

Equitable Life

The Way Forward

19th October 2001

Dear Policyholder,

Policyholders' response to the proposed compromise

For three weeks we toured Britain, meeting over 4,000 policyholders and listening to their views on the compromise proposal. We also received comments from over 40,000 policyholders by post, email and phone. Thank you to all those who have told us what you think at this very important time for the Society. We will need to examine the details but the express will of policyholders is very clear – you want a compromise and overwhelmingly back your new Board's proposals.

Our with-profits policyholders – GAR, non-GAR and holders of both – want to draw a line under the current uncertainties. Your new Board strongly shares this view. We need to end the worry and get our Society onto a firmer footing. It is encouraging that policyholders appear to agree that our compromise proposals are the only realistic way forward. The alternatives are all very bad and staying in our current state of uncertainty is unacceptable.

We are now working on the final compromise. We intend to send it to you for voting in late November. If policyholders vote for the compromise in the necessary majorities and the Court approves it by 1st March 2002, the Halifax £250 million will form part of the increase to your policy values.

Our policyholders' comments show that we need to be clearer on other issues.

July policy value reduction

The first is the 16% reduction in policy values in July. This was very painful but absolutely necessary. It was vital to make sure that those leaving the Society took no more than their fair share from the one pot of money that is the with-profits fund. The cause of the drop was nothing to do with the GAR costs. That cost was met by the reduction in bonus in the year 2000. The reason for the July reduction was substantially due to the very large decline in stock-market values in 2000 and the first half of 2001. As a result, the with-profits fund could not sustain the level of bonuses paid to policyholders whose policies were maturing. That was because the value of policies and the value of assets underlying the policies in the fund were too far apart and the gap continued to widen. Your new Board could not allow this, as it is our duty to ensure that all with-profits policyholders have a fair share of the fund. So action had to be taken to ensure that a fair share remained for those policyholders who stayed. We hope the enclosed leaflet 'A Brief Guide to With-Profits' will help you understand the background to this necessary, but painful, action.

Administrative difficulties

Second, we are aware of the difficulties that policyholders who have contacted our administrative centre may be experiencing. Please bear with us. Our customer service system was designed for normal business. Sadly our current circumstances are far from normal. Our customer service staff and systems are simply not equipped to meet the huge demands now being placed upon them. We have taken steps to improve the situation. We have employed many new people but it will take time to train them on our systems. However the backlog is beginning to reduce but, as you can imagine, the problem will not be solved speedily.

Up-to-date policy values

Many policyholders have asked when they will receive updated policy values. We can confirm that they will be sent to all policyholders at the end of October, giving your policy values as at 1st October.

The Rectification Scheme

Another point we need to clear up is the Rectification Scheme. The Rectification Scheme and the proposed compromise are separate and distinct because they deal with different aspects of the GAR issue. The Rectification Scheme is designed to implement the House of Lords ruling and affects policyholders who took their benefits from a GAR policy between 1st January 1994 and 19th July 2000. This Scheme remains unaltered by the proposed compromise. Policyholders affected by the Rectification Scheme will have received notification of their inclusion in December 2000. A letter giving an update on progress is due to be issued shortly to all those involved.

Herbert Smith investigations

Policyholders have made it clear they strongly support our work in investigating the actions of the Society's previous directors, auditors, advisors and regulators. We have asked the leading lawyers, Herbert Smith, to scrutinise their conduct. We expect a report from the forensic accountants' investigation of the Society's former auditors soon. We also pressed this month for the publication of the FSA's Baird report into its own conduct. This may help in Herbert Smith's investigations into the regulators. We are committed to publishing Herbert Smith's work but we must be careful not to publish anything that could weaken our case if we go to Court. Be assured, however, that your new Board will pursue, in the interest of policyholders, any case against former directors, auditors, advisors or regulators that is viable. The agreement of a compromise will in no way affect this process.

The Way Forward

In late November you should receive the final compromise proposal and your voting paper. Included in that pack will be an indicative value of your with-profits policies (so that you can assess how the uplifts affect your policies), the interim financial statement and a summary of the views expressed during the consultation. Voting will be by post which we hope to complete by the end of the year.

In the meantime, updated information on all areas of the compromise can be found at our website. Simply visit www.equitable.co.uk and click on the "Proposed Compromise" link.

Provided we achieve the backing from policyholders and the Court approves the final offer, with-profits policy values will be increased and at last we will see an end to anxiety and instability for policyholders. Then Equitable Life will finally have a positive way forward.

Yours sincerely



Vanni Treves
Chairman



Charles Thomson
Chief Executive