

Chairman's statement 2018



Ian Brimecome

Dear Members

In my 2017 report, I said that your Board intended to investigate deeply our options to address the challenge of low interest rates. In particular, we committed to exploring how we can make more certain the 35% capital distribution currently paid to policyholders when they take their benefits; as well as establishing what might trigger earlier payment to you of the significant amounts of retained capital that the Society holds to mitigate the financial impact of future unexpected events.

Investment values are near record highs and we do not expect this to last for ever. We are therefore paying considerable attention to how we can go about securing these very high values for your benefit.

While run-off, as we currently know it, continues to be a viable strategy, it brings significant challenge. We have to hold back large amounts of capital to cover the possibility that policyholders with underlying guarantees of 3.5% pa stay longer than we expect in a low interest rate world. Our challenge, therefore, is to pay out fair amounts of capital to policyholders leaving today without undermining the fair outcome for policyholders who might remain for longer periods.

Over the last twelve months, we have been exploring many alternative strategies. Some would have very significant implications for the Society, and each is evaluated on the basis of how much extra capital we can get back into your hands.

We are in the final stages of the evaluation and will put before you our preferred option as soon as we have completed this work.

Approximately half of our 131,000 individual policyholders have an underlying policy guarantee of 3.5% pa and the remainder have a guarantee of their premiums back. Today, over 95% of individual policyholders have a value *in excess* of the guarantee and, in many instances, a great deal more than the guarantee. Run-off is not therefore without risk for policyholders, as capital distribution could be removed at short notice in challenging economic markets.

We can never accurately predict the future and, the longer run-off continues, the more difficult it becomes in retrospect to say we have truly delivered fair outcomes for policyholders. Moreover, as the Equitable becomes smaller, the costs of running the business will have to be funded by fewer and fewer policyholders. We are clear in our minds, therefore, that, if we can find a better strategic alternative, we should pursue that with vigour.

We know that the readers of the Annual Report and Accounts have a good understanding of the issues facing the Society. But the reality is that the vast majority of policyholders do not read this report nor the Strategic report that follows. We carry out extensive policyholder research with the assistance of discussion groups and quantitative surveys, and we know that many policyholders are not readily familiar with either their policy guarantee, or the fact that the current 35% capital distribution has so much value compared to the guarantee.

At our discussion groups, once the policy details are explained to policyholders, they very much like the fact that the capital distribution is so valuable. Equally, however, they are very concerned that it has the potential to fall.

It is evident from both the discussion groups and our surveys that policyholders have a very strong desire for stability in their fund values. It is clear that there is no great appetite among policyholders for an increase in capital distribution if that were to lead to a greater likelihood of a reduction.

This consideration is very much in the Board's mind and we are pleased to confirm that capital distribution in 2018 will be maintained at 35%.

The Equitable enjoyed a good 2017. The economic environment was rather more stable and interest rates did not follow the rollercoaster of 2016. Last November, the Bank of England increased the base rate to 0.5%, but that simply represented a return to what had persisted for seven years prior to the European referendum. The prospect of a low interest rate environment remains and, with that, the risks of run-off, as described earlier.

The Society's cost base continues to be tightly managed. Business-as-usual costs reduced to £22m, down from £24m in 2016. Total costs were stable at £37m.

Following policyholder feedback, we are now writing to you more frequently to inform you of the value of your policy. We can see from our surveys that this has been well received, as is the quality of customer service when you contact us.

The Society is well managed and I pay tribute to our 230 loyal and dedicated staff for their excellent work.

Almost a decade ago, in the depths of the banking crisis, the Society's capital base was very close to the minimum levels required under the regulations. With-profits policyholders were once again subject to the risk of a material reduction in their policy values.

The Board's strategy was clear - to eliminate the risks. In 2010, we commenced a programme of rebuilding the Society's capital base which has underpinned a significant increase to policy values.

It is from this much stronger position that we now look forward. If we can establish an even more effective way of distributing your capital fairly and quickly, we will most certainly recommend a new strategy for your consideration.



Ian Brimecome
Chairman

9 April 2018

Directors' remuneration report

Directors' remuneration report

The total emoluments of the Directors were as follows:

Executive Directors' emoluments

	Salary		Performance-related bonus		Benefits		Total	
	2017	2016	2017	2016	2017	2016	2017	2016
	£	£	£	£	£	£	£	£
C M Wiscarson	450,000	450,000	-	-	141,201	123,062	591,201	573,062
S A Small	276,458	229,500	186,000	137,700	72,639	71,667	535,097	438,867
Total	726,458	679,500	186,000	137,700	213,840	194,729	1,126,298	1,011,929

Executive Directors' emoluments have been audited by PricewaterhouseCoopers LLP.

Non-executive Directors' fees

Non-executive Directors receive only fees and are not eligible to receive benefits, pension or any annual or long-term incentives. Non-executive Directors' remuneration, other than that for the Chairman, is set by the Board. The Chairman's remuneration is set by the Remuneration Committee.

Fees are set by reference to market data, and the Board has discretion to increase fees periodically. Fees were increased from 1 January 2018, to take into account the substantial increase in the number of Director meetings required to evaluate the Society's strategic options described elsewhere in the Annual Report and Accounts. The expectation upon Directors when they joined was to spend 20 days each year on the Society's business. In 2017, Directors were required to spend significantly more time on the Society's strategic review. In addition to the seven regular Board meetings, there were a further seven meetings attended by Directors to consider strategic proposals, and five meetings of the With-Profits sub-committee. Fees were last increased on 1 January 2016.

Fees for the non-executive Directors are as follows:

	Annual fee	Effective from
Chairman	£150,000	1 January 2016
Senior Independent Director and Chair of Audit and Risk Committee	£65,000	1 January 2018
Chair of Remuneration Committee and With-Profits sub-committee	£65,000	1 January 2018
Other non-executive Directors	£55,000	1 January 2018

Executive Directors' remuneration policy

Executive Director remuneration comprises salary and an annual performance bonus together with benefits comprising travel, private medical insurance, income protection and life assurance, and payments in lieu of pension contributions. Details are set out in the following table.

Base salary

Value

Chief Executive:	£450,000 pa
Deputy Chief Executive:	£310,000 pa

Reviewed annually with changes, if applicable, usually effective from 1 January. Promotion or an increase in responsibility could lead to a higher increase than that made to other staff at the Society.

Total remuneration is referenced to Willis Towers Watson survey data. We may pay higher salaries and total remuneration for strongly performing individuals or to attract and retain executives of the right calibre.

Benefits

The Society does not provide an occupational pension scheme for Directors. A cash allowance is provided in lieu.

The Society also pays the premiums on behalf of Directors relating to private medical insurance, income protection and life assurance.

London is the principal place of work for executive Directors. When Directors are required to travel to the Society's Aylesbury office, the associated costs are covered by the Society.

Maximum potential value

Cash allowance in lieu of pension: Chief Executive: £70,000 pa; other executive Directors: 10% of base annual salary.

Insurance premiums vary year by year. The current annual cost is shown in the executive Directors' emoluments table. The costs of travel to Aylesbury vary year by year in line with business needs.

Discretionary annual bonus

Rewards achievement of key deliverables in the relevant financial year.

Maximum potential value

80% of base salary.

For the remainder of his employment with the Society the current Chief Executive is eligible for consideration for a bonus of up to 25% of his basic salary for exceptional performance.

Operation

Performance is monitored throughout the year, and a formal assessment is presented to the Remuneration Committee at the half year and year end.

Where performance is on target, typically 75% of the maximum bonus is paid but, in some circumstances, it may be lower. Where performance is assessed as exceeded, a bonus of up to the maximum is payable. Where performance does not reach on target level, no bonus is payable.

50% of the sum awarded is deferred, and subject to malus, with the deferred amount being paid in equal instalments on the three anniversaries following initial payment.

Up to 100% of the gross sum is subject to clawback.

Performance metrics

A scorecard is agreed each year setting out specific performance objectives. Objectives are determined so that the interests of bonus scheme participants and of policyholders are aligned. In particular, there is a strong focus on ensuring that executives act in ways that achieve business stability through, for example, treating customers fairly and prudently managing risk.

As our strategy work develops, it is clear that a retention bonus arrangement would be an important part of the remuneration package. In particular, it was agreed to introduce a retention payment arrangement for Mr Small given his prime role in the implementation of any new strategy. A bonus of twice Mr Small's base salary has been put in place payable on the earlier of successful completion of any new strategy or 31 December 2020. Mr Wiscarson has advised the Committee that he does not want a retention payment to be put in place. Given Mr Wiscarson's leadership and performance throughout his period of office, the Committee is minded to consider a payment upon successful implementation of any new strategy in due recognition for all his efforts and achievements.

Explanatory Memorandum: Resolution 5

In order to provide flexibility as to the timing of the Annual General Meeting, it is proposed to remove the requirement under the Society's Articles of Association that it be held in April or May each year.

Members can be assured that Annual General Meetings will continue to meet the requirements of Companies Act 2006 such that:

- An Annual General Meeting must be held in each calendar year; and
- There can be no more than fifteen months between Annual General Meetings.

A resolution is to be voted on at the Annual General Meeting on 31 May 2018 seeking Members' approval to this amendment. If you are unable to attend the AGM, you can still vote on the proposals by completing the proxy form enclosed with this mailing or by following the instructions to register your vote online.

Proposed amendment

Regulation 5

The Society shall in every year ~~in the month of April or May~~, hold a General Meeting as its AGM in addition to any other General Meeting in that year, and shall specify that meeting as such in the notices calling it. **Such meeting shall be held before the end of September.**

Subject as aforesaid any AGM shall be held at such time and place as the Board shall appoint.

If you would like to see the Society's current Articles of Association, these can be viewed in the 'About us' section of the Society's website www.equitable.co.uk. A full comparison showing the proposed changes can also be viewed there. Alternatively, we can provide you with copies of these documents if you write to: The Company Secretary, The Equitable Life Assurance Society, Walton Street, Aylesbury, Bucks HP21 7QW. A copy of the Articles incorporating the proposed amendments will be on display at the AGM venue beginning 60 minutes prior to the AGM until 30 minutes afterwards.

Board of Directors

The Board reviews the performance of Directors on a regular basis. Following this formal evaluation, the Board recommends that those retiring at the AGM should be re-elected and confirms that it considers that they continue to make a valuable contribution to the effective functioning of the Board and to the appropriate mix of skills and experience needed by your Society.

Ian Brimecome - Chairman

Ian Brimecome was appointed Chairman in September 2009. He joined the Board in January 2007 and is Chairman of the Nominations Committee. Ian is Chairman of Tokio Marine Kiln Group Ltd, Tokio Marine North America, Delphi Financial Group and HCC Holdings. He is also Executive Chairman International of Tokio Marine Holdings, Deputy Chairman of Tokio Marine Asia and a non-executive Director of Edelweiss Tokio Life. Ian has more than 30 years of experience of the financial services industry in a wide variety of roles and has advised on more than 100 merger and acquisition transactions in the insurance and asset management industries in more than 20 countries.

Keith Nicholson - Deputy Chair and Senior Independent Director

Keith Nicholson joined the Board in August 2009. He was appointed Deputy Chairman on 1 July 2012 and chairs the Audit and Risk Committee. Keith left KPMG in 2009 after more than 30 years with the firm. He has a wealth of experience with financial services companies covering audit and advisory roles. These included FTSE 100 companies in the UK and non-UK multinationals. Keith is Chairman of Liberty Specialty Markets. He is also the Senior Independent Director of Just Group plc.

Chris Wiscarson - Chief Executive

Chris Wiscarson was appointed Chief Executive in September 2009. Before that, he was a member of the Group Executive Committee at Lloyds Banking Group. He started his career with Equitable Life, before moving to South Africa in 1979. In 1986, he returned to England to take up the position of Chief Executive of Save & Prosper Insurance. In 1990, he joined the Lloyds Banking Group, where he held a number of senior roles including Finance Director of the Lloyds Abbey Life Group, then Chief Executive of Lloyds TSB Life. At the beginning of 2000, he was appointed the Director responsible for the non-UK businesses in the Lloyds TSB Group before taking up the position of Group Integration Director.

Simon Small - Deputy Chief Executive and Finance Director

Simon Small joined the Society as Finance Director in July 2012. He is responsible for the Society's Finance, IT Change, HR and Investment functions, and takes a lead role in capital and strategic planning. Simon, a qualified accountant, has particular expertise in the financial and administrative aspects of operations and IT. He had previously worked at Lloyds Banking Group for over 20 years, latterly as the Finance Director to the team responsible for delivering the synergy benefits in the merger of Lloyds TSB and HBOS. Simon's expertise includes deal negotiation, restructuring company finances and delivering efficiency savings.

Penny Avis

Penny Avis joined the Board in January 2015. A Chartered Accountant, Penny is a former Deloitte corporate finance partner with wide-ranging merger and acquisition and accounting experience. Penny was an elected non-executive Board member at Deloitte UK LLP responsible for oversight of executive management and acted as a mentor to partner-track directors. Prior to Deloitte, Penny worked for PwC and Arthur Andersen. She is also a non-executive Director at Investors Ltd, a private corporate finance business, Cifas, the UK's fraud prevention service, Howard Kennedy, a city law firm, and UK Athletics Limited.

Lord Finkelstein

Lord Finkelstein OBE joined the Board on 17 March 2017. A journalist and Conservative peer, Lord Finkelstein has been a columnist on *The Times* since 2001 and is a former executive editor, Chief Leader Writer and comment editor. He is a former chairman of Policy Exchange Ltd, a political think tank, and has been a political adviser to the Conservative Party and to the Social Democratic Party. He was a non-executive Director at the *Jewish Chronicle* between 2011 and 2013. Lord Finkelstein holds an honorary Doctor of Science degree from City University.

Ian Gibson

Ian Gibson joined the Board in August 2013. Ian retired from Legal & General in 2007 after more than 35 years with the organisation. He is a qualified actuary and has extensive experience of managing and advising on with-profits funds. After retiring from Legal & General, Ian worked as an actuarial consultant providing advice on, among other things, Solvency II and life fund transfers. He has also served on the Supervision Committee of the Life Board of the Institute and Faculty of Actuaries.

Cathryn Riley

Cathryn Riley joined the Board in August 2009. She chairs the Society's Remuneration Committee. In a wide-ranging career covering customer services, IT, operations, human resources and general management, Cathryn has worked for British Coal, British Airways, Coopers & Lybrand, BUPA and latterly Aviva plc where she was Group Chief Operations Officer and a member of the company Executive Committee. She is a non-executive Director of AA plc, International Personal Finance plc, Chubb Underwriting Agencies Ltd and Chubb European Group Plc.

The Society's Annual Report and Accounts are available at www.equitable.co.uk.
If you have requested a paper copy, this will be sent to you shortly.

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