy services to other financial organisations, generating further profits for the benefit of our members. In 1999, ESC completed its fifth year, successfully carrying out assignments for Marks & Spencer Financial Services Limited, Merrill Lynch Mercury Asset Management, Southampton Assurance Company of Zimbabwe and Royal Liver Assurance Limited.

During the year, Southampton Assurance transferred all its client and policy records to ESC's systems. All of Southampton's post-sales customer service activities can now be performed

by its own staff in Zimbabwe, via a satellite link to computers and data at our offices in Aylesbury. ESC's latest and largest project, for Royal Liver, one of the UK's largest friendly societies, includes consultancy, policy administration services and the introduction of computer bureau services using ESC's systems. Further developments for Royal Liver will continue in 2000.

Millennium preparation

Like many organisations we continued to prepare for the Millennium changeover during 1999. Our Year 2000 project began in late 1996 and most of our infrastructure, systems and services were proven to be compliant by the end of 1998. A final round of testing in 1999 confirmed continuing compliance and over the Millennium weekend our infrastructure, systems and interfaces to third parties performed normally. Over 10% of our staff gave up their time on that historic weekend to prove compliance and protect our clients against any unforeseen problems.

Providing service for you Customer service continues to be one of our most important activities. Our aim is to provide a professional, prompt and courteous service that meets the needs of all of our clients. Central to this is the provision of high-quality training and development for our staff.

Service for individuals

At The Equitable we are responding to the changing preferences of our clients and seeking to deliver world-class service through a choice of delivery channels.

We provide a full and effective after-sales service to all of our individual clients in the UK and internationally through our Client Servicing Centre in Aylesbury. Around 270 staff and managers working there look after more than 650,000 customers, with over one million policies. They are supported by systems that provide access to relevant information, past and present, about our clients and their policies. These front-line staff work in close partnership with our branch network and receive further support from

a number of central technical areas to deliver a complete and integrated service.

On-line services

For clients with Internet access, our acclaimed web site is proving increasingly popular. After a simple registration process you can now gain direct access to your personal details and information about your policies. This new technology also gives us the opportunity to communicate proactively with you, providing you with current information about topical issues, new products and services. Try it for yourself at: www.equitable.co.uk

During 1999 our customers have continued the trend of using the telephone to discuss their policies or to give instructions, rather than

writing to us. Around 30% of all requests now arrive over the telephone. Staff in our Client Servicing Centre Telephone Desk are able to resolve most enquiries immediately and to take instructions for a wide range of activities. We can now take payments by debit card and accept and change direct debit instructions via the telephone and the Internet, without the need for paper. Our trained staff are available to talk to clients between 7a.m. and 8p.m. on weekdays and between 9a.m. and 3p.m. on Saturdays. Outside these times,

we operate an efficient messaging service and place a high priority on dealing promptly with your enquiries and requests.

Service for everyone

We are committed to open and effective communication with all of our clients and to this end we offer most documents in a number of formats including large print, Braille and audio-tape. We aim to deal with your requests individually and to work with you to find the solution that is most appropriate to your own particular needs.

We are committed to open and effective communication with all our clients and to this end we offer most documents in a number of formats including large print, Braille and audio-tape.

'With a young family and a hectic lifestyle I don't always have time to write letters or phone during office hours. I need to be able to manage my policy when it suits me. The Equitable's on-line facilities put me in the driving seat and help me to keep my finances in tune with my life.'
Mary-Ellen Wyard, Equitable policyholder.



Policies for group pension clients

In 1999 The Equitable was named Group Personal Pension Provider of the Year by the magazine *Professional Pensions*. We take particular pride in this accolade because it comes at a time when the corporate pensions market is dominated by grouped personal pensions. Indeed, the majority of new pension arrangements set up with us during the year were grouped personal pension plans – over 200 employers set up these arrangements with us in 1999.

The introduction of Stakeholder Pensions in 2001 is likely to generate further changes to our clients' pension arrangements. In preparation for this, we have made extensive plans to ensure that during the coming year all

An essential part of delivering outstanding customer service is recruiting, training and rewarding high-calibre staff.

our existing clients are provided with clear information about the choices open to them and the actions they need to take.

Ongoing communication

Effective communication with our corporate clients is essential to our success in this market. Our Group Client Managers are the local contact with each of our group clients, attending client, trustee and management meetings to discuss the progress of their pension arrangements with us. Our Group Client Managers also organise presentations to groups of employees and make various

other arrangements to assist our clients in promoting the benefits of their schemes to employees. In 1999 over 40,000 individuals attended these presentations. Over 100,000 new entrants joined Equitable group pensions arrangements during the year. This is the second consecutive year in which the total number of new entrants joining in the year has topped 100,000.

Continuing to improve

We have made plans to improve further the service we offer to our corporate clients in 2000. For many years our administration teams have dealt with the majority

How to contact us

Sales enquiries:

Either contact your local branch or
Equitable Direct
 Telephone – 01296 562000
 Fax – 01296 385444

Service for existing plans:

Telephone – 01296 385588
 Fax – 01296 386383

Via the Internet:

www.equitable.co.uk

of enquiries, letters and telephone calls, on the day of receipt.

In 2000 we shall increase the proportion of enquiries dealt with on the day of receipt. We shall also continue to refine the publicity tools we have available.

In 1999 we launched a web site dedicated to Additional Voluntary Contributions, providing generic information about AVCs, fund prices, etc. and we are working on enhancing the information we provide electronically.

This will be a busy year for our group pensions area as we prepare for the launch of Stakeholder Pensions. Our low-cost, flexible products, delivering excellent returns are ideally suited for Stakeholder Pensions

and we view this as an enormous opportunity to extend the services we offer to our existing clients. However, in the Stakeholder environment good products alone will not be enough. First-class administrative support will also be vital and at The Equitable we are well placed to deliver both.

Our people

An essential part of delivering outstanding customer service is recruiting, training and rewarding high-calibre staff, not just in those areas dealing direct with clients but in all parts of our operations – because all staff are there to serve our clients' needs. Our philosophy is to recruit people who show genuine enthusiasm and commitment to the provision of

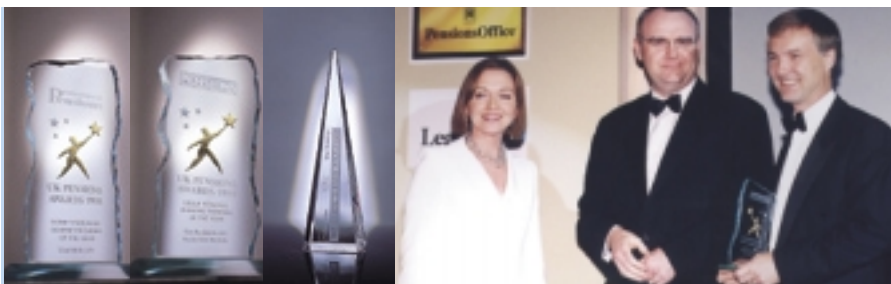
excellent customer service.

Our comprehensive training and development programme then equips them with the skills and knowledge they need to play their part in providing the quality of service our clients expect.

One of our key strategic business aims is to invest further in training and development, to ensure that staff are well motivated and possess the skills necessary for the years ahead. In 1999 we prepared a comprehensive new training and development plan involving all levels of staff. The plan features major initiatives including a new approach to senior manager training and development, the establishment of core training programmes for all managers and reviewing the way in which we train and develop our graduates. Our aim is to maintain

a rich learning environment for all staff and to maximise their potential for the mutual benefit of our staff and our clients. The positive response of our staff to the Guaranteed Annuity Rates situation, the dominant business issue of 1999, reflects their enormous pride and loyalty in working for The Equitable. The business value of this degree of commitment is substantial – it is the platform on which the Society's success has been built.

Our clients expect choice, value for money and exceptional service and it is our goal to deliver on all counts. As opportunities for providing customer service evolve we are well placed, both in terms of our systems and our staff, to meet the challenges of the new century.



Professional Pensions Awards

1998 Money Purchase Scheme Provider of the Year

1999 Group Personal Pension Provider of the Year

**Consumer Finance Awards, March 2000
Best Personal Pension Provider,
as voted by the readers of
*The Guardian, Money Observer
and The Observer***

Managing the Society for you

Strict cost control and effective capital management are essential aspects of our drive to maximise the benefits we pass on to you.

This section looks at how we control our management costs and explains how we access the capital we need to develop new business. It also shows how we are working to meet the requirements of our regulators.

Acquisition expense ratio 1998	
Lowest	
The Equitable Life	16.74%
Nearest competitor	24.24%
Average	79.75%
Renewal expense ratio 1998	
Lowest	
The Equitable Life	1.93%
Nearest competitor	5.46%
Average	12.82%

Source: *Planned Savings*, October 1999

Expense control and increased productivity

The Equitable has grown considerably over the last decade. At the same time, we have steadily driven down our operating costs. For our clients, this translates into enhanced benefits and lower charges. In fact, our improved productivity means that virtually all our pensions clients who are still contributing to their contracts are now paying significantly lower charges than those specified in their policy.

Data from HM Treasury returns, published in *Planned Savings*, shows clearly that we are significantly outperforming our competitors in terms of the cost of acquiring new business and administering existing business. We are committed to improving

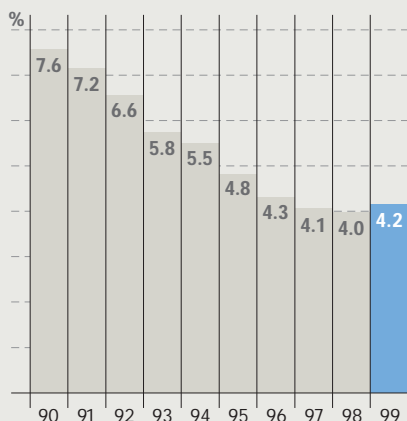
our productivity still further so that we can preserve even more of the benefits from our investment performance for you. To this end, we operate a notional Management Company. This takes the aggregate explicit amount built into your premiums for administration as its income, less the rebate given at the end of each year to certain classes of business. Its outgoings are the actual costs of operation plus a charge for past system development costs with interest.

The Management Company's accounts – which are audited because we use them as the basis for a staff profit-related bonus scheme – show a clear improvement in productivity. The 'Improved productivity' table on page 23 sets out how,

We are committed to improving our productivity still further so that we can preserve even more of the benefits from our investment performance for you.

Expense ratio

i.e. expenses of management as a proportion of total premium income



We are significantly outperforming our competitors in terms of the cost of acquiring new business and administering existing business.

over successive years, we have delivered significant profits on our renewal charges – that is the amount by which we have undershot the allowances we have made for the management of this business.

In recent years we have made additional productivity gains through modernising business processes and the implementation of new systems. The savings have been passed on in rebates and reductions in fund charges, and the table shows the total benefit we have been able to pass on to policyholders each year.

> We made a rebate on charges for individual pension policies at the end of the years 1994-6, where the aggregate contribution

paid by the policyholder over the year exceeded £5,000. From 1 January 1997 we improved and extended these rebates to include the first £5,000. Similar rebates now also apply to the Personal Investment Plan.

> Since 1994 we have made a similar rebate of charges for larger group pension schemes, based on the average level of contribution. From 1 January 1998 we further improved these rebates.

> We reduced the fund charge on the internal linked funds in 1995 to 0.5%.

> The 'Improved productivity' table below summarises the

effect of these changes and sets them alongside the total operating costs of the Society. It shows that Equitable clients have received benefits totalling £217 million since 1992 when compared to the position if standard policy charges had been made.

Capital management

Being a mutual society means nearly all development capital has to be raised internally. This is a powerful incentive to use that capital effectively. Our primary need for capital is to finance the up-front costs of acquiring new business, although we also occasionally require capital to fund particular projects or investments, such as the development of new systems.

The cost of acquiring and managing new business is covered by explicit charges in the various premium rates and these are publicly disclosed. The cost of acquiring most new single premium business is met at the outset.

In the case of new annual premium business and managed pension business however, costs are incurred at the outset and then recouped over the lifetime of the policy. To cover these costs the Society takes a loan from the main fund. This loan is effectively an investment in the business on behalf of our with-profits clients. The additional loan required to finance new business in 1999 is shown in the table 'Investments in UK new business' on page 24.

Improved productivity – the benefits to policyholders

	Profits on renewal charges	Rebates to individual pension and savings plans	Rebates to larger group pension schemes	Benefit from reduction in fund charge	Total benefit to policyholders	Total operating costs
1992	£1.6m	-	-	-	£1.6m	£124.3m
1993	£1.6m	-	-	-	£1.6m	£121.0m
1994	£2.5m	£10.9m	-	-	£13.4m	£113.0m
1995	£2.4m	£12.4m	£4.5m	£2.8m	£22.1m	£114.4m
1996	£3.7m	£15.9m	£4.9m	£3.6m	£28.1m	£122.9m
1997	£3.8m	£27.0m	£6.7m	£4.4m	£41.9m	£141.6m
1998	£3.8m	£28.1m	£9.2m	£5.6m	£46.7m	£150.8m
1999	£3.2m	£40.1m	£10.8m	£7.4m	£61.5m	£147.3m

Since the late 1980s we have invested some £70 million in the complete redevelopment of our operating systems.

Investments in UK new business	
The Society's new UK annual premium business in 1999	£319.4m
New business loan	
Outstanding amount invested in acquiring new UK annual premium business to end 1998	£483.7m
Additional net loan to finance 1999 new UK annual premium business	£3.9m
Total	£487.6m

We 'roll up' the outstanding loan, allowing for interest, to give us an overall total of borrowings from the fund to finance new business. At present, with the total UK with-profits reserves standing at £20.3 billion (as at 31 December 1999), this outstanding loan represents just 2.4% of those reserves.

To ensure complete fairness, we use the size of these loans to help us determine the appropriate level of policy proceeds to allocate to with-profits clients who have decided to leave the fund.

Investment in new systems

Since the late 1980s we have invested some £70 million in the complete redevelopment of our operating systems. This investment is explicitly accounted for in the management accounts and, as each tranche of the project comes on-line, we require the managers concerned to

generate productivity gains that will repay their respective element of the investment over an agreed period. By 31 December 1999 we had reduced the outstanding amount, with accumulated interest, to £16 million, payable in future years.

In addition to generating productivity gains, these systems also provide a source of profit in their own right. Equitable Services and Consultancy Limited (ESC), our wholly-owned systems consultancy, makes them available to selected external organisations. For more information about our systems consultancy see the *Developing the business for you* section of this report.

Working with our regulators

The regulatory environment in which we operate is becoming

increasingly complex. There is a shift in emphasis from regulating the way products are sold to regulating the nature of the products themselves. We are committed to meeting the requirements of our regulators and to reinforcing our reputation for delivering high quality advice and value for money.

The Financial Services and Markets Bill is expected to become law shortly. The Financial Services Authority (FSA), which will become the single regulator of the financial services industry, has consulted widely on how to approach its task. We have played an active role in this consultation process.

In 1999 we continued with the review of past sales of pension transfers and opt-outs, in line with the requirements of the



We are raising our public profile with a number of new initiatives including sponsorship.

We are committed to meeting the requirements of our regulators and to reinforcing our reputation for delivering high quality advice and value for money.

regulators, and we are well on course to meeting the deadline for phase II of this review.

The regulators have revised the assumptions on which compensation is calculated and widened the categories of contract covered by the review. This will lead to an increase in the total compensation payable by the Society and by the industry in general. Up to the end of 1999, we had paid £71 million in compensation and we estimate that a further £123 million will be payable before the end of phase II of the review. Although these are sizeable sums they are much smaller than would be expected on the basis of the

total cost to the industry, and the Society's market share of pensions business. Given the size of our total assets, we remain confident that the compensation payable will have no material impact on our clients' benefits.

The FSA will shortly announce the details of a review it requires the financial services industry to carry out, in connection with past sales of Free-Standing Additional Voluntary Contribution (FSAVC) plans. We will participate in this review but we do not anticipate any significant compensation requirements to result. You may also be

aware of action required in connection with mortgage-related endowment policies. The Equitable, along with other companies which have written such business, has complied with the arrangements agreed between the Association of British Insurers (ABI) and the FSA. We have contacted holders of these policies and have undertaken to carry out periodic reviews of their projected maturity values. Policies maturing to date have comfortably produced the amounts intended. In fact, we have relatively little business of this nature and such policies were sold by us on conservative assumptions about future growth. Projections indicate that if the regulators' mid-point growth assumption is borne out in practice, there should be few policies with a shortfall.

Communicating with you We are working continuously to develop new channels of communication with our clients, both to grow the business and to reinforce our reputation as a trusted adviser in a complex and rapidly changing marketplace.

The need to establish open and effective communication with our clients and target markets has never been more pressing. Changing lifestyles and technological advances mean that our clients want to interact with us through a variety of media. At the same time, our experience of the Guaranteed Annuity Rates issue suggested that our communications strategy required a significant overhaul. We have to be alert to these challenges and agile in responding, ensuring at all times that the image we present to the public reflects the values and principles by which we operate.

So what are we doing to achieve this important objective? An early step has been to try to help

ELAS contacts with clients 1999

Internet	175,000 Internet site visits
Equitable Direct phone calls	82,000 in 108,000 out
Client Servicing Centre	403,500 (incoming) 8,600 to the bonus notice line
Branch Seminars	129 Seminars, attended by; 3,632 people, a further 1,760 requested information
Visits by field staff to clients	148,300
Branch phone calls	653,000 in 357,000 out
Group Client Managers	visited 1,719 companies and made 2,995 presentations to 43,934 staff and received 66,000 requests for information direct from potential AVC payers.



our clients understand their bonus allocation more easily – last year we received over 8,000 calls to our bonus notice helpline from clients needing clarification on some aspect of their bonus or their annual statement.

In particular, for with-profits annuity clients we have developed a new leaflet that explains how the policy works and how the performance of the with-profits fund affects it.

The Annual Report has a new, more contemporary design and what we hope is a less complex written style focusing on what we believe you, our clients, want to know about the Society.

This redevelopment of our

written communications is an ongoing process and we welcome your feedback on our activities in this area.

On-line communication

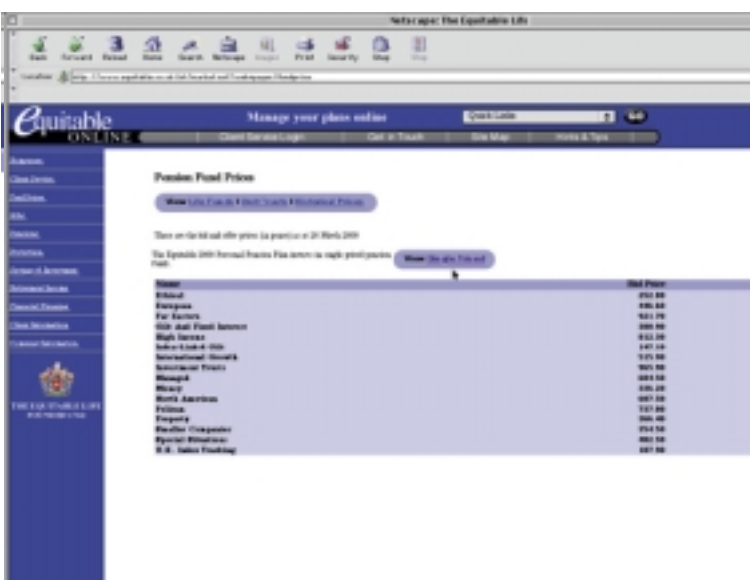
Over the last year we have significantly expanded our web site, offering new and improved functions and greater access to information for our clients. We also launched our first on-line sales channel for our newly-launched ISA. The early signs indicate that our clients appreciate the convenience and user-friendliness of our on-line services – our web site received over 175,000 visits during the year and more than 15,000 clients now actively use the on-line policy servicing facility.

In keeping with today's fast-paced lifestyle, we are also finding that

our clients are increasingly using the telephone to make contact with us. In 1999 our Client Servicing Centre received over 400,000 calls. Equitable Direct, our telephone sales arm, is also meeting the needs of an increasing number of clients and last year received more than 82,000 calls.

While these channels are expanding rapidly we are still meeting and dealing with many of our clients face to face. In 1999 over 3,600 people attended our programme of branch seminars while our dedicated field staff made nearly 150,000 visits to clients. In addition, our Group Client Managers visited over 1,700 companies and made almost 3,000 presentations to approximately 44,000 staff.

In 1999 our dedicated field staff made nearly 150,000 visits to clients.



Financial Times writer Peter Temple judged The Equitable's web site the best of the 21 pension providers' sites he looked at for his 19 February 2000 column, on 'Personal finance on-line'.

He particularly praised The Equitable site for providing fund performance data, an on-line illustration and interactive pension calculators.

'Too few providers are producing web sites with the information that buyers should be given,' he said.

'I already trusted The Equitable thanks to the smooth running efficiency of our group pension scheme. So when our relationship manager pointed out the need for me to do some personal financial planning I was prepared to listen. The Equitable understood and anticipated my requirements and the result was a practical solution without the hard sell.'

Phil Edmonds, Group Commercial Director of steel traders Stemcor Holdings Ltd, one of the UK's largest privately owned businesses.



Equitable – a new public face

We are raising our public profile with a number of new initiatives, including sponsorship of Channel 4's outstandingly successful comedy series *Frasier* and a thought-provoking new TV advertising campaign. This campaign is designed to make people stop and think about their pensions – how they buy them, from whom they buy them and exactly what they get for their money. In 2000, we hope to have our first experience of marketing exposure using interactive TV.

In 1999 we negotiated a sponsorship agreement with the Middlesex County Cricket Club,

which will give us a presence at a number of high-profile events and their associated media coverage. Our sponsorship will also help the club develop its imaginative youth programme further.

Looking at the clients of tomorrow, we are, for the first time, sponsoring the best-selling *Student Book*. This comprehensive guide provides a wealth of information to prospective students and their parents and guardians on university and course selection, student finance, accommodation and all the other challenges that confront a young person living away from home for the first time. Our aim, as with all sponsorship, is to

develop a positive impression of our business and to strengthen the link between The Equitable and the provision of sound financial advice.

Finally, perhaps the most immediately apparent change to our public face is the introduction of our new branding. The Equitable seeks to present an image of a modern, forward-thinking organisation in line with our industry-leading work on new products and new access channels.

The future

This report and the President's statement show how we are building on our successes,

learning from our experiences and developing a Society that is fully prepared for the new Millennium. We face a number of exciting new challenges and opportunities with confidence – not least the introduction of Stakeholder Pensions – and are determined that The Equitable will continue to deliver the outstanding value and service that you, our clients, expect and require.

Alan Nash,
Managing Director and Actuary
22 March 2000

Equitable

How to contact us

Sales enquiries:

Either contact your local branch or

Equitable Direct

Telephone – 01296 562000

Fax – 01296 385444

Service for existing plans:

Telephone – 01296 385588

Fax – 01296 386383

Via the Internet:

www.equitable.co.uk

The issue of Guaranteed Annuity Rates (GARs) has attracted significant attention during the year and has led to concern and uncertainty among some of our policyholders.

We would, therefore, like to take this opportunity to describe what we believe to be the fundamental issues. The background to the current Court case itself is also described.

The GAR issue has been represented by some commentators as the Society seeking 'to wriggle out of its obligations'. This is not the case. The directors have honoured the Society's obligations fully and in doing so have sought to ensure fairness between all policyholders. Our aim is to provide each policyholder with benefits equivalent to his or her fair share of the Society's funds.

To achieve this, we have given different rates of final bonus to policyholders with GARs in their policies depending on whether or not those policyholders choose the GAR annuity. We explain below why we believe that is necessary.

What are GARs?

Some of our older forms of with-profits pension contracts contain what are known as GARs. These define a minimum guaranteed level of the policy benefits in pension form. Applying these GARs to the guaranteed cash fund benefits gives a base level below which the amount of the annuity provided by the policy cannot fall.

The specific details of each policy differ. However, they all provide policyholders with the right to take the benefits from the policy either in the guaranteed annuity form of benefit written into their policy or in 'fund form' to purchase an annuity at current market rates either from The Equitable or from another company via the 'open market option'. Clients decide which option they want to take when they come to take their benefits – effectively when

they decide to retire and take their pension.

Which policies contain GARs?

Not all policies contain GARs. In fact, your policy is only likely to contain GARs if you have a with-profits retirement annuity policy, individual pension plan, transfer plan or group pension scheme issued before July 1988. (For some group schemes the cut-off date was a little later.) Policies issued after this date do not carry a GAR, nor do any unit-linked policies.

Why is there so much debate over GARs now?

Historically, the vast majority of our clients with GARs in their policies have chosen to exercise the option to take their benefits in fund form. This is because, at the time of exercising their decision, then current market annuity rates were higher

than the GARs written into their contracts. Until 1993 and for limited periods thereafter that was the case. So, in the past, the GAR never came into play. GARs have become an issue over recent years because current market rates have fallen below the level of the guaranteed rate. This means that, for the first time, some clients have decided to take benefits in guaranteed annuity form rather than take their benefits in fund form to purchase an annuity at current rates, either from The Equitable or from another company.

How are benefits in guaranteed annuity form calculated?

As described above, applying the GAR to the guaranteed cash fund benefit under the policy produces a guaranteed annuity instead. Declared bonuses that have been added over the

years increase both the cash fund and guaranteed annuity benefits proportionately. What has come into question over the last few years is what level of final bonus is added to the guaranteed annuity.

For The Equitable the fair distribution of benefits to our clients has always been our fundamental aim. In practice, this means that we aim to achieve a fair and proportionate distribution of the benefits of investing in our with-profits fund to all our policyholders, irrespective of the form of benefit provided by their policy or, where there is a choice, which form of benefit they elect to receive.

We take the view that each with-profits policyholder has a notional stake in the overall with-profits fund and that the eventual benefits received

Our aim is to provide each policy holder with benefits equivalent to his or her fair share of the Society's funds.

should so far as possible reflect the policyholder's share of the fund – what we call the 'asset share'. This is made up of the contributions to the fund and the returns earned, after expenses, over the period of investment of each contribution. To achieve the normal smoothing of with-profits policy results, returns on invested contributions are averaged out when determining a policy's accumulated asset share. Policy benefits comprise a mixture of basic guaranteed benefits, of annual declared bonuses and of non-guaranteed final bonuses depending on the type of policy held. Since the first two components are already guaranteed and therefore fixed, **final bonuses are the means by which we seek to bring benefits in line with asset share. Our goal is to distribute total benefits commensurate with their asset share to all policyholders** – it is not to ensure that everyone receives the same rate of final bonus.

In market conditions where GARs are higher than the current market rates, the policy benefits in guaranteed annuity form and before the application of non-guaranteed final bonus

will have a value representing a greater proportion of a policy's asset share than the alternative guaranteed benefits in fund form. In each case the non-guaranteed final bonus is used to top-up the benefits if, and so far as, necessary to reach the full asset share. In current market conditions, policies without GARs, or those with GARs where the fund form of benefits is chosen by the policyholder, require a larger allocation of the non-guaranteed final bonus to top them up to their full asset share.

There may arise circumstances where a policyholder's guaranteed annuity benefits have a value in excess of the appropriate asset share, before the application of any non-guaranteed final bonuses. In these circumstances our approach is to add no final bonus because the policyholder is already going to receive at least, or more than, his or her appropriate asset share through the guaranteed annuity benefits. We believe it would be unfair to our other policyholders to allocate final bonuses in such circumstances because it would take these policies past, or further past, their asset share, leaving less of the fund for other

policyholders who could not then receive their own asset share. However, there is no question whatsoever of the Society reducing the value of the guaranteed annuity if that guaranteed annuity is more valuable than the asset share which would be paid if benefits were taken in fund form. The guaranteed annuity option gives an absolute base level below which the annuity provided by the policy cannot fall. A number of policyholders in the last two years have received a higher pension than would otherwise have been the case, because of the guaranteed annuity rate.

By making different levels of final bonus available depending on whether benefits are taken in guaranteed annuity or fund form, we are seeking to deliver asset share to all policyholders with GARs in their policies. We believe that this is both a proper and fair approach to adopt.

An example

The following example illustrates the principles described above.

Suppose at retirement, the guaranteed cash fund under a retirement annuity contract

amounts to £85,000 including previously declared bonuses. Suppose also that the client's asset share as described above is £100,000.

We aim to allot a final bonus at retirement to ensure that the value of the benefit the client receives equates to £100,000 i.e. the client's asset share.

Thus, if the client takes benefits in fund form we allocate a non-guaranteed final bonus at retirement of £15,000 to bring the £85,000 guaranteed benefits up to the asset share of £100,000 – which is then available to purchase a pension at current annuity rates from The Equitable or in the open market. If the current annuity rate were 8%, the annuity would therefore be £8,000 a year (i.e. 8% of £100,000). The value of that benefit received by the client would therefore clearly be the £100,000 asset share, as intended.

If, on the other hand, the client elected to receive benefits in guaranteed annuity form and the GAR were 10%, then no discretionary final bonus would be added in this case. That is because the client's guaranteed

annuity – based on the GAR of 10% and the guaranteed fund of £85,000 – would be £8,500 a year. The value of the benefits received by the client would clearly have exceeded the client's asset share of £100,000 (because an annuity of only £8,000 a year would be equivalent to £100,000 and a sum in excess of £100,000 would be needed in current conditions to buy an annuity of £8,500 a year).

If a discretionary final bonus were added to increase the benefits in guaranteed annuity form beyond £8,500 p.a. then the annuity received would be worth even more. The effect would be that the directors would have exercised their discretion to give a non-guaranteed final bonus which takes the client's benefit further past his or her asset share – at the expense of all other policyholders. Thus, in this particular example, our approach is not to grant any final bonus. Despite that, taking benefits in guaranteed annuity form would produce in this case a higher annuity than not utilising the GAR – demonstrating that the GAR does have value.

What effect do the guarantees have on other policies?

As described above, in some cases the guaranteed annuity will provide a higher pension than would otherwise be available. Where that happens, as with any other policy guarantee, the cost of the additional benefits provided by the guarantee falls on the fund generally. We have projected that the cost of these additional benefits is unlikely to exceed £50 million in total over the coming years, and the experience in 1998 and 1999 was well within our expectations. However, for accounting purposes we have established a provision of £200 million in our balance sheet, to provide an allowance for more extreme future changes in financial conditions and mortality experience which could lead to more policyholders taking benefits in the guaranteed annuity form. These amounts are modest in the context of the Society's total assets and would have no material effect on the level of benefits under other policies.

Why has The Equitable approached the Courts?

The fall in market rates for annuities to below GARs has led to a much stronger focus by policyholders on those GARs.

This is because for the first time it may be to a policyholder's advantage to take his or her benefits in guaranteed annuity form rather than in fund form.

We have received a number of complaints from policyholders who do not believe that it is fair for the final bonus to be different depending on the form of benefit chosen. The Equitable takes this issue very seriously indeed. Our policy has always been to seek to achieve fairness in the distribution of benefits. The fact that some policyholders believe we have not achieved this was, and continues to be, a matter of great concern to us.

In response to these policyholders' concerns, and in anticipation of any similar complaints in the future, we decided in January 1999 to seek a ruling from the Courts, asking them to confirm: *(a) that our approach is consistent with our contractual obligations to our policyholders; and (b) that the directors have the discretion to seek to achieve fairness between policyholders through the non-guaranteed final bonus allotted.*

The Equitable, therefore, initiated and funded a representative

action to enable the Courts to examine the issue. We have not, as some people believe, 'been taken to Court'.

The High Court found that we had acted properly. However, when the case was taken to the Court of Appeal, one judge agreed with the High Court but the other two judges decided that we could not apply the non-guaranteed final bonus as described above. The two judges finding against the Society did not, however, agree with each other as to the reason why the approach was unsatisfactory.

We recognise that a definitive answer is needed on the issue and have, therefore, decided with the approval of the Court of Appeal to appeal to the House of Lords for a final ruling.

When can we expect a final decision?

The House of Lords is expected to hear this case in June 2000 and we would expect it to give its ruling on this important issue soon afterwards. We have already established that this is not the kind of case that would be taken up by the European Court, so the House of Lords' decision will be final.

We aim to deliver outstanding service. With access to your account details and past correspondence on screen, the highly trained staff in our Client Servicing Centre are able to resolve over 88% of customer queries and problems on the first call.



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