



Inherited Estates



**NORWICH
UNION**
an AVIVA company

Introduction

Norwich Union Life (Norwich Union) is working to reorganise its CGNU Life and Commercial Union Life Assurance Company (CULAC) with profits funds. These funds will be transferred into one existing Norwich Union company, Norwich Union Life & Pensions Limited (NULAP).

As part of this process, Norwich Union will reorganise or 'reattribute' a part of the inherited estate that has built up in these CGNU Life and CULAC with-profits funds.

This money, known as the inherited estate, is above the expected amount needed to meet policyholder and other commitments. It is not surplus to requirements however, as it is needed to support fund security and investment flexibility.

If the reattribution goes ahead, eligible policyholders will be offered the opportunity to take a one off payment in return for giving up any interest they may have in a future distribution from the inherited estate, should one be made. This will be paid by shareholders and will not come from the inherited estate. In return the shareholders will be allocated a proportion of the inherited estate, but this proportion cannot be paid out to shareholders until it is no longer required to provide support for policyholder security and benefits in the way it currently does.

Norwich Union is committed to helping everyone better understand financial services, and this is one of a series of Uncovered reports intended to cut through the jargon and demystify the issues and products surrounding financial services.

With this Uncovered, Norwich Union seeks to outline the process of reattribution, explain the roles of the key people involved, and 'translate' the terminology used.

Inherited estates explained

What is a with-profits fund?

With-profits policies are long-term investment products provided by insurance companies. Policyholders pay premiums which are then put together in a pooled fund. This fund is then invested in a number of different ways, with the aim of providing regular bonuses for policyholders when investments perform well. With-profits funds are a method of investing in equity and other markets that aims to protect investments from the highs and lows normally associated with direct investment in equities.

What is an inherited estate?

An inherited estate is money that has built up in a with-profits fund over many generations, which is over and above the amount that is expected to be needed to meet current and future policyholder commitments and other obligations of the with-profits fund.

Myth busting!

The inherited estate is money that past policyholders have not claimed

No. These are referred to as orphan assets. Orphan assets are not included in the inherited estate, because they remain part of our obligation to policyholders and are accounted for as such.

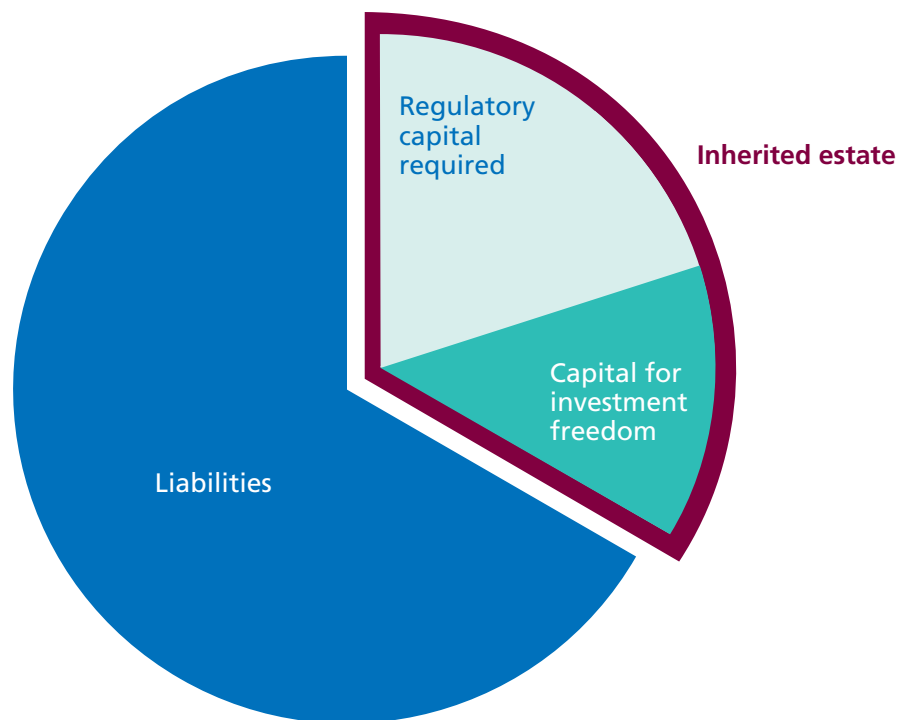
AT A GLANCE:

What is an inherited estate used for?

- To provide investment flexibility. This means a proportion of the funds can be invested in potentially higher rewarding but higher risk investments
- To provide a cushion of additional security for the policyholder. The inherited estate is retained to provide security for policyholders against unexpected adverse conditions, such as substantial falls in stock market values
- To provide the finance that is needed to support the continued writing of new business in the fund
- To allow flexibility in the smoothing of maturity and surrender payouts for with-profits policies



What makes up a with-profits fund?



What is a reattribution?

A reattribution is the reorganisation of the inherited estate which aims to use the money more efficiently while still making sure the funds remain financially secure. Any reattribution has to be agreed between the company and eligible policyholders invested in the relevant funds.

In a reattribution, eligible policyholders can choose to receive an incentive payment in return for giving up their interest in any possible future payouts from the inherited estate. This payment is made from shareholders' funds and does not come from the inherited estate or with-profits funds. The inherited estate remains in the business and continues to provide the same level of support.

The whole process has been clearly outlined and is closely regulated by the Financial Services Authority. Regulations laid down by the Financial Services Authority ensure that the interests of eligible policyholders are represented by a Policyholder Advocate, who is supported

by a team of independent advisers. A reattribution can only take place once a negotiation has taken place between the company and the Policyholder Advocate.

All eligible policyholders have the choice whether or not to take part in the reattribution. A reattribution is not governed by a majority vote; so if a policyholder chooses not to accept the offer made to them their position does not change materially. None of this activity affects the terms of policyholders' policies or their premiums. Bonus rates are not affected and policyholders' investments remain secure.

Following a reattribution the shareholders are entitled to 100% of any future distributions from the reattributed inherited estate (the proportion of the inherited estate which relates to policyholders who accept the offer).

Who's who in the reattribution process?

The Policyholder Advocate

A Policyholder Advocate (PA) is employed to represent the interests of eligible policyholders in relation to the reattribution. Following the experiences of AXA's reattribution of its inherited estate, the Financial Services Authority (FSA) introduced the role of the PA to ensure the interests of policyholders are properly represented during any reattribution of the inherited estate.

In November 2006, Norwich Union appointed Clare Spottiswoode – a former Director General of the gas regulator Ofgas, and non-executive director of a number of publicly quoted and privately owned companies – as PA. With the support of a team of specialist advisers, her role is to ensure eligible policyholders' interests are represented during the negotiations. The role of the PA is an independent position and Clare Spottiswoode's appointment has been approved by the FSA. She is assisted in her work by actuaries from KPMG, economic analysis from LECG and Dr Eileen Marshall, legal advice from Freshfields. General advice comes from Sir Alan Budd, former chief economic advisor to HM Treasury and Sir Bryan Carsberg, former Director General of Oftel. A number of academics from specialist business schools are also providing assistance.

The PA has consulted with Norwich Union policyholders and financial advisers across the UK and Ireland about their views on the reattribution plans through a series of public road shows and a questionnaire, publicised on her website, which was also designed to gauge policyholder opinion. She has been using this and ongoing policyholder feedback as a part of her negotiations.

The Independent Expert

To further protect policyholders' interests, Nick Dumbreck, a consulting actuary at Watson Wyatt Limited, has been appointed as Independent Expert. His appointment has also been approved by the FSA. He will examine in great detail the proposals put forward for the fund transfer and reattribution and will report to the High Court on how policy benefits and security will be safeguarded.

The FSA - review and regulations

The role of the FSA is to scrutinise Norwich Union's reattribution proposals, assess their fairness for policyholders, the long-term implications and support the negotiations between Norwich Union and the PA. The main areas where the FSA provides support include to:

- Oversee the reattribution process
- Approve the appointment of the PA
- Provide advice, support and views to both parties when it thinks this will assist the negotiations between the PA and Norwich Union

In addition to the role played by the UK Financial Services Authority, Norwich Union's proposals will be reviewed by the Jersey Financial Services Commission and the Guernsey Financial Services Commission.

Role of the High Court

Before the reattribution and reorganisation of funds can go ahead, approval will be needed from the High Court in London, the Royal Court of Jersey and the Royal Court of Guernsey and final confirmation by the Aviva and Norwich Union Boards (Norwich Union is a part of Aviva).

Ownership and interests

Who owns the inherited estate?

Legally, the inherited estate is owned by the with-profits company, in this case CGNU Life and CULAC. Policyholders have a contingent interest in possible future special distributions from the estate which would be paid in the proportions of 90% to policyholders and 10% to shareholders. They have no individual right to expect such distributions during the lifetime of their policy.

Policyholders' interests

The position of policyholders does not change materially if they choose not to take up any reattribution offer. While they remain invested in with-profits they will remain eligible for any future special distributions that might be made from the inherited estate, although these are uncertain.

Policyholders' protection

The FSA has established rules to ensure that policyholders are protected in a reattribution. The PA has been appointed to look after the specific interests of eligible policyholders in relation to the reattribution. Any reattribution proposals also have to be approved by the Courts.

Myth busting!

The inherited estate is money that belongs to policyholders

No. The inherited estate belongs to the with-profits company, not to policyholders.

An inherited estate is money that has built up in a with-profits fund over many generations and which is over and above the amount expected to be needed to meet current and future policyholder commitments and other obligations of the with-profits fund such as expenses. Current policyholders have not contributed to the inherited estate.

Reattributions and special distributions

AT A GLANCE:

Reattribution

- Under a reattribution, shareholders offer policyholders a payment in return for giving up any interests they may have to a possible future special distribution from an inherited estate
- Payment is made from shareholders' funds and not from the with-profits funds or the inherited estate
- This means the proportion of the inherited estate that is reattributed remains within the business and continues to underpin the with-profits fund until no longer needed
- There is no specified ratio for a reattribution
- Following a reattribution 100% of any distributions from the reattributed inherited estate are paid to shareholders

Special distribution

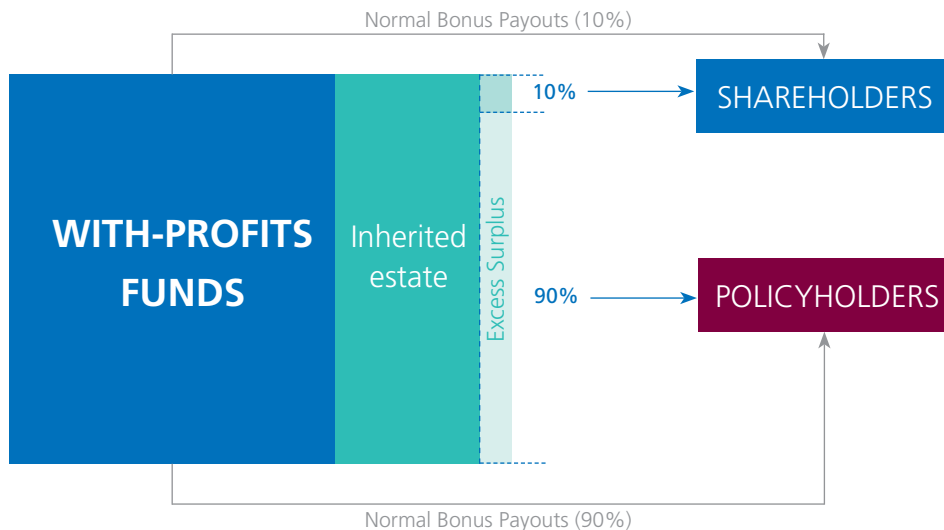
- In a special distribution, a bonus distribution is made from the inherited estate within the with-profits funds and not from shareholders' funds
- That part of the inherited estate which is distributed would no longer be available to support the solvency and investment freedom of the with-profits funds
- **90%** of any special distribution is paid to policyholders and **10%** to shareholders



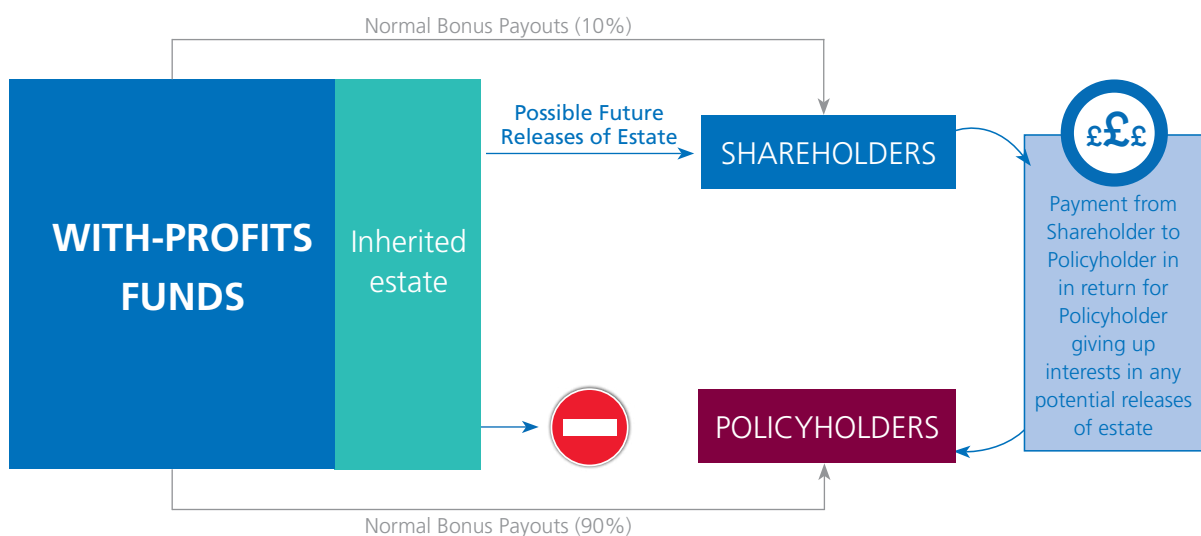
What are the real differences between the two?

- Reattribution and special distribution are two separate and distinct transactions though they are often confused. The 90:10 allocation ratio used in the case of special distributions does not apply to reattributions. Instead, the allocation ratio for a reattribution is negotiated between the company (on behalf of shareholders) and the Policyholder Advocate (on behalf of eligible policyholders)
- In a special distribution, a payment is made to the policyholder from the inherited estate normally in the form of a bonus added to the policy. As a result the money is no longer available to support the fund
- In a reattribution, a payment (usually cash) is made to policyholders from shareholders' funds and the inherited estate continues to be used to support the with-profits fund until it is no longer needed.
- A special distribution may occur when any genuinely excess surplus in the fund exists and relates only to this excess surplus. A reattribution looks at restructuring the whole of the inherited estate and is a negotiated deal

SPECIAL DISTRIBUTION



REATTRIBUTION



What action do policyholders need to take?

Reattribution

We expect to write to eligible policyholders by the end of the year with details of the reattribution process, at which point they will be asked to make a decision:

- **Yes they would like to receive the incentive payment**

- Policyholders will need to complete a voting form and return it by the deadline given
- If policyholders have more than one eligible policy they can choose whether or not to receive a payment for each of them
- In accepting the payment now, policyholders give up their interests in possible future special distributions from the inherited estate

- **No they would not like to receive the incentive payment**

- If policyholders decide not to accept the offer, their position remains substantially unchanged and their expectations should be unaffected

Summary

Which funds are affected by the proposed reattribution?

The funds that will be affected by the reattribution process are the with-profits funds of CGNU Life and Commercial Union Life Assurance Company (CULAC). Also included are with-profits policies issued by Norwich Union International Limited and Norwich Union Life (RBS) Limited that are reinsured to the CGNU Life and CULAC funds.

AT A GLANCE: Why Norwich Union is considering a reattribution

- It will allow Norwich Union to use this money more efficiently, while still using it to maintain the security of the with-profits funds
- It will provide a certain payment to policyholders now if it goes ahead instead of the uncertainty of future special distributions
- Many policies are maturing over the next few years and a reattribution gives policyholders an additional opportunity to benefit directly from the inherited estate



How much will policyholders be paid?

Later this year policyholders who are entitled to the payout are expected to receive a letter from Norwich Union telling them the value of their individual payout. Each payment will depend on the size of the policy and how long it has left to run

Myth busting!

Any reattribution payment should be on a 90:10 basis

No. The value of the reattributed estate may go up or down in the future and the shareholder cannot receive releases from the inherited estate for a minimum of six years. Shareholders will take on 100% of the risk involved rather than their current 10% level. The likelihood of future special distributions is also highly uncertain. For these reasons a 90:10 split is not an appropriate ratio.

What does this mean for policyholders?

AT A GLANCE: Policy eligibility for reattribution

- The total number of eligible with-profits policies is around 1 million
- A policy is eligible if it was an in-force policy in CGNU Life Assurance Limited (CGNU) or Commercial Union Life Assurance Company Limited (CULAC) with-profits funds on 21 November 2006, the day on which the Policyholder Advocate was appointed. Also included are with-profits policies issued by Norwich Union International Limited and Norwich Union Life (RBS) Limited that are reinsured to the CGNU and CULAC funds
- The policy must still be in force on the day any reattribution takes place
- Norwich Union wrote to eligible policy holders in December 2007 to confirm their eligibility



Myth busting!

A single defined 'fair value' can be placed on the reattribution

No. There is no single value that can be placed on a reattribution. The value, likelihood and timing of any possible future special distributions are uncertain and unknown. A wide range of assumptions has to be taken into account in defining a reattribution offer that is fair for both policyholders and shareholders. This is why negotiation is required.

Further detail on eligibility

Norwich Union and the Policyholder Advocate have also agreed the rules governing with-profits policies that change or are amended between the initial qualification date of 21 November 2006 and any future potential reattribution date.

In summary, these are:

- Policies that have matured or terminated according to their contractual terms (e.g. normal retirement date on a pension policy, the maturity date on an endowment policy, or death) will be treated as eligible policies
- Policies that end or are amended as a result of the policyholder choosing an early termination of the policy or a move out of the eligible with-profits funds will lose their eligibility (e.g. taking retirement proceeds before the normal retirement date or surrendering an endowment policy prior to the maturity date)
- With-profits bonds that are cashed in prior to the reattribution date will become ineligible
- If the policy value decreases (e.g. by partial surrender, partial switch out of the with-profits funds or part of the investment is withdrawn) then the policy will remain eligible but the incentive payment may decrease
- If the policy value increases due to additional payments being made in to the policy, the policy will remain eligible, but the incentive payment will not increase.
- A policyholder may have several eligible policies. The policyholder can choose to receive payments on any number of these.

Non-eligible policyholders

- Stakeholder and Provident Mutual policies invested in CGNU Life funds are not eligible for the reattribution.
- NULAP (Norwich Union Life & Pensions) policies are also not eligible

Benefits for policyholders and shareholders

Norwich Union is proposing a reattribution so it can unlock benefits for both policyholders and shareholders. The potential reattribution is beneficial because:

- It offers an incentive payment to eligible policyholders that would not normally be available
- The payment is made from shareholders' funds, not from the inherited estate. Therefore there is no impact on the important role the inherited estate plays
- Security for policyholders' investments is maintained
- It provides cost-effective access to capital for Norwich Union that will support continued business growth and the financial strength of the company. This benefits both policyholders and shareholders

Myth busting!

Policyholders are forced to accept the reattribution offer

No. If Norwich Union goes ahead, policyholders are entirely free to choose whether or not to accept the offer. It's also important to remember that the key terms of their policies and the security of their investments will be unaffected whatever they decide to do.

	Benefit	Implication
Policyholder	Immediate certainty of a cash payment	Forego their interests in any future distributions, which are uncertain and may not occur during the lifetime of a policy
Shareholder	Gains access to capital in the inherited estate, over the long term, to optimise capital use and support future business growth	Required to make an immediate, upfront cash payment to eligible policyholders from shareholders' funds

Policyholder choice

Individual decision (not majority vote)

Eligible policyholders will be completely free to choose whether or not to participate in the reattribution. If policyholders choose not to, they will remain eligible for any future special distributions from the unreattributed inherited estate, although these are uncertain.

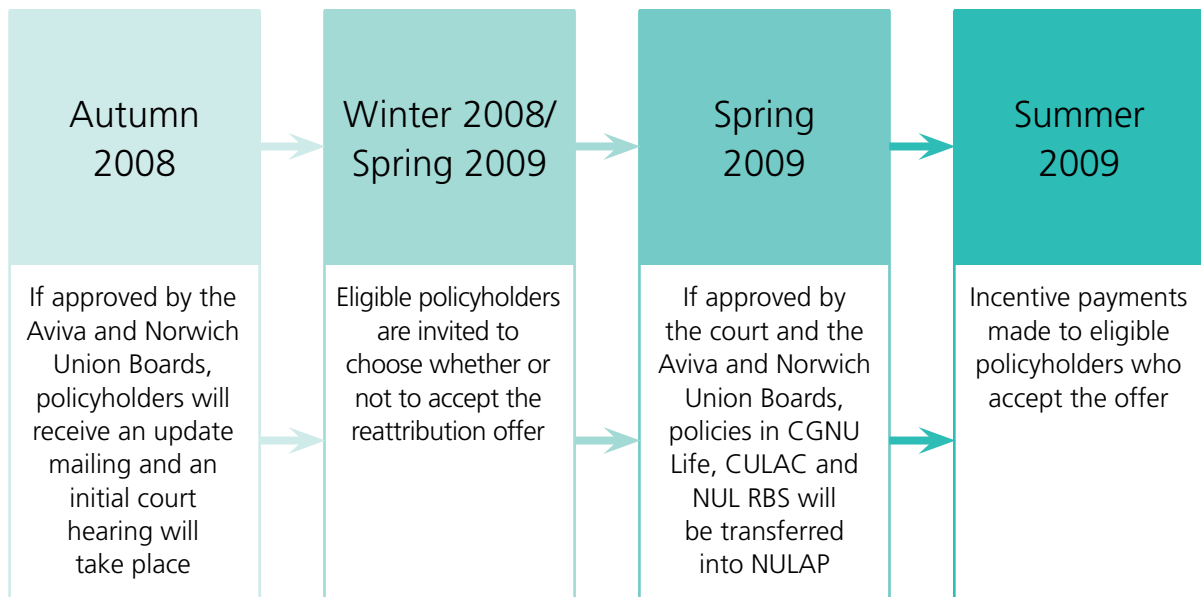
To ensure policyholders' rights are protected every step of the way Norwich Union is following a strict legal and regulatory process. This includes the appointment of the Policyholder Advocate to represent their interests and Court approval of the proposals.

Effect on existing policy benefits / any future rights

If the reattribution is agreed, all eligible policyholders will be offered the opportunity to take a one off payment made from shareholders' funds. In accepting the payment, policyholders choose to give up their interests in possible future special distributions from the inherited estate.

Indicative timeline

Outline timetable for potential reattribution





NORWICH UNION

an AVIVA company

For general information on anything related to inherited estates or the reattribution process you can:

- Visit the dedicated Norwich Union website: **www.norwichunion.com/fundtransfer** and subscribe to the email updates
- Customers can call the Norwich Union specialist helpline: **0800 051 1550**
- Write to: Norwich Union Life, Fund Transfer Support Team, P.O. Box 3312, Surrey Street, Norwich, NR1 3FE

To find out more about Clare Spottiswoode, the Policyholder Advocate, and her work, you can:

- Visit her website: **www.policyholderadvocate.org**
- Call her office on: **0800 0566 399**
Republic of Ireland **1800 635 059**
International calls **+44 (0) 208 945 0998**

For further information about the FSA, general enquiries about financial products and services, you can:

- Visit the FSA website: www.fsa.gov.uk
- Contact the consumer helpline: **0845 606 1234**
- From overseas: **+44 (0) 207 066 1000** (main switchboard)

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