

## Annual General Meeting - question and answer session

At the AGM on 17 May 2006, questions were asked by 22 members or their proxies. A summary of the themes covered is set out below:

1. Canada Life agreement and future strategy
2. Litigation
3. Remuneration
4. The Board
5. Customer service
6. Reviews of the past
7. With-profits annuities
8. Accounts queries
9. Miscellaneous

### Canada Life agreement and future strategy

The Society has been actively investigating strategic options to improve longer term prospects for policyholders. The Canada Life agreement represents a significant start.

The terms of the Canada Life agreement were settled through a competitive process where three short-listed companies bid for the business. This enabled us to secure the best possible deal. The Society has not had to pay a premium to transfer the business - The amount of the transfer of assets, together with all related costs, does not reduce Equitable Life's available capital resources or its excess realistic assets as reported as at 31 December 2005.

Some annuities will not transfer, for example overseas business, non-pension annuities, annuities written after 31 December 2005.

Very full information on the agreement will be available later as part of the 'Part VII' Court process.

The Society remains a large business with about £10 billion in the with-profits fund. The Canada Life agreement removes a significant risk, but we do not anticipate any more than a marginal impact on our investment freedom. The limitations we face in investment freedom have prevented us from taking full advantage of the recent good performance of equity markets. The continuing restriction on our ability to invest more freely in equities is an important reason why we are continuing our review of strategic options for the with-profits fund.

If some sort of deal is possible for the with-profits business, it will be some time away. It is by no means certain that a deal will be possible. We will only pursue a deal if it is in policyholders' interests.

## **Litigation**

The overall cost of the litigation was equivalent to a single payment of £75 for each person who has an interest in the with-profits fund.

We believe that the audits by Ernst & Young were faulty, but the key problem faced in respect of the legal case against them was causation - whether problems in the accounts caused any loss - essentially whether the former directors would have acted differently had the accounts been different.

Following the disappointing outcome of the litigation, we conducted a review of the whole process and we are satisfied that at each stage appropriate actions were taken based on the information available at the time.

The Executive Counsel to the Accountant's Joint Disciplinary Scheme, has laid complaints against Ernst & Young. However, the outcome of this process will not affect the Society.

## **Remuneration**

The structure and level of directors' pay is set by the Board on advice from the Remuneration Committee. The Committee takes independent advice from remuneration specialists and aims to set the Chief Executive's pay at the median level to balance the interests of policyholders with those of the Chief Executive.

The Society has used retention bonuses for the Chief Executive because the Society does not have the other long term incentives (common in other companies) which help to tie in executives. Also, with a small management team the Society could be particularly exposed if several executives were to leave at once.

The Chief Executive's bonus this year reflected a balance between the strong financial performance of the business, increased reserves and the ability to consider strategic options against the disappointment of the litigation.

The last increase in the remuneration of non-executive Directors was on 1 July 2004.

The total of pay for directly employed staff reported in the accounts increased this year. Part of that increase reflects an increase in the number of directly employed staff. However, the cost of running the business (overall expenses) fell significantly.

## **The Board**

The composition of the Board is determined by considering the competencies required to run the business - investment, legal, actuarial etc. At £10 billion, the Society remains a very large and complex business to manage.

The high level of commitment of the directors is illustrated by the attendance record reported on page 21 of the accounts.

## Customer service

We introduced the 0845 number rather than an 0800 number because the latter would have cost the fund around £100,000 per year. We believe that the 0845 number strikes a better balance between making calls cheap for those who make them (local rate calls should be about 1p or 2p per minute), without creating a charge on those who do not. The 0845 number generates about £20,000 per year for the with-profits fund.

We withdrew monthly payslips for pensions several years ago following suggestions from policyholders. This has saved about £400,000 per year. We continue to provide annual statements for with-profits annuities and P60s where appropriate.

Pensions simplification has delayed some compensation payments. The new tax rules may require a penal rate of tax to be applied to some payments of compensation. This is an industry issue and life offices must wait for clarification from HMRC.

The customer service centre provided by HBOS is able to answer most enquiries on first contact. If a staff member is unable to deal with a particular query they will normally be able to escalate the issue to a manager or expert for resolution.

## Reviews of the past

There have already been investigations by the Financial Services Authority (Baird report), the actuarial profession (Corley report), Lord Penrose and the Parliamentary Ombudsman. There will be a further inquiry by the Parliamentary Ombudsman and the European Union has also established a Committee of Inquiry. We have held full discussions with the Parliamentary Ombudsman's team and the Chief Executive has presented evidence to the European Inquiry in Brussels.

The Society has not attempted to take legal action against former regulators because the legal hurdles are too high. However, the Parliamentary Ombudsman's second inquiry is looking at the role of regulators and, if she finds that there was maladministration, she could recommend government compensation.

We do not expect the European Inquiry or the legal action taken by a group of annuitants against the Society to delay the Parliamentary Ombudsman's inquiry.

## With-profits annuities

Although many with-profits annuities continue to decrease, they will not disappear altogether. The guaranteed amount of each year's annuity payment was determined at the outset. Although that guaranteed amount normally decreases each year, the rate of reduction, determined at the outset has not changed and will not change.

Higher anticipated bonus rates gave with-profits annuity policies higher starting annuities, but greater yearly reductions in the guaranteed benefits compared with with-profits annuity policies with lower anticipated bonus rates.

## **Accounts queries**

The disclosure of 'total expense ratios' is a requirement for unit trusts and for OEICs, but not for insurance companies. There is no standard definition of the term for insurance companies. However, expenses are fully disclosed in the accounts and have come down both in absolute terms and in relation to fund size.

'Related party transactions' are not disclosed in the accounts because there are none to disclose.

## **Miscellaneous**

We hold the AGM in the middle of the day in the hope that it give the greatest opportunity for members to reach the meeting without having to start too early and to get home again without being too late.

The Society obtains advice from PR agencies from time to time, because we regard communicating with our policyholders as a very important function. Also, while the Society remains of interest to the media and policyholders naturally read the coverage, it is important that we do all we can to help journalists report accurately.