



**The Actuarial Profession**

making financial sense of the future

# Standard Life 'Going Public'

John Hylands, Standard Life  
Steve Sarjant, Watson Wyatt

# Mutuality is your heritage – don't throw it away!

- You come first with us – so why settle for second place?
- Our mutuality means the benefits of size, strength, stability and success for YOU!

Standard Life – May 2000

# What has changed since 2000?

- Impact on capital of stock market performance
- Prospect of lower long-term investment returns
- Decline in popularity of with profits products

# What has changed since 2000?

- Declining with profits sales resulting in business risks being borne by smaller group of people
- Impact on capital of offering prospect of 'benefits of mutuality'
- Need for external capital to support and develop business

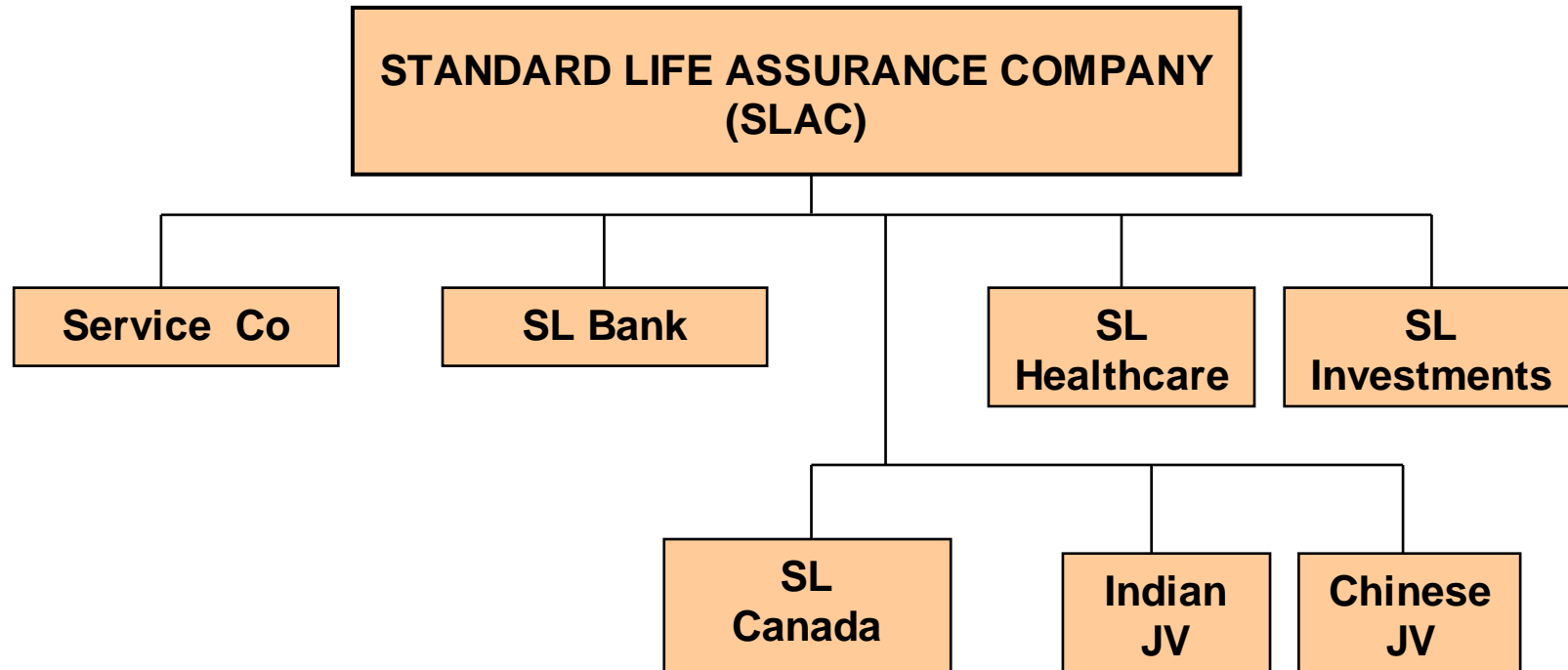
# Main Features of the demutualisation

- Demutualisation – transferred Members' interests in the mutual company for ownership in SL plc
- Demutualisation entitlement – Eligible Members received shares in SL plc or cash
- Protection for policyholders – scheme includes provisions designed to protect the security of policy benefits and the reasonable benefit expectations of With Profits investors
- Flotation – SL plc listed on the London Stock Exchange and raised approximately £1.1bn of net new capital

# Compensation for loss of membership rights

- Fixed allocation – 185 shares
- Variable allocation reflecting size of with profits investment and period invested

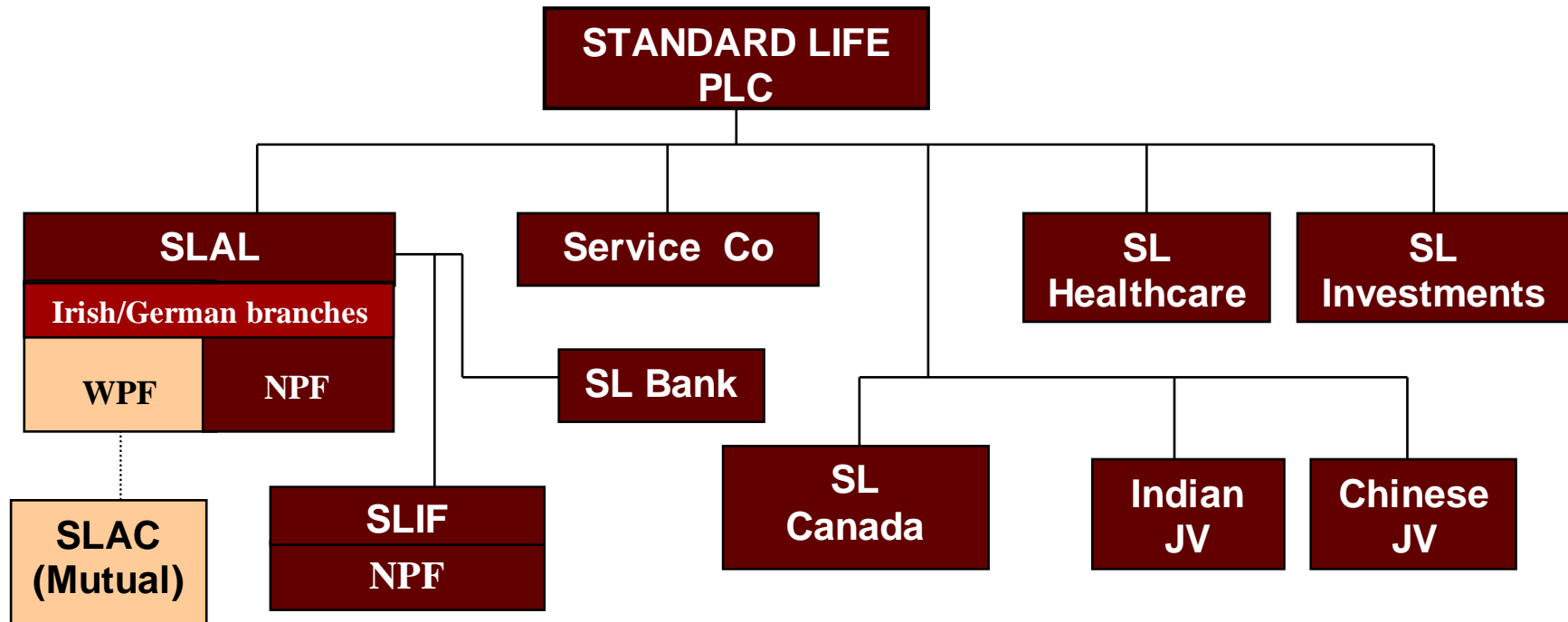
# Corporate and Fund Structure - Pre demutualisation



**Policyholder  
Assets**

**Shareholder  
Assets**

# Corporate and Fund Structure - Post demutualisation



**Policyholder Assets**

**Shareholder Assets**



# Transfer of assets and liabilities to Standard Life Assurance

## With Profits Fund

- Majority of existing assets and liabilities in respect of UK, Irish and German linked and non-linked business
- Increments to existing business in the UK, Ireland and Germany

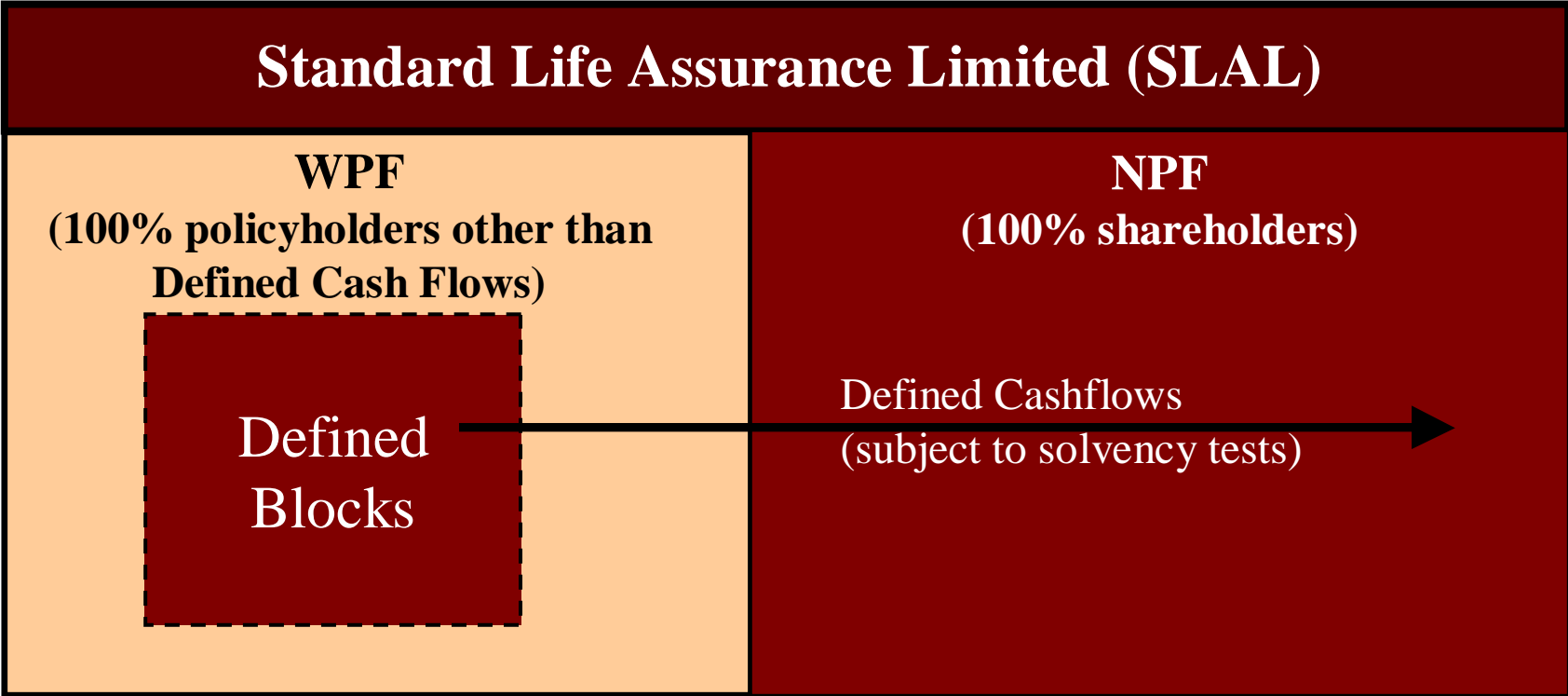
## Non Profit Fund

- Existing assets and liabilities in respect of small amount of insurance business
- All new business written in the NPF then reinsured to SLIF

## Shareholder Fund

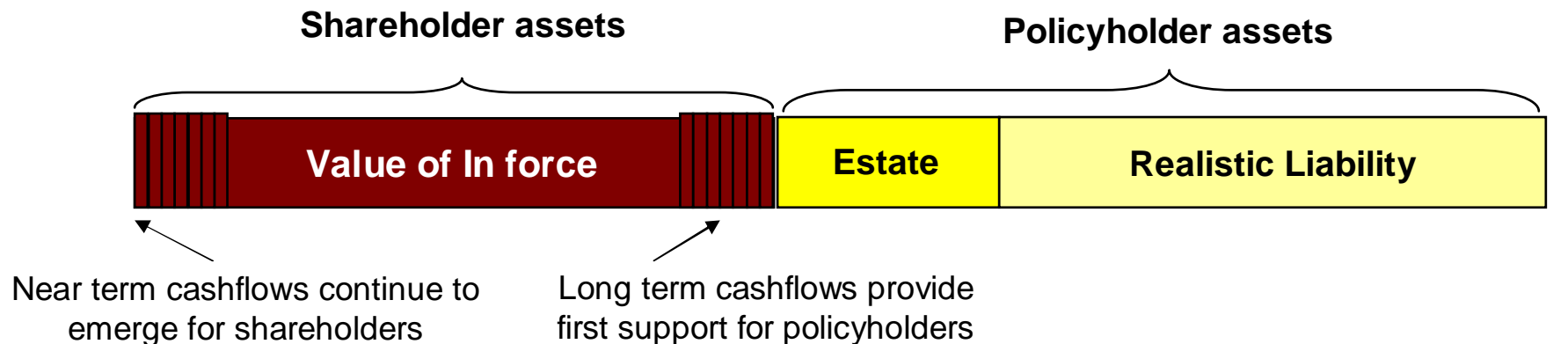
- Intellectual property and goodwill
- SL Bank and SLIF (including reinsurance of longevity risk)
- Liabilities in respect of subordinated debt, and matching assets

# Allocation of surplus arising in SLAL



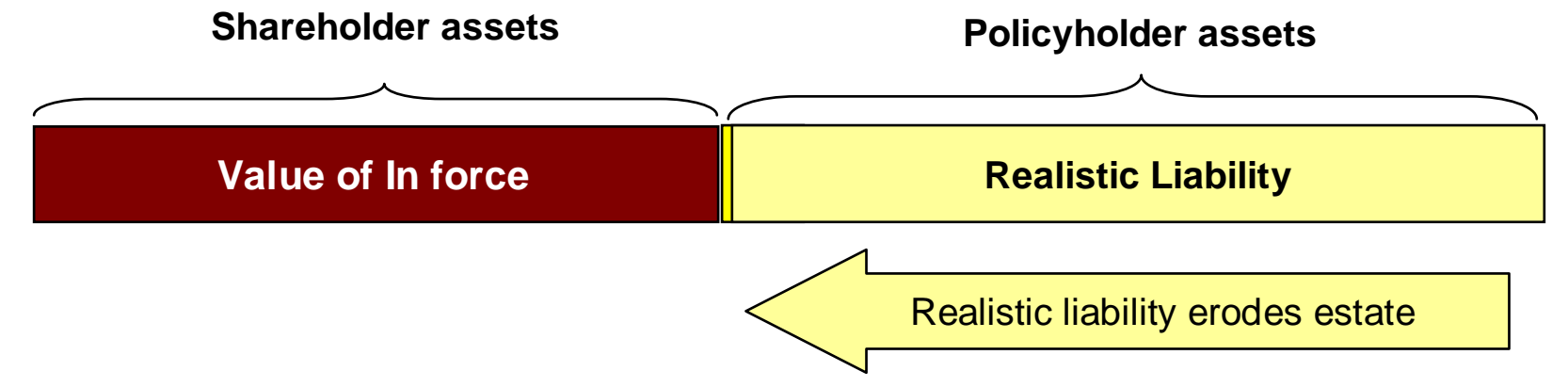
# Operation of Capital Support Mechanism

- Subject to the solvency of the With Profits Fund (WPF), the intended allocation of the assets in the WPF is as follows:
- If experience is as per assumptions, then cashflows on the defined blocks of business can be expected to emerge each year and become available for transfer to shareholders



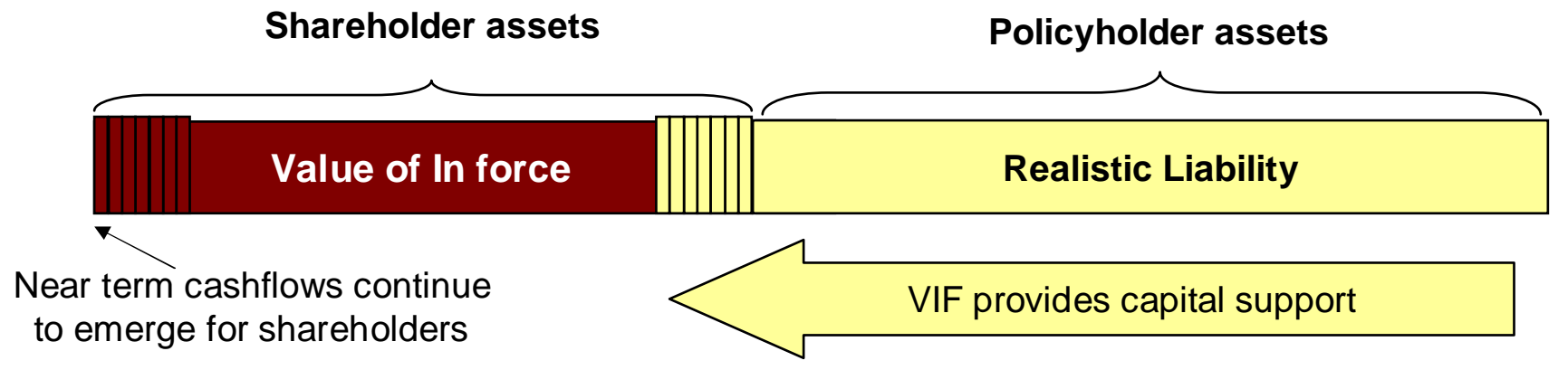
# Operation of Capital Support Mechanism

- If experience of the WPF is poor, the realistic liability may increase and erode the residual estate



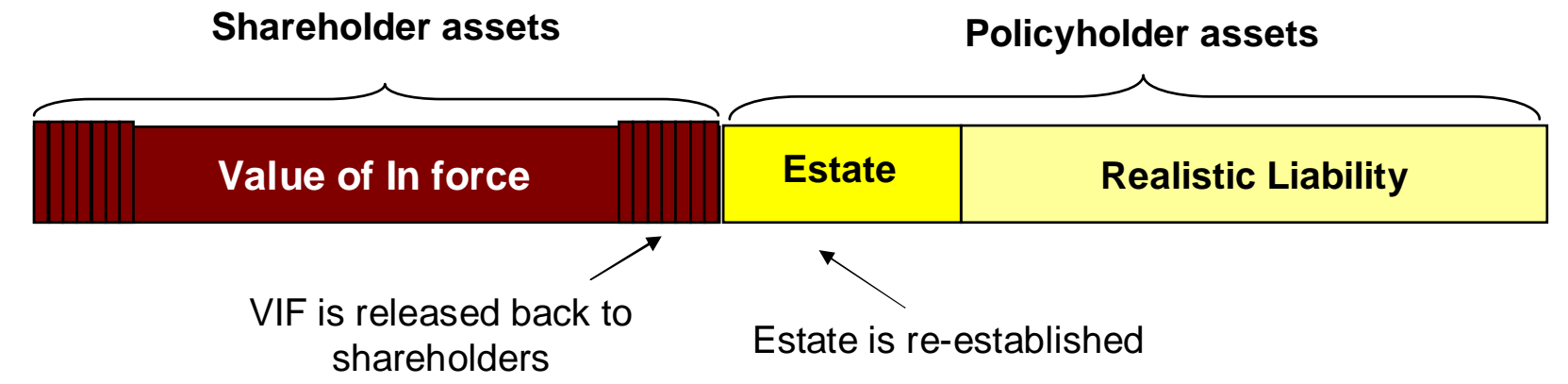
# Operation of Capital Support Mechanism

- If experience of the WPF is poor, the realistic liability may increase and erode the residual estate
- If experience deteriorates further, the WPF may have to rely on some of the VIF (via the CSM); it is the future VIF that is restricted first
- Near term cashflows can be expected to transfer to shareholders except in severe circumstances



# Operation of Capital Support Mechanism

- If experience improves, VIF is released back to shareholders and the estate is re-established
- In the EEV, the “burn through cost” places a value on the likelihood of some or all of the VIF being permanently lost to shareholders



# Protections for policyholders

- Scheme approved by the Court
- Report to the Court by an Independent Expert
- Review by FSA and other regulators
- Inclusion of Core Principles in the Scheme
  - Compliance with Core Principles and PPFM to be monitored by newly established With Profits Committee

# Core Principles

- Investment policy to be determined as if the WPF were a separate mutual company
- With profits payouts to be determined by reference to asset shares as at demutualisation, but reflecting subsequent performance of the WPF
- A prudent residual estate retained in the WPF with any excess distributed over time as enhancement to final bonus
- Restrictions on new business written in WPF



# Corporate and Fund Structure – Summary

- **Maintains policyholders benefit expectations**
- **Efficient use of capital**
  - ⇒ maximises shareholder value
  - ⇒ protects policyholders interests
- **Transfer of most ongoing business risks and rewards to the shareholder environment**
- **Tax efficient structure**

# Mortgage Endowment Promise

- Issued in 2000
- Promised to top up mortgage endowment policies to target values, subject to certain conditions:

“The promise is subject to the growth in Standard Life’s capital being enough to allow us to set aside regular provisions to meet any possible shortfalls.”

# Mortgage Endowment Promise

- MEP was dependent on future growth in SLAC's capital but unclear how condition would operate post demutualisation
  - Obligations under MEP revised and clarified
  - Court sanctioned a change to MEP whereby capital growth condition is replaced by its primary driver – investment return
  - Payments may be increased or decreased depending on investment returns
  - Achieves significantly greater certainty in a way that is fair to all policyholders
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# Consequences for the business



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