

## Annual General Meeting - Question and Answers

### Introduction

At the AGM held on 19 May 2004, over 50 questions were registered. Of those questions a number of themes were covered and a thorough summary can be found below:

### INDEX

- A. With-profits annuities
- B. Government compensation
- C. Action groups
- D. Outlook
- E. Administration
- F. Governance
- G. Investment
- H. Remuneration
- I. Legal matters
- J. Subordinated guaranteed bonds

#### A. With-profits annuities

It was confirmed that the reductions to with-profits annuities were fair, bringing them into line with reductions made to other with-profits policies. The original intention to protect with-profits annuitants in the hope of a recovery in the equity market was unsustainable because of the further market falls in 2002 and the reduction of the with-profits fund's exposure to equities.

With-profits annuities have received some concessions compared with other policies. The reductions have been delayed several years, they are being phased in and notified in advance. The recovery of the 5% cost of GARs has been deferred - so far 2% as been charged.

Bringing with-profits annuities into line has saved about £30m per annum, which would have been a cost to other policyholders.

The precise figures for individual policies are only calculated at the point when the first payment is made each year. However, the letters we issued in November 2002 and January 2004 included a table to give an indication of the reductions to be expected. These are complex but we did achieve the Plain English Crystal Mark on both letters (and enclosures) to give policyholders the best chance of understanding the changes.

It is not possible for individual annuitants to transfer their policies to other companies. There are a number of complex legal, regulatory, contractual and practical barriers preventing individual transfers. We are not aware of any company, which has overcome these barriers.

It was confirmed that there are about 50,000 with-profits annuitants and about three times that number of non profit annuitants. Non profit annuities have fixed payments, which are all guaranteed from outset. The Society has always honoured these guarantees.

## **B. Government compensation**

Lord Penrose's report highlighted a litany of failure by the regulatory regime and the role of GAD in advising government departments. Lord Penrose says regulation was "inappropriate", that government departments "failed", that the Treasury was "wholly passive" and the GAD "complacent".

As set out in the 'Notice of Annual General Meeting Additional Information Booklet 2004', which can be found in on the AGM section of the website, circulated to members we took advice on the legal route to compensation - it is effectively closed.

We have called on the Parliamentary Ombudsman to reopen her inquiry into the regulation of Equitable Life. Subsequent to the AGM, the Society met the Parliamentary Ombudsman on 25 May to put our case.

We wrote to MPs in the week ending 14 May 2004 asking for their support.

We believe the Parliamentary Ombudsman is the best route to compensation because she can investigate maladministration by the regulators; she has the power to recommend compensation without establishing blame to the standards required by the courts; she is likely to reach a conclusion more quickly than any legal action; and her investigation does not cost the Society or its policyholders any money. She is independent of the Government. In short, there is an important question to be addressed and the PO is in the position to deal with it in a way that is fast, fair and final.

We are aware of a complaint, which has been lodged with the European Commission. We have taken legal advice on the opportunities for legal action in Europe and that is included in the letter from Herbert Smith, which we put in the AGM pack to members. We will keep an eye on developments.

## **C. Action groups**

Some members asked the Board to resist special interest groups, in particular EMAG and ELTA.

Action groups wishing to have representation on the Board of Equitable are free to put forward any candidates at each AGM.

The Society encourages good relationships with action groups and their members. We have a good deal of dialogue where that can be constructive and based on mutual trust. It is of concern to some members that we do not have a better relationship with EMAG. However, through its leadership, EMAG has been consistently hostile. We regard the leadership of EMAG as unreliable. Over the last two years EMAG have accused us of "spinning obfuscation", of writing "drivel", "statements lack integrity", "shoddy manipulative trickery". We are unable to deal with these people.

Resolution 5 is an ordinary resolution. It can be taken at the AGM. However, we received legal advice that if the resolution were to be passed, the directors would need the authority of a special resolution to ensure that the payment would be properly within the Society's powers. This advice is included in the Herbert Smith letter circulated to all members.

EMAG's resolutions were in the form put forward by EMAG with over 1,000 members' signatures.

The EMAG resolutions were rejected overwhelmingly. 80% of members voting said they did not want to fund EMAG.

#### **D. Outlook**

In 2001 there was the prospect that the compromise scheme could have resolved the fundamental problem in the Society and left it weak but with a prospect of growing over a few years away and, from the problems of the past. Instead, the market downturn continued and grew in severity. The Society sold out of equities and although achieving a measure of stability that effectively locked us in to a position of very low financial strength.

The Society has hardly any equities. Having sold out generally when the FTSE 100 was above 4,800 (and it remains below that level) policyholders have only benefited from that move.

For some policyholders the stability of a primarily fixed interest fund is attractive, but that is not the case for all, or at all times. This is one reason why we are looking in to the future to see if there are any significant steps, which might be taken to improve matters. At this stage we are ruling nothing in and we are ruling nothing out.

Uncertainties remain but the position is less turbulent than in recent years.

The industry thinks that the new regulatory requirements are more onerous and that could lead companies to pay less to policyholders today leaving more for later maturities. We are in discussion with the regulator regarding their intentions in this area.

If provisions turn out to be greater than needed to address the issues for which they were created, that would help towards freeing investment constraints.

Many policies already include options to switch to unit-linked investments or to surrender to allow other investment choices. However, such withdrawals from the with-profits fund are subject to the financial adjustment and they are not universally available.

With regard to unitising the fund or converting it to a 'managed fund' such ideas were considered some time ago when they had little to recommend them. However, the Society is reviewing future options and nothing is ruled out.

Guaranteed Investment Returns (GIRs) are included in most policies and their existence does have a significant impact on solvency and investment freedom. Past suggestions to use a S425 scheme to remove GIRs were impractical. However, the Society is ruling nothing out in its consideration of options for the future.

The Treasury is consulting on legislation to address possible unlimited liability in mutual companies. We shall respond in detail and constructively. We welcome any improvement and certainty this can give our policyholders.

## **E. Administration**

In general, we have consistently met service levels this year consistent with the market. In any business there are exceptional cases where the service is unacceptable. We are sorry for such exceptions and we continue to work at improving service for all.

Clearly, some of the actions the Society has had to take have generated a significant number of complaints. The number of complaints are falling. There are regular reports to the Board to monitor both the processing of complaints and the issues raised.

Following last year's suggestion to withdraw annuity payslips a saving of £400,000 p.a. was made. The administrative structure is also regularly reviewed to ensure that it remains appropriate for the evolving needs of policyholders.

## **F. Governance**

The Board oversee the operation of the Society. There is a meeting at least once a month to discuss reports from the Executive. There are also Board committees, which meet to review in more detail the financial position (Audit Committee), the investment strategy (Investment Committee), the litigation (Legal Audit Committee), the remuneration of Directors (Remuneration Committee) and the suitability of new and existing Directors (Nominations Committee).

The Prudential Source Book is the overhaul of the regulatory framework around a risk based approach to prudential management of life offices. It is a major project. We are making good progress but there is much to do.

## **G. Investment**

The Society holds a range of investment grade corporate bonds where the extra yield available is felt to justify the modest risk of default provided a broad spread of bonds is held. Limiting such investments to AA and AAA bonds would reduce the margin over gilts too much.

Investment policy is determined by the Investment Committee and overseen by the Board. The policy reflects the Society's current strength and objectives.

Overall, there was a net gain on the realisation of investments in 2003 of £230m.

## **H. Remuneration**

The Society compares itself to companies of similar size and complexity in the financial services sector and it sets its pay at the median. However, the Society expects its executives to perform under greater pressure and for that bonuses are an appropriate mechanism. If the Society decided not to pay bonuses to executives it would simply have to increase salaries by the equivalent amount.

In effect, although the package has changed there has been no change to the basic non-executive directors' remuneration since 2001. There are additional payments for chairing committees and University Life, which are entirely consistent with the industry, and we look at benchmark data for that.

## **I. Legal matters**

The legal claims against the former directors and auditors are assets of the Society. The Board has a duty to secure those assets.

The cost of litigation is high - £13.4m in total to the end of 2003 in the cases against the former directors and auditors. The cost effectiveness of the legal actions is kept under regular review by the Board.

Some costs of the strike out hearings in 2003 were awarded to us and paid, some costs were awarded to us but will be paid at the end and some costs will be recovered if we win at trial.

The claims may seem large when compared to the wealth of individual former directors, but it is normal practice to state the amount of the loss, which has been suffered.

Clearly, the Society has had a great many issues requiring legal (and other) expert advice. These costs run to many millions and are covered in the costs shown in the accounts. They are a necessary part of ensuring that the Society's actions are correct, fair and as secure from challenge as possible.

#### **J. Subordinated guaranteed bonds**

If the Society ever has any statements to make regarding these bonds, it has a duty to inform the market first, since the bonds are listed securities. This is a matter that is permanently under review by the Board.