# Chairman's statement 2019

Ian Brimecome

## Dear Members

In my 2018 report, I said that, while continuing in run-off remains a viable strategy, it brings significant challenge and, 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. Therefore, I was delighted to announce, last June, our proposal to do precisely that.

## Our strategy

As a reminder, the new strategy, subject to approval by Members eligible to vote and the High Court, will:

- Distribute all available assets in the with-profits fund fully and fairly to with-profits policyholders;
- Convert with-profits policies to unit-linked ones;
- Remove investment guarantees and with them any guaranteed annual increases; and
- Transfer all policies to Utmost Life and Pensions (formerly Reliance Life).

Before deciding upon this proposal, we carefully evaluated all the strategic options available to us. An independent expert is now reviewing the analysis, and his report will be made available to policyholders in due course.

I fully understand that you will want to consider your own circumstances and weigh up the pros and cons of the proposal before deciding how to vote and what fund to invest in. This is why we will be offering guidance and subsidised advice through an independent service provider, as well as a personalised illustration of what the proposal could mean to you.

Allow me to outline why your Board believes it to be the best outcome for the Society:

- It is the only option that allows all the c£1.8bn capital, reported as being available last June, to be immediately distributed to with-profits policyholders;
- Although investment guarantees will be removed, policy values will be increased to a level the Board considers to be fair;
- The wider choice of investments under a unit-linked policy will become available, at a lower cost to you than your current with-profits policy;
- Your policy will be managed by Utmost Life and Pensions, who are well placed to provide financial stability; and
- While the Equitable name will disappear, its values will live on in the team in Aylesbury, who will continue to look after your policies.

In recommending the proposal, the Board has rigorously analysed the fairness of it compared to remaining in run-off. Four considerations were at the front of our minds. First, who should receive the capital? It belongs to the Members, so, should the proposal be sanctioned by the Court, those who have a policy will receive the capital. This means that the potential uplift applies only to current with-profits policyholders and not to any other current or former policyholders.

Second, will all Members be immediately better off than they are today? The effect of the proposal is that all with-profits policyholders at implementation date will have a policy value greater than the higher of the guaranteed value and the policy value, including the current 35% distribution.

Third, how can we be sure that policyholders will remain better off in the future compared to the investment guarantees they would retain in run-off? We cannot be certain of this, as the uplifted policy would not have an investment guarantee. However, we have compared the guaranteed values under with-profits policies to the uplifted policy value in two hypothetical scenarios, as follows:

- If we assume that a policyholder were able to invest the new, uplifted amount such that the policy does not grow or fall in value, the analysis shows that this person will still have a fund value higher than the guaranteed value after five years; and

- Even if we assume that a policyholder were able to invest such that the unit-linked policy only grows by 1.5% pa after charges, the policy will have a higher value than the current guaranteed value after ten years, or the expected date of taking benefits, if earlier.

Finally, we have considered whether policyholders can expect to remain better off in the future compared to run-off regardless of their age. In run-off, the most likely outcome is that capital distribution would increase, but with the possibility that it could be suspended. We have projected benefits under the new proposal for all policies, to future dates when the savings might reasonably be taken. Based on a comparison of these two alternatives, the Board believes that the proposal is in the best interests of policyholders as a whole. The independent expert, based on his analysis to date, considers that it is a fair approach.

My Statement and the Annual Report and Accounts are addressed to the Members of the Society as a whole. They are not designed to be the means by which individual policyholders or group schemes gain sufficient knowledge to vote on the proposal. The main communications on the proposal will be issued to all policyholders in the summer. The material we will distribute will include the risks of the proposal and of staying in run-off to help you decide, as a policyholder, what is right for you.

We will be asking eligible with-profits policyholders to vote on the proposal later in the year. Should the proposal be approved by vote, there will be a Court hearing. Implementation of the proposal will likely be around the end of 2019. You may well ask why we have to wait until the end of the year to deliver the new strategy. The process that we need to follow rightly includes a number of important safeguards for policyholders. We need to: receive confirmation from both Regulators (the Financial Conduct Authority and the Prudential Regulation Authority) that they do not object; receive approval from the Court; and ask eligible with-profits policyholders to vote on it. There are also not one, but two, independent experts who advise the Court and the Regulators. This, inevitably, takes time.

You may also ask why it was necessary to sell the company and why we chose to contract with Utmost Life and Pensions. One of the strategic options we considered was to progress the proposal but without a sale. We did not consider this further because we would have to hold back capital to run the company rather than distribute it and we would still face all the operating risks associated with a shrinking business. At some stage in the future, a sale would likely be necessary, so best to do it while we are still large enough. The sale is the key which unlocks the door to delivering all the available capital to with-profits policyholders.

The Board considered that Utmost Life and Pensions offered the best deal, while wanting to keep our staff, systems and building as a platform to add future acquisitions. This means that we can provide continuity of service for all policyholders.

## Board changes

Following the announcement of the sale, Chris Wiscarson decided that it was the right time for him to retire as Chief Executive. He was instrumental in establishing the Society’s main aim: to recreate policyholder value by distributing all of the capital among with-profits policyholders as fairly and as soon as possible. Over the years, I have reported in this statement the key steps he has taken to de-risk the Society and thereby increase capital distribution.

I would like to pay tribute to Chris’ outstanding leadership of the Society and to his many successes since he arrived in 2009, always placing you, the policyholders, at the centre of everything he did.

It was an easy decision to promote Chris’ Deputy and Finance Director, Simon Small, to the Chief Executive role in July because he and Chris worked hand in glove on strategy. His experience and leadership is vital to the successful delivery of the new proposal.

I am also delighted to welcome Martin Sinkinson to the Board. Martin has been with the Society for 30 years, the last seven as Chief Actuary, and has intimate knowledge of the Society.

## Capital distribution

The Board has carefully considered whether there should be any change to the existing 35% capital distribution, to ensure fair payments to policyholders taking benefits at the present time. As in previous years, we have taken into account your desire for stability in the distribution over time. We have also considered the benefit of maintaining a stable comparison against which to compare our strategic proposal. Finally, we have reviewed the multiple scenarios of plausible, future outcomes should the proposal not be approved.

Taking all these matters into consideration, the Board intends to maintain the existing level of 35% from 1 April 2019 on policy values as at 31 December 2014.

## Increases to policy values

As with capital distribution, we have considered whether to maintain the 2% increase to policy values from the with-profits invested assets. While the actual return is much less than this, it has been higher in the past. One of the features of a with-profits fund is to smooth such returns over time, based on the long-term sustainable rate of return. The Board, therefore, is pleased to increase policy values by 2% for 2018 for UK with-profits pension policies.

## Looking back

The Equitable enjoyed a good 2018. The economic and political environment was turbulent and was dominated, at least in the UK, by Brexit. The resulting uncertainty means that the prospect of a low interest rate environment remains and, with that, the risks, should we remain in run-off, of the investment guarantees in the with-profits policies becoming harder to manage.

Like other financial services companies, we have to ensure that we can continue to service our non-UK policyholders in a post-Brexit world. The uncertainty of whether transitional arrangements would be granted, thereby allowing existing passporting rights to continue, forced us to establish a subsidiary in Ireland, the cost of which has had to be borne by with-profits policyholders.

The Society's cost base continues to be tightly managed. Business-as-usual costs reduced to £21m, down from £22m in 2017. The Society is well managed, and I pay tribute to our 214 loyal and dedicated staff for their excellent work. We can see from our surveys that you value the quality of our customer service when you contact us.

We are also particularly pleased that there has been a significant fall in the number of policyholders taking their benefits since the announcement of the new proposal last June. It is clear that the message of not missing out on the proposed uplift later in 2019 is landing.

## Government compensation

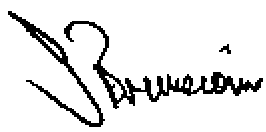
The Equitable Members' Action Group ("EMAG") continues to tirelessly campaign for full compensation from government to be paid to all eligible with-profits policyholders, as well as for equal treatment to their younger peers for the pre-1992 with-profits annuitants.

I pay tribute to them for their past successes and wish them well in their campaigning. Details of EMAG's endeavour can be found at www.emag.today

## The vote

We will shortly be asking eligible with-profits policyholders to vote on our proposal for the future of the Society, and we will provide further information in the summer. Whatever your inclination, I urge you to take up your right to vote. I, and the Board, firmly believe that the new strategy is the fairest way forward. However, we do not take your vote for granted. If the proposal does not go ahead, we will continue to service your existing policies and will endeavour to maintain and improve capital distribution.

Should the proposal be approved, this will be my last Chairman's statement because I, and the rest of the Board, will pass the honour of serving you to Utmost Life and Pensions. More importantly, it will bring to a conclusion more than 250 years of history of the Equitable Life Assurance Society. My Board has worked tirelessly to restore financial security to the company and to return the Society's capital as fairly and as quickly as possible to with-profits policyholders. I would like to pay tribute to them on your behalf. Whatever the outcome of the vote, your policy will remain in safe hands.



Ian Brimecome
**Chairman**

**1 April 2019**

# Proposed changes to the Directors' remuneration policy

## Extract from the Remuneration Committee Chair Statement and the executive Directors' remuneration policy in the Annual Report and Accounts 2018

2018 was an extremely important and eventful year for the Society. Huge progress was made in the delivery of the strategy, as described in the Chairman's statement. The year also saw the appointment of Simon Small as Chief Executive and of Martin Sinkinson as an executive Director. As in previous years, the Committee has been mindful of the views of policyholders about executive pay, while also taking into account the need to set the right level of remuneration that aligns with and supports the Society at this pivotal time.

In 2019, the executive Directors' remuneration policy is subject to a vote by Members. The Committee operates to the standards set out in the UK Corporate Governance Code and in line with these the policy is subject to policyholder approval every three years. The policy set out in this report is an updated version of that which received approval from 91% of Members in 2016.

The 2016 policy is put forward for approval again with the following principal changes:

- Aylesbury is the designated place of work for executive Directors; travel to the Aylesbury office is no longer paid for by the Society;
- Should transfer to Utmost Life and Pensions (formerly Reliance Life) be successfully completed, the discretionary annual bonus payable in respect of the 2019 financial year will not be deferred; and immediately before transfer the deferred portion of past bonuses will be paid, because after transfer the Society will no longer exist as a business entity. Bonuses will remain subject to clawback; and
- It is a clear priority of the Committee to ensure successful final completion of the Society's plans by retaining the executive Directors and paying them appropriately. The remuneration policy approved at the 2016 Annual General Meeting allowed for the introduction of a retention bonus arrangement to ensure executive Directors remain with the Society.

  Since then, a retention bonus arrangement has been put in place, as disclosed in the 2017 Annual Report. Under the retention arrangement, subject to meeting specified terms, the Chief Executive is eligible for £620,000, and the Chief Actuary for £518,766. These sums are payable upon successful completion of the strategy or 31 December 2020, whichever is earlier.

The Committee thinks long and hard about remuneration arrangements and strongly considers those described as being in the best interests of policyholders. I commend the Society's updated executive Directors' remuneration policy to Members.

Cathryn Riley
**Chair, Remuneration Committee**

# Directors’ remuneration report

## Executive Directors’ emoluments

| | Salary | | Performance related bonus | | Benefits | | Total | |
|---|---|---|---|---|---|---|---|---|
| | 2018 | 2017 | 2018 | 2017 | 2018 | 2017 | 2018 | 2017 |
| | £ | £ | £ | £ | £ | £ | £ | £ |
| S A Small | 360,526 | 276,458 | 255,000 | 186,000 | 65,026 | 72,639 | 680,552 | 535,097 |
| M W Sinkinson (appointed 25 July 2018) | 90,256 | n/a | 52,308 | n/a | 16,329 | n/a | 158,893 | n/a |
| C M Wiscarson (resigned 24 July 2018) | 288,606 | 450,000 | - | - | 79,306 | 141,201 | 367,912 | 591,201 |
| **Total** | **739,388** | **726,458** | **307,308** | **186,000** | **160,661** | **213,840** | **1,207,357** | **1,126,298** |

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 them periodically. Fees were increased in 2018, to reflect the additional time spent working on the value-enhancing strategy of the Scheme and Transfer to Utmost Life and Pensions. Fees were previously increased in January 2016.

Fees for the non-executive Directors are as follows:

| | Annual fee | Effective from |
|---|---|---|
| Chairman | £175,000 | 1 July 2018 |
| Senior Independent Director/Chair of Audit and Risk Committee and 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: £425,000 pa
Chief Actuary: £200,000 pa

Reflects the individual’s skills and experience.

The Chief Executive’s salary is not subject to review. The Chief Actuary’s salary is subject to its next review on 1 January 2020. 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 may pay the premiums on behalf of Directors relating to private medical insurance, income protection and life assurance, particulars of which may be obtained from the Company Secretary. The Committee may alter benefits from time to time and, where this occurs, an explanation will be provided in the subsequent annual Directors' remuneration report.

Aylesbury is the principal place of work for executive Directors.

### Maximum potential value

Cash allowance in lieu of pension: Chief Executive: 10% of base annual salary; Chief Actuary: fixed sum of £35,149 pa.

Insurance premiums vary year by year. The current annual cost is shown in the executive Directors' emoluments table.

## Discretionary annual bonus

### Maximum potential value

80% of base salary.

### 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, bonus of up to the maximum is payable. Where performance does not reach on target level, no bonus is payable.

Since 2016, 50% of the sum awarded has been deferred, and made subject to malus, with the deferred amount being paid in equal instalments on the three anniversaries following initial payment. Should transfer to Utmost Life and Pensions be successfully completed, the discretionary annual bonus payable in respect of the 2019 financial year will not be deferred; and immediately before transfer the deferred portion of past bonuses will be paid, because after transfer the Society will no longer exist as a business entity.

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.

## Retention bonus

The Remuneration Policy approved by Members at the 2016 AGM allowed for the introduction of a retention bonus arrangement, to ensure that executive Directors remain with the Society during a period of uncertainty.

In 2017, a retention bonus arrangement was put in place, as disclosed in the 2017 Annual Report and Accounts. Under the retention arrangement, subject to meeting the specified terms, the Chief Executive is eligible for £620,000, and the Chief Actuary £518,766.

# 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 North America and Delphi Financial Group. 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.

## Simon Small – Chief Executive

Simon Small joined the Society as Finance Director in 2012 and was appointed Chief Executive in July 2018, having been Deputy Chief Executive since 2017. Simon's appointment provides continuity for the Society as he worked closely with the previous Chief Executive, Chris Wiscarson, in developing the Society's strategy and in negotiating the planned sale to Utmost Life and Pensions. A qualified accountant, he has in-depth expertise in executing major change projects, restructuring company finances and delivering efficiency savings. 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.

## 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 Mutual Insurance Europe SE and Liberty Managing Agency Limited. He is also the Senior Independent Director of Just Group plc.

## Martin Sinkinson – Chief Actuary

Martin Sinkinson is the Chief Actuary, and has been a member of the Society's Executive Committee since 2011. He was appointed to the Board in July 2018. Martin, a qualified actuary, has been a key member of the management team that developed the Society's strategy, including the planned sale to Utmost Life and Pensions, and has delivered strategic projects enabling the release of capital to policyholders. Martin has deep knowledge of financial reporting, capital management and actuarial control.

## 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 Envestors 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 in 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 Chairman of the think tank, Onward, 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 and With-Profits Sub-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, AA Insurance Holdings Ltd, International Personal Finance plc, Chubb Underwriting Agencies Ltd and Chubb European Group SE.

**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.