

Annual General Meeting - question and answer session

At the AGM on 19 May 2008, questions were asked by 15 members or their proxies. A summary of the themes covered is set out below:

1. Parliamentary Ombudsman's report
2. The future of the Society
3. Investment matters
4. Bonus
5. Remuneration
6. Miscellaneous

Parliamentary Ombudsman's report

While we hope that the Parliamentary Ombudsman (PO) will recommend compensation we have not seen her recommendations, so we do not know what they will be. The PO has said she will announce the publication date of her report by the end of May.

In the early years of this decade the whole industry suffered massive investment losses. Those were caused by the market and are simply part of investment life - we would not encourage policyholders to expect that investment losses be covered by government compensation (if any).

If compensation is paid, we do not expect it to be paid to the Society. However, as we are on record that we will support in any way we can the fair distribution of any such compensation to policyholders. For example, we would allow the PO access to our records to enable compensation to be calculated.

We are meeting members of Parliament to ensure that they are well informed about the background of the PO's inquiry and the interests of their constituents, so that when the report comes they will be well prepared. For example, the Society has met with Vince Cable MP, Andrew Tyrie MP, Mark Hoban MP, and Andrew Love MP.

We encourage policyholders to write to their MPs to encourage them to take an interest in the PO's recommendations.

The future of the Society

We have now invited third parties to make proposals as to how they could improve prospects for our policyholders. There have been expressions of interest from a significant number of major institutions. However, these contacts are all on the basis of strict confidentiality agreements, so it would not be in policyholders' interests to mention any names.

If the Society could not find a third party proposal that was better for policyholders then we will continue to run the business ourselves. To run-off the current population of individual policies could take 30 years or more.

In that scenario, writing new business could be a means of avoiding the problems of a contracting business. However, the Society would need to have sufficient capital strength to support such a step and the new business would need to be profitable and of sufficient scale to generate benefits for current policyholders. The possibility is considered as part of our assessment of the 'run-off' option.

Provisions in the accounts vary because they are based on best estimates which change from time to time. The transfers do not directly affect them.

Investment matters

The Society needs to demonstrate that it can protect itself in a range of harsh economic scenarios including a sharp fall in equity values. Consequently, increasing equity holdings would require a great deal of (regulatory) capital in order to cover the risk of a sharp fall in value. This makes greater equity investment prohibitively expensive.

There is a very small proportion of investments held in US dollars (and other currencies). The bulk of this is private equity investment which has been very successful over the years. We accept that there are small risks in holding dollar (and other non-sterling) investments, but these are controlled as part of our normal investment management process.

Following the transfer of University Life and the winding up of Equitable Life Finance plc, the 'group undertakings' remaining in the Accounts are primarily investment vehicles for private equity. Income which derives from that source is initially credited to the cash account within group undertakings before being transferred to the Society's normal cash management systems. If cash is received from group undertakings around the end of the calendar year it will be recorded in group undertakings in the accounts. However, that should not be read as implying that cash remains in group undertakings for long periods.

It is common across the unit-linked industry that there is a small risk of price changes between the point where a switch instruction is given and the price used for the switch. The Society has no plans to introduce new unit-linked funds.

Bonus

Non-guaranteed final bonus was removed from annual statements in 2003 to simplify the statements and because some policyholders had come to rely on the final bonus shown in their statements in spite of our describing them as non-guaranteed. It is important to avoid building false hopes. However, the Board will look at this again.

There is a natural conservatism (especially following the Society's history) which encourages lower bonuses in order to build the Society's strength. However, we are also very determined to treat policyholders fairly - so that those leaving the fund now are not underpaid. The Board debates this important balance frequently and at every bonus discussion. The recent bonus announcement has been an example of that where we have set bonuses above the level supported by the investment earnings to avoid the Society becoming stronger than it needs to be. This is continuing in 2008.

Remuneration

The Board has a common interest with policyholders in determining levels of executive pay. There is no benefit in paying too much, but given the challenges which face the Society, it is in policyholders' interests to keep the best team in place and to provide an incentive for them to work hard.

The Remuneration Committee reviews survey data to assess the appropriate pay for our Chief Executive. The Committee has decided to opt for pay in the mid area so as to balance the interests of policyholders and those of the CEO.

The Society is an unusual company and the challenges it presents the CEO are often unique. That can make it difficult to define the right pool of companies for making comparisons. However, the Board believes that the rewards are appropriate for the achievements and the challenges. The Chief Executive has done a good job in steering the company to stable financial waters and opening the door to opportunities which were not there a few years ago.

For non-executive Directors, because of the search for strategic options, the complexity of the work has not reduced and the total compensation is limited by the Society's Articles of Association. Pay for non-executive Directors has not changed since 2004.

Miscellaneous

The website service for individual policy valuations has been withdrawn because of the increasing risk of identity fraud. Our assessment of the cost of restoring the service with increased security measures is prohibitively expensive, so we have no current plans to do so. However, we will keep this under review.

One member reported a problem they had experienced with accessing the Society's website, which has since been addressed.

When seeking new directors the Board's advisers are asked to consider diversity and gender balance. However, we always seek to employ those who we think will do the best job for policyholders. Although the Board has only one woman Director the Society has diversity in other senior roles. For example, the Society's With-profits Actuary is a woman and the Society's three most senior lawyers are all women. The Board will report on diversity and gender balance next year.