

Scottish Amicable Insurance Fund (SAIF) former Chairman's statement

An update from the former Chairman of the Scottish Amicable Board, Bernard Solomons

Merger of the Scottish Amicable Funds with the PAC With-Profits Fund

Dear Policyholder

I am delighted to let you know that the Scottish Amicable Insurance Fund was successfully merged with Prudential's With-Profits Sub-Fund (WPSF) on 1 April 2021. As I have written previously, I believe that this merger is in your best interests as it reduces the uncertainty about how the surplus assets will be distributed to remaining Scottish Amicable with-profits policyholders as the number of remaining policies continues to reduce. In addition you will also benefit from being part of the largest and one of the most financially strong with-profits funds in the UK.

The Scottish Amicable Board was a committee of The Prudential Assurance Company Limited (PAC) Board. The Scottish Amicable Board was set up solely to look after the interests of policyholders like yourself, whose policies were transferred into the Scottish Amicable Insurance Fund ("SAIF") of PAC in 1997 under the terms of a court-approved Scheme. SAIF was 'ring-fenced' within PAC for your benefit and your Board was responsible for SAIF's investment and bonus policy as well as ensuring that all the terms of the Scheme continued to be met. One of the key requirements of the Scheme was that the fund was managed in a sound and prudent fashion, and the Scottish Amicable Board was committed to ensuring that this was the case.

John McKenzie, Head of Insurance Transfers and Reporting Service at Hymans Robertson LLP, Actuaries and Consultants, has been the Monitoring Actuary since August 2004.

He has had full access to the management of the Scottish Amicable Funds allowing him to provide the Scottish Amicable Board with advice on all matters envisaged by the Scheme.

He has confirmed that in his opinion the Scottish Amicable Funds have been managed throughout 2020 and up to the date of merger in 2021 in accordance with the Scheme.

Upon merger with the PAC WPSF, the role of Monitoring Actuary and the Scottish Amicable Board ceased to exist. PAC's With-Profits Committee and With-Profits Actuary will advise the PAC Board on the application of discretion and the fair treatment of Scottish Amicable with-profits policyholders. I am in no doubt that your interests will continue to be well looked after in a careful and fair manner.

The Scheme which transferred the business of Scottish Amicable Life Assurance Society to PAC contains specific provisions for the merger of the SAIF with the PAC's WPSF once the value of SAIF falls below a specified level, or earlier if approved by the Scottish Amicable and PAC Boards.

SAIF policyholders were sent a letter in late 2020 confirming the intention to carry out an early merger of the SAIF with the WPSF on 1 April 2021. The decision to merge the funds early considered the interests of both the SAIF and other PAC policyholders, and was approved by the PAC and Scottish Amicable Boards in February 2021. Our regulators, the Prudential Regulation Authority and the Financial Conduct Authority have been involved throughout the merger process. The merger took effect on 1 April 2021.

Full details of the merger can be found at pru.co.uk, and in PAC's Principles and Practices of Financial Management (PPFM), which are available to view at pru.co.uk/ppfm.

However, the key point to note is that the level of enhancement added to all eligible SAIF with-profits policies with-effect from 1 April 2021 is 13.3% and represents the amount which when applied to the expected claims on the remaining with-profits policyholders will equitably distribute the excess assets remaining in the fund at the point of merger. Other aspects of the management of your policies have also been simplified (such as how the costs of certain guarantees are allowed for and how the balance of the Bonus Smoothing Account is distributed). Further details can be found in the FAQs at pru.co.uk/saifmerger.

The enhancement of 13.3%, which will apply until the next bonus declaration, is a provisional amount based on the financial position at 31 December 2020. The final enhancement will be determined based on the final position at 1 April 2021 (the effective date of the merger). Once confirmed this rate cannot be changed. The final enhancement that will apply for all future bonus declarations will be published at pru.co.uk/saifmerger by 31 July 2021.

In the remainder of this letter I have provided an update on the key matters that have arisen over the last year relevant to Scottish Amicable with-profits policyholders.

COVID-19

These are unprecedented times and we appreciate it has been an unsettling time for policyholders. We have had two clear priorities during this international emergency: protecting the well-being and safety of colleagues, and serving the needs of policyholders.

Our existing infrastructure allowed a relatively seamless transition to adhere to Government guidelines on working, with the vast majority of employees successfully, and efficiently, working from home from 2020. This operational resilience allows us to safeguard employees while continuing to serve policyholders as best as possible.

Thank you for your continued trust in us during this extraordinary period.

Scottish Amicable Capital Fund

SAIF continued to benefit from the financial support provided by SACF throughout 2020 and up until the merger date of 1 April 2021. Although SACF was part of the PAC With-Profits Fund, it was available to support the financial strength of your fund and provided SAIF with a greater degree of investment flexibility than would otherwise have been the case.

In return for the support provided by SACF, SAIF was required, under the terms of the Scheme, to pay PAC a charge each year. This charge amounted to £5.8m in 2020 (reduced from £6.6m in 2019).

At the point of merger, I am pleased to say that both the Scottish Amicable Funds and PAC's With Profits Fund were in a strong financial condition.

Following the merger with the WPSF, former SAIF policies are directly supported by the financial strength of the WPSF and the requirement for SACF no longer applies.

Investment policy

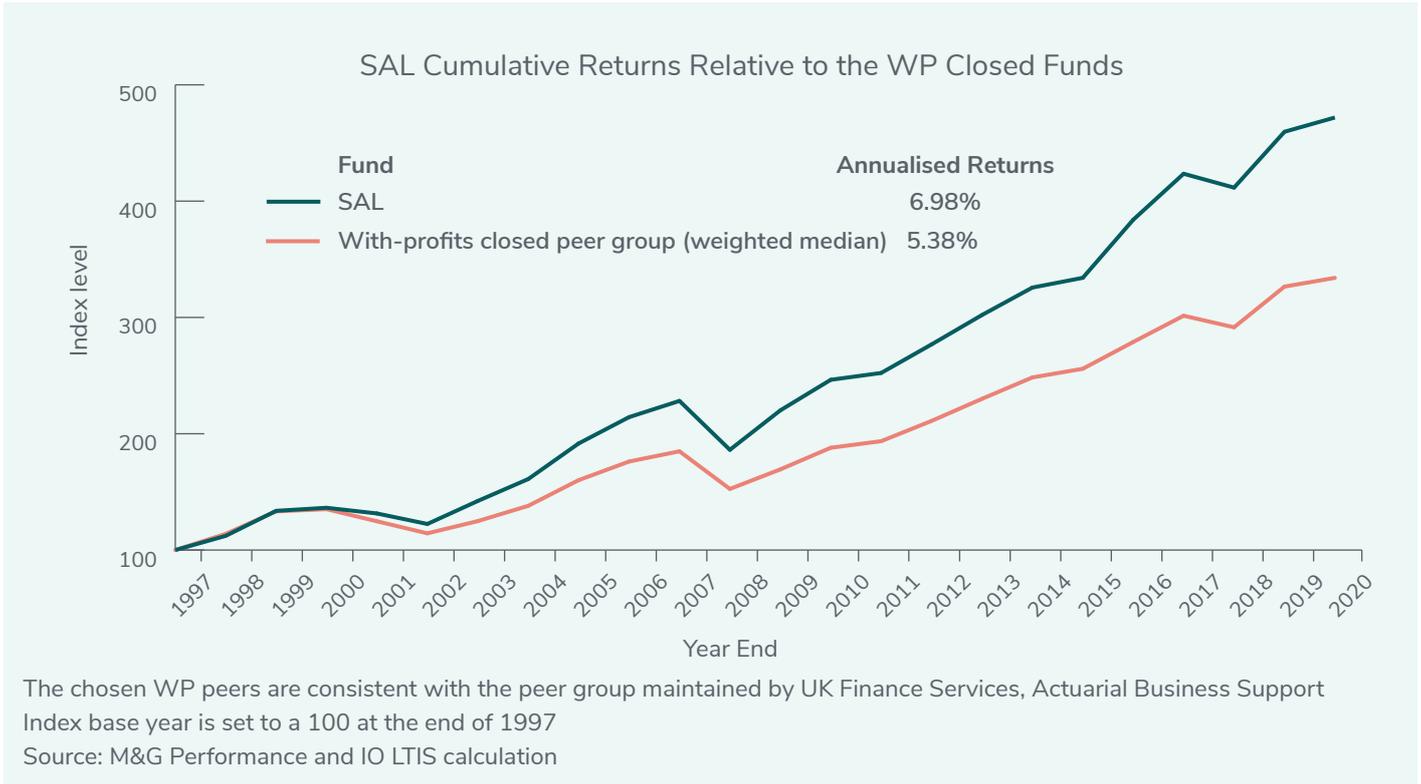
The aim of SAIF was to maximise investment return subject to an appropriate level of risk. This was achieved by investing in a broad and well diversified portfolio of assets.

2020 was a volatile year for most asset classes, with negative returns in the first half of the year as investment markets reacted to the implications of the COVID-19 pandemic. However, markets recovered somewhat in the second half of the year and I am pleased to report that SAIF delivered an investment return over 2020 of 2.0% before tax.

In view of improving market conditions and having regard to the strong financial position of the fund, the proportion of the fund invested in equity assets was increased towards the end of 2020 (with a corresponding reduction in fixed income assets). At the end of 2020 65% of SAIF's with-profits assets were invested in real assets such as equities and property.

The Scottish Amicable Board believes that the investment strategy remained appropriate and allowed the fund to achieve a good level of investment return for SAIF policyholders over the longer term. Moreover, the fund's performance against its fellow closed With-Profits fund peers⁽¹⁾ has been excellent, outperforming by over 1.6% per annum since the end of 1997 (see chart⁽²⁾ below). This is an achievement which the Scottish Amicable Board is extremely proud of.

Following the merger, SAIF policyholders will benefit from the same investment return as policyholders in the main asset share fund in the WPSF.



Notes:

⁽¹⁾ The peers comprise of closed With-Profits funds: Scottish Widows, L&G, Clerical Medical, Aviva (2 closed funds), Equitable Life, Scottish Mutual, Scottish Provident, Scottish Life and Zurich

⁽²⁾ The chart compares the long-term performance of SAL against a weighted median of With-Profits closed peer group (all returns are gross of any fees, charges, smoothing or taxes). This represents the underlying performance of the fund and not the return you would have received. As at 31/12/2020. Source: Peer websites and Internal fund performance data

Bonuses

As well as overseeing the investment policy of your funds, the Scottish Amicable Board’s role was also to set a fair bonus policy. Its objective was to balance a desire to offer attractive regular bonuses with the need to control the increased value of guarantees provided by your fund when regular bonuses are added.

In 2021, regular bonus rates have been maintained at their existing levels⁽¹⁾. At the same time the Scottish Amicable Board has set final bonus rates at levels that allow for the investment return earned over 2020, ensuring that claim values paid to policyholders claiming during the forthcoming year remain fair to continuing policyholders. However, final bonus rates are not guaranteed and can be varied at any time without prior notice. To ensure that bonuses remain fair, current rates are regularly reviewed, and in line with the PPFM, changes to bonuses may be possible.

In 2020, the total value of bonuses allocated to SAIF With-Profits policies was £220m.

Notes:

⁽¹⁾ Future regular bonus rates are not guaranteed.

Service standards

In the first quarter of 2020 the priority was stabilisation of the service following the migration of our Payment Administration System to a new platform. This was one of the largest migrations that Prudential has undertaken and the focus was to ensure customer service levels returned to satisfactory positions. Service levels have been significantly impacted in 2020 as a result of COVID-19 with a significant proportion of our people working from home during this time. Contingency plans are in place to recover service levels and improve the experience for our customers.

I would like to thank customers for their patience during these unprecedented times.

Charges to the fund

The expenses charged to SAIF in 2020 reflected the actual cost of administering the fund over that period subject to a cap that they are not greater than the expenses charged to the corresponding Prudential with-profits policies. The Scottish Amicable Board regularly reviewed the basis for the allocation of these costs relative to costs allocated to other Prudential funds to ensure these charges were consistent with the limits in the Scheme.

Certain other expenses associated with the business of SAIF may also be charged to the fund. The Scottish Amicable Board has kept these additional costs under review and is satisfied with the amounts charged. Following the merger, the same protection as to the amount and type of expense charged to Scottish Amicable policies (where relevant) will continue to apply.

Guaranteed Annuity Rates

Some Scottish Amicable pension policies have guaranteed annuity rates the value of which, in current market conditions, is significantly in excess of the cash value of the underlying policy. The cost of providing this guarantee is met from assets within SAIF. When a policyholder exercises the option to take the guaranteed annuity (rather than the cash amount of the policy) then, since November 2019, the annuity has been provided by Legal and General (rather than Prudential). The reason for this is that in recent years, Prudential has largely stopped providing new annuity policies and Legal and General have been able to provide the guaranteed annuity at a lower cost, therefore increasing the amount of assets that can be distributed to Scottish Amicable with-profits policyholders.

Home purchaser reviews

If you are a Home Purchaser policyholder, you will have received information to allow you to monitor the progress of your policy. If the review has highlighted that a shortfall is likely to arise on your policy, you should consider what action you need to take to ensure that you have sufficient funds to repay your loan.

pru.co.uk

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Annual report and accounts

Full financial statements are prepared for the Scottish Amicable Insurance Fund (up until 31 December 2020) and are audited by KPMG.

A copy of these statements is available upon request from:

The Secretary,
The Prudential Assurance Company Limited,
10 Fenchurch Avenue,
London,
EC3M 5AG.

Members of the Scottish Amicable board

During 2020 and up until the date of merger in 2021 there were no changes to the Scottish Amicable Board membership.

The Scottish Amicable Board comprised of Paul Dollman, Brian Medhurst, Stewart Gracie, Michael Walker and Bernard Solomons (Chairman).

This is my final update to you as former Chairman. On behalf of my Board, it has been a privilege looking after your interests over the years.

I would like to take this opportunity to thank all the staff at Prudential for all the help and support that they have provided to the Board over the years. It is their hard work and commitment in looking after customers that really makes the difference. I would also like to thank our Monitoring Actuary, John McKenzie, and my fellow Board members for all their efforts over the years and for continually acting in the best interests of policyholders.

Finally, and most importantly, thank you for placing your trust in us and for continuing to invest with Prudential.

Yours faithfully,



Bernard Solomons
Former Chairman, Scottish Amicable Board