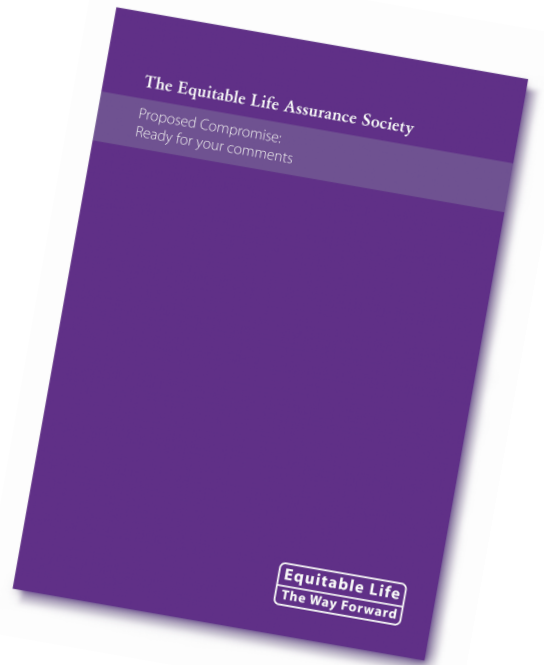


Equitable Life

The Way Forward

18 September 2001



Dear Policyholder

Our proposal for compromise – your views are sought

Key Points

- **A compromise for all with-profits policyholders.** A compromise scheme based on four principles: fairness; clarity; mutuality; and legality.
- **Greater certainty for all.** Policyholders are being asked to give up some rights in exchange for greater certainty, more investment freedom and the possibility of higher investment returns in the future.
- **Settlement of the guaranteed annuity rates (GARs) issue.** Policyholders with GARs in their policies (GAR policyholders) receive on average an increase of 17.5% in their Policy Values in exchange for giving up their rights to GARs.
- **An uplift for non-GAR policyholders.** With-profits policyholders without GARs in their policies (non-GAR policyholders) receive an increase of 2.5% in their Policy Values in exchange for giving up any rights to make claims against the Society arising from the cost of GARs.

Your new Board is well aware that in recent times there has been great worry and uncertainty for policyholders, which we very much regret. Now, at last, is the time for all of us to move forward and come to a compromise which is fair to everybody.

With this letter you will find our draft proposal for a compromise to stabilise the Society and settle competing claims on the with-profits fund. There is a great deal to read but this is a vital issue for all of us. We therefore decided that you would want to have the option of reading all the relevant documentation. That is why it is all here.

This is only the beginning of the process, however. Throughout it your Board will be listening very carefully to what you have to say on the proposal and, whenever possible, taking account of your views. You can let us know what you think by attending one of our policyholder meetings, writing or e-mailing us.

After careful consideration, including taking extensive legal advice, our view is clear. The Board is recommending to you a specific compromise scheme which, we believe, is fair to everybody. Under this scheme, the basis of the compromise is plain: we all share the pain and the benefits of reaching an accommodation.

We have no illusions though. Our proposed scheme may not satisfy everybody. In a very difficult situation, we have concluded that the compromise we are recommending is the fairest and most realistic way forward. We ask you to assess it in this light.

In the paragraphs below, we outline the main elements of the compromise and how we came to our conclusion. We also outline the next steps, including how you can make your views known and so contribute to the process.

Why do we need a compromise?

The current situation is causing great anxiety to many policyholders because of the competing claims on the with-profits fund. For both GAR and non-GAR policyholders, investment freedom is restricted and bonuses in the future are more uncertain. Both of these will affect growth on your policy. In addition, if you are a GAR policyholder, you cannot be sure of the value of your GAR when you retire.

On top of this, we now have legal advice from Nicholas Warren QC which indicates that non-GAR policyholders may have claims against the Society because they were not warned of the extra potential cost of GARs when they bought their policies. This is a very significant development. Most of these claims from non-GAR policyholders would be 'prior' claims on the with-profits fund impacting all future bonuses to GAR and non-GAR policyholders.

We must seek to remove these uncertainties. The Board has examined the different ways of achieving this. In our view, by far the best way is to reach a compromise whereby all with-profits policyholders give up some rights in exchange for increases in their Policy Values.

A compromise would remove the uncertain future cost of GARs in exchange for an increase in GAR policyholders' Policy Values. The Society would therefore no longer need to put money aside in case the cost of GARs increased in the years ahead. This money could instead be invested on a less restrictive basis.

A compromise would also mean the threat of destabilising and expensive proceedings against the Society by non-GAR policyholders would be removed.

Recently, the Government announced an enquiry by Lord Penrose into the circumstances that led to the current situation at the Society. Your Board welcomed this initiative. However, in announcing the Penrose Inquiry, the Government has made it clear that there will be no financial 'lifeboat' for the Society. It is up to us to sort out our own problems. We will do it through a compromise.

Why is the current position so unsatisfactory?

The Society is solvent and the Board will do all in its power to ensure it remains so. Indeed, the Society satisfies the requirements of the insurance regulations, which are stricter than a simple solvency test.

However, without a compromise, you face serious uncertainty as to what your policy will be worth in future, and by how much it will grow.

The main uncertainty is this. No one can be sure of the amount of compensation non-GAR policyholders might win if they pursued their claims. At the same time, most GAR policyholders cannot know for certain the value of their pensions since this depends on the value of their policy when they retire and on the prevailing market annuity rates available at that point (e.g. market annuity rates might then be higher than the GARs).

In the meantime, your policy has to be invested in safer but lower growth investments. As a result, therefore, the Society awards lower bonuses than it otherwise might. There are also risks that interest rates fall and make the GARs much more expensive for the Society to honour or that the Society faces a mass of claims for compensation from non-GAR policyholders. Both of these would be huge burdens on the with-profits fund of which you are a part owner. Without a compromise your Policy Value is unlikely to grow satisfactorily and the situation could get worse.

How can we solve the problem?

By agreeing a compromise where all with-profits policyholders give up some of their rights in exchange for increases in their Policy Values. The increases would be met out of the money already put aside to pay GAR costs in the future and by the £250 million Halifax will make available if we achieve the compromise before 1 March 2002.

The compromise should bring more strength and stability to the with-profits fund, greater certainty for all with-profits policyholders and allow the Society to invest more freely for growth. We can then move forward.

The proposed compromise – ready for your comments

We have constructed this proposal with contributions from policyholders and policyholder action groups. It is now ready for your comments and suggestions. The enclosed booklets *Proposed Compromise* and *Background to the Proposed Compromise* give further details including alternatives that were fully considered and rejected by your Board.

It is our definite view that none of the other alternatives provides us with an acceptable way forward.

What are the main elements of the compromise scheme?

We have taken every care to ensure the proposals are fair to all groups of with-profits policyholders, whether they have GARs or not. The principles upon which the proposals have been designed and details of how they will affect your policy are set out in the accompanying booklet *Proposed Compromise*. The value calculations in the proposals are based on these principles.

The main elements of the compromise scheme are:

- The GAR Policy Values will increase by on average 17.5% in return for GAR policyholders waiving their rights to their GARs. The exact figure depends principally on the type of GAR policy held.
- The increased Policy Value can be used by GAR policyholders at contractual retirement dates to buy a range of flexible ways of taking their pension on the open market or from the Society. As you know, the open market option is not currently available to those taking GAR benefits.
- The non-GAR Policy Values will increase by 2.5% in return for non-GAR policyholders waiving any claims they may have because they were not told of the potential cost of GAR policies to the Society. With-profits annuitants and endowment policyholders are non-GAR policyholders.

In short, GAR policyholders are being offered a bigger increase because the current value of the GAR benefits they would be giving up is larger. However, this increase is reduced from what it otherwise would have been in order to pay for the increase to non-GAR policyholders.

The increase for non-GAR policyholders is much less because the potential rights they would be giving up have a lower value and because they are uncertain, rather than established rights. Also, non-GAR policyholders, who account for around 75% of the with-profits fund, would be largely suing themselves. Your Board believes that this outcome would be to no-one's benefit other than lawyers.

How do you know the proposed compromise is fair to you?

After an extensive review, your Board is recommending the proposed compromise scheme because it judges that it is the fairest and most realistic scheme available to policyholders. The scheme is being assessed by the Financial Services Authority (FSA) and by the Independent Actuary, and will need to be approved by the High Court.

We need your comments

It is important that you understand our proposals and the principles on which they are based. It is equally important we understand your points of view. Please examine the proposal carefully and let us know your views. Full details of how you can contact us with your comments can be found on page 26 of the *Proposed Compromise* booklet.

We will be holding a series of meetings around the U.K. that will give us the chance to meet and talk together. We hope many of you will attend. Alternatively, you can write to us or e-mail; I'm afraid we cannot respond individually, although we will acknowledge receipt. 12 October 2001 has been set as the last date for the receipt of your comments.

What next?

After we have your comments we will finalise the proposal and pass it to the Independent Actuary and the FSA for final review.

It will then be sent to you in November with details about how it will affect your individual policy. We expect to be asking you to vote on the compromise before the end of this year.

If the scheme is approved by policyholders it will then go to the High Court for approval. After that, the compromise can go ahead, the increase to your Policy Value will be applied and the Society can plan a more flexible investment policy and a less conservative bonus policy in the future.

The Way Forward

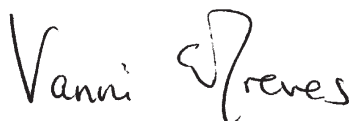
In your Board's view, there is no realistic alternative to a compromise.

By coming to a fair compromise, we can settle the competing claims arising from the GAR problem facing the Society. Clearly not everything will be perfect. As we have seen, investment values can go down as well as up. The Society will still require very careful and prudent management. But a stronger with-profits fund should ensure that the outlook for policyholders will be far, far better than if there is no compromise.

Your new Board is therefore confident that, with a compromise in place, the Society can go on to serve the long-term interests of all policyholders.

We look forward to hearing your views on our proposal and finally putting this deeply distressing time behind us.

Yours sincerely,



Vanni Treves
Chairman

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