





Clare Spottiswoode CBE
Policyholder Advocate

Representing the interests of Norwich Union with-profits policyholders

Clare is mainly known for her work as a former Director General of Ofgas (1993-98), the regulator of the gas industry. As Director General she spearheaded the introduction of choice and competition in the provision of UK gas products and services. This led to great efficiency improvements in the industry and, at that time, to significant price reductions to consumers for their gas supplies. During her career, she has also acted as an economist at HM Treasury, lectured at London Business School, set up and managed private business interests and held a number of non-executive directorships.

Clare has been appointed to champion your interests in negotiation with Norwich Union, working to get you a payout that is fair for what you are being asked to give up. She is supported in her work by legal and actuarial experts from Lovells and KPMG respectively.

Contents

Clare Spottiswoode talks about her job

The Norwich Union Plan - A Short Guide to the Issues

1. The Plan
2. With-profits policies
3. What are an 'inherited estate' and a 'distribution'?
4. What is a 'retribution'?
5. Policies included in the reorganisation
6. Are the policies themselves affected?
7. What happens now?
8. Having your say

Clare Spottiswoode - my job as your representative

My job is to negotiate with Norwich Union the terms of a 'retribution' on behalf of 'eligible' with-profits policyholders (please see items 3 and 4 of this leaflet for an explanation of these terms).

In particular I will negotiate the size of the payment (or in some cases, additional bonus) offered to you.

Why do policyholders need a representative?

As you may know, the Financial Services Authority (FSA) will, as the regulator of the UK insurance industry, consider the interests of policyholders in this proposed reorganisation. However, in dealing with the issues raised by retributions they decided that it would be helpful to provide policyholders with an additional independent point of view. This is why they recently introduced new rules requiring someone to be appointed as 'policyholder advocate' to represent your interests.

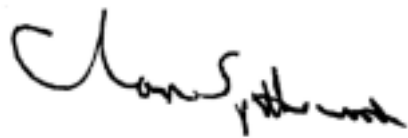
My qualifications for the job.

I am dedicated to making sure that policyholders are treated fairly and am completely independent – my only interests in the financial services industry are as a customer. I think it is very important to have someone in this role – policyholders themselves simply do not have the time to investigate all the issues this reorganisation raises and make judgements about it. My record shows that I can get to grips with difficult issues and find answers that support consumers and are good for business too.

Am I independent of Norwich Union?

Yes, completely. This has been achieved through the selection process and my terms of appointment. I was identified as a candidate for the job by an executive search agency. Some Norwich Union policyholders also met me to see if they thought I was suitable. In addition, the FSA has approved my appointment.

Just to be completely clear, I am paid a monthly salary by Norwich Union with no bonus or success fee. I should add that my contract, which has been approved by the FSA, makes it clear that I must act in the best interests of policyholders. I shall work very hard to make sure that you are not disappointed.



Clare Spottiswoode CBE

The Norwich Union Plan - A Short Guide to the Issues

This part of the leaflet deals with the main issues in the Norwich Union reattribution plan. It also explains some important things policyholders need to know about with-profits funds.

The leaflet finishes with some details of what happens next and how policyholders can make their voice heard.

The Plan

Norwich Union would like to reorganise some of its with-profits funds so that it can use more efficiently the assets (that is, shares, property, government securities and cash, among other things) which belong to these funds. These assets are currently part of the with-profits fund called the 'inherited estate' and there are limits on what it can be used for (please see item 2 below).

The Norwich Union plan would be achieved by using a process known as a 'reattribution' (please see item 3 below). Norwich Union needs the agreement of policyholders to do this. If a policyholder agrees to the reattribution plan, they will be asked to give up their right to any future 'distribution' or sharing out of the inherited estate. ('Distribution' is explained in item 2 below.) In return the policyholder will receive a payment or, in some cases, an additional bonus allocated to their policy. The policyholder's investments would then be put into a different fund. That fund will be properly supported (please see item 6); the Financial Services Authority has rules to ensure that policyholders' funds are protected.

If a policyholder does not wish to accept the offer, their position will remain unchanged – their policy or policies will be put in a fund that has the appropriate resources to carry on as before.

Whether or not a policyholder accepts or rejects the offer, the terms of the policies themselves remain unaffected (please see item 5 below).

1. With-profits policies

With-profits policies are long-term investments provided by insurance companies. Policyholders pay premiums which are then put together in a pooled fund which is invested by the insurance company. If the investments perform well, a bonus is allocated to policies. Companies routinely hold back some investment returns in good years, so that bonuses can be topped up in years when the fund performs poorly. This is known as "smoothing".

2. What are an 'inherited estate' and a 'distribution'?

Inherited Estate

The inherited estate is the expression used to describe surplus assets in a with-profits fund (in other words, assets not required to meet the liabilities of the fund). An estate will often build up over many years.

Whilst an inherited estate, like other assets allocated to a with-profits fund, is owned by the company, it can only be used for a limited number of purposes as follows:

- to provide investment flexibility (for investment in equities, which offer higher expected returns than some other investments, but also a higher risk that they might not);
- to smooth bonuses to reduce the impact of sudden sharp changes in investment markets;
- to provide extra security against unexpected calls on reserves; and
- to support the sale of new business.

There are basically only two ways in which the shareholders of the company can access the estate for other purposes – both of which have different characteristics – that is, through a distribution or a reattribution of inherited estate.

Distribution

A distribution is a payout from the inherited estate to policyholders (90 per cent) and shareholders (10 per cent) and may come about in a variety of ways. FSA rules can require a distribution when, for example, the company has more assets than it needs to support its with-profits business or when no new with-profits business is being written from the with-profits fund. A distribution is made in the form of bonuses allocated to policies.

If a distribution happens the remaining assets of the inherited estate continue to support smoothing and investment flexibility.

3 Reattribution

A reattribution is the process whereby the company offers to buy out the rights or expectations of policyholders in relation to a possible future distribution of the inherited estate. Policyholders are given an incentive payment if they choose to give up their right to take part in any future distributions from the inherited estate. The position of policyholders who choose not to accept the offer remains unchanged.

Following the reattribution, the inherited estate remains available to support smoothing and investment flexibility, but the estate becomes owned 100 per cent by the shareholder.

4. Which policies are included in the Norwich Union plan?

The plan affects policies that are in the with-profits businesses of Commercial Union Life Assurance Company and CGNU Life. These are 'eligible' policies, that is, holders of them are expected to be those who would be offered an incentive payment.

The policies may not all be branded 'Norwich Union'. If you wish to check the potential eligibility of your policy a link can be found on our website in the section marked 'Eligibility'.

5. Are the policies themselves affected?

No. Whether or not you accept the eventual offer, your policy will remain the same.

In particular:

- you will not have to pay different premiums
- any guarantees remain unchanged
- payments on policies will continue to be based on investment performance as they were before the reorganisation
- there will be no change to the length of time that the policy has to run

6. What happens now?

Over the next three months, Clare will be consulting with policyholders and listening to your views about the Norwich Union reattribution plan. Clare will then negotiate the terms of it with Norwich Union – this is expected to take place during spring and summer 2007.

Following the negotiations, Clare will prepare a report on her work which will include her recommendations to you in relation to any offer from Norwich Union. A summary of the report will be sent to you. The full report will be available on the website.

It should be emphasised that this report will be Clare's recommendations on the Norwich Union plan and its offer to policyholders. You may wish to consider with your independent financial adviser the recommendations and the way they might affect you.

Following the publication of Clare's report, Norwich Union will write to you with the details of the reattribution plan, asking eligible with-profits policyholders to agree to the reattribution and accept a payment (or additional bonus) in return for giving up any interest in possible future distributions of the inherited estate.

If policyholders do not want to agree to the Norwich Union plan and offer of a payment, they will not have to do anything. For those policyholders and any that just do not reply, Norwich Union will assume that they do not agree and their policies will be left in a fund that has the appropriate resources to carry on as before. They will not receive a payment.

Once this period (technically known as an 'election' period) is over, Norwich Union will go ahead with a formal legal process and ask the High Court to approve the reorganisation proposals. If this is successful it is expected that payments to policyholders who have accepted the reattribution plan would be made in early 2008.

7. Having your say

Clare is very keen to hear your views about the Norwich Union plan before she begins negotiations. She is also keen to give you the opportunity to find out more about the steps involved in the reorganisation.

We have launched a website www.policyholderadvocate.org. This offers information about the process and also provides a variety of links to related sites which you may find helpful. The website also has a questionnaire which will help us to understand your interests and concerns. (You can also complete a shorter version of the questionnaire over the telephone. Please see the details below.) You can register your name and email address on the website so that we can send you any updates that might be helpful.

The website contains an interview in which Clare and two of her advisers talk about some of the issues raised by the Norwich Union plan. This is also available as a free CD to policyholders.

Clare will be visiting a number of different parts of the country so you can, if you wish, learn more about the reattribution plan and give your views.

As you will appreciate it is difficult for us to know in advance how many policyholders might welcome these opportunities. We will do all we can to provide facilities for all of those who wish to take part in these events, but it might not be possible to do so for those who do not tell us in advance that they will attend. Full details of where the events will take place are on our website and are available through our call centre.

If you would like to receive a free copy of the CD, learn more about the reattribution plan, complete the questionnaire by telephone or register your interest in attending a meeting, please call 08000 566 399 (for the Republic of Ireland call 1800 635059, international callers should use + 44 (0) 208 945 0998).

Details of the events

10 January 2007 **Edinburgh**

24 January 2007 **Cardiff**

26 January 2007 **Birmingham**

6 February 2007 **Belfast**

8 February 2007 **London**

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