

## Frequently Asked Questions

### Merger of the Scottish Amicable Insurance Fund (SAIF) with Prudential Assurance Company's With-Profits Sub Fund (WPSF)

#### 1. Why are you merging the SAIF into the WPSF?

The Scottish Amicable business was transferred to Prudential Assurance Company Ltd (PAC) in 1997. The Scheme under which this happened contains specific provisions for the merger of the SAIF into the WPSF once the value of the SAIF falls below a specified level, or earlier if agreed by the Scottish Amicable and PAC Boards.

Following a detailed review, and for the reasons set out in question 2 below, the Scottish Amicable Board has decided that it's in policyholders' best interests for the merger to happen even though the SAIF hasn't yet fallen below the value to trigger the merger. We're intending to merge the SAIF with Prudential's larger WPSF on 1 April 2021 and your policy will continue to be managed in the same way as it always has been. Policyholders' interests will be protected throughout the merger process by the Scottish Amicable Board and the SAIF Monitoring Actuary.

#### 2. Why is an early merger in my best interests?

As a result of being closed to new business, the SAIF is reducing in size, which increases the volatility to which it's exposed. The terms proposed will provide increased certainty to you in respect of the share of the surplus assets of the SAIF which you will receive as an enhancement to your payment on claim after the early merger. An early merger will reduce the risk of additional volatility that you're exposed to sooner than would be the case if a merger is only implemented when the merger trigger is reached.

In addition, while the funds have similar investment strategies, the SAIF has historically had a slightly more conservative strategy than the WPSF due to the different risk profiles of the funds. This has resulted in slightly lower long-term returns for SAIF relative to the WPSF. As a result of the merger, SAIF will adopt the same higher risk investment strategy as the WPSF which will be expected to result in slightly higher overall long-term returns. However, future investment performance cannot be guaranteed.

Following the merger, you'll also benefit from a more diversified investment strategy than the SAIF can provide. An early merger will give you access to the WPSF's investment strategy sooner than would be the case if a merger is only implemented when the merger trigger is reached.

However, implementing the early merger means that the WPSF takes on risks relating to the SAIF business earlier than would be the case if the SAIF is not merged with the WPSF until the trigger is reached. The WPSF will be appropriately compensated for the early acceptance of those risks which will result in a reduction to the overall surplus assets available for distribution to SAIF policyholders. The compensation to the WPSF has been included in an assessment carried out by an independent actuary who has confirmed that the nature of the compensation is fair and reasonable.

### **3. What steps have been taken to confirm that the merger should take place?**

Before the merger could go ahead, certain changes to the wording in the Scheme were required. An actuary, independent of Prudential, has confirmed that the proposed changes will not adversely affect policyholders' reasonable expectations or reduce their protection.

The Scheme changes involved a process at the Scottish Court of Session. This was required because:

- (i) of changes in the management of Prudential's insurance business since the Scheme was implemented in 1997;
- (ii) Prudential needed to clarify certain terms of the Scheme; and
- (iii) Prudential needed to amend the Scheme in order that it can implement the early merger on terms that achieve an appropriate balance of interests between SAIF policyholders and existing WPSF policyholders.

Additional information on the changes to the Scheme wording approved by the Scottish Court of Session on 5 November 2020 is on our website [pru.co.uk/salascchanges](http://pru.co.uk/salascchanges)

Our regulators, the Prudential Regulation Authority and the Financial Conduct Authority have been involved throughout the merger process as part of their role which is to assess whether the changes treat customers fairly.

### **4. Will the merger have any impact on my current fund value or on my policy's terms and conditions?**

No, your policy's current value and the terms and conditions will not be affected. The impact on your future benefits is explained in the next question.

### **5. How does fixing the enhancement impact my benefits?**

The full value of the assets in the SAIF is currently being distributed to with-profits policyholders with an enhancement being applied on claim payments in order to distribute any excess assets in the fund.

Following the merger, this enhancement will be reassessed and fixed, based on market conditions at the time. Fixing the level of the enhancement provides a guaranteed uplift to your policy value on payment of your claim. An early merger increases the certainty in respect of the share of the surplus assets of the SAIF which you'll receive as an enhancement to your policy value on payment of your claim.

Any surplus that is expected to emerge after the point of merger will also be allowed for within the enhancement. In particular, any expected future charges or allocations to policy values in respect of the Bonus Smoothing Account and Guaranteed Annuity Rates will be included when assessing the level of surplus assets to distribute through the enhancement.

### **6. Will I receive a windfall payment at the point of merger?**

No, your policy's current value will remain unchanged and no windfall payment will be made. Instead, the fixed level enhancement will be applied to your policy value as an increase to the value you receive at the point of claim.

### **7. Who is responsible for looking after my policy's investment after the merger?**

Prudential has looked after and administered your SAIF policy since the Scottish Amicable business was transferred to it in 1997, and will continue to do so. This does not change following the merger of the funds, and the performance of the WPSF will continue to be overseen by Prudential's With-Profits Committee and the With-Profits Actuary.

### **8. Am I able to cash-in my policy if I want?**

Yes, the merger of the SAIF and the WPSF does not impact your ability to cash-in your policy early but you need to fully understand the implications and risks of cashing-in your policy before doing so because, in-line with current practice, there may be financial penalties or loss of any guarantees.

You may want to seek independent financial advice before making any decision. If you do not have a financial adviser you can go to [unbiased.co.uk](http://unbiased.co.uk) to find one in your area.

**9. How has the WPSF performed in comparison to the SAIF and how will future bonus rates be impacted?**

While past performance is no guarantee to future performance, the SAIF has been invested in a similar manner to the WPSF over the last 23 years. In recent years, due to the slightly more conservative investment strategy, returns for the SAIF have been slightly lower than the returns of the WPSF. Bonus rates are dependent on investment returns amongst other things. SAIF policies will continue to have their own bonus rates which will be determined based on the investment returns earned in the WPSF.

**10. If I'm invested in the WPSF from 1 April 2021, does that mean in future I'll be eligible for any excess surplus payment from the WPSF?**

No, only with-profits policies which were originally in the WPSF are eligible for any excess surplus payments. As SAIF policies were not originally in the WPSF, they're not eligible. Please refer to question 5 regarding the distribution of assets in the SAIF.

**11. Will the administration costs of the SAIF merger be charged to SAIF policyholders?**

No, SAIF policyholders won't be charged for the administration cost of merging the funds.

**12. If I also have a non-profits or unit-linked policy, will that be affected?**

There are no impacts to the benefits of non-profits or unit-linked policies. The only impact will be that these policies will move from the SAIF to the WPSF which provides additional security for SAIF policyholders.

**13. Has the Covid-19 pandemic affected this decision?**

The early merger of SAIF with the WPSF has been under consideration for a number of years, and is not a response to the Covid-19 pandemic. However, the Covid-19 pandemic has had a significant impact on financial markets which increases the challenges of managing a fund as it reduces in size as described in question 2 above. This is one of the factors that has been taken into account by the Scottish Amicable Board, the PAC Board and the actuaries advising on the policyholder benefits of the merger. The effects of Covid-19 on the financial markets will be one of the factors which will be kept under ongoing review until the final decision is taken closer to the planned merger date.

**14. What changes are being made to the Principles and Practices of Financial Management (PPFM) and how will this impact me?**

The following changes to the **principles** will be made:

**Section 1.2.7** - The clause referring to approvals by the Scottish Amicable Board will be deleted as it will not exist after the funds have merged. Given the improvements in governance since the Scheme was written in 1997, including the introduction of the With-Profits Actuary and With-Profits Committee, oversight by the PAC Board is not considered to represent any significant change in policyholder protections.

**Section 2.2.6** - The reference to assets in SAIF will be removed as the assets will be held in the WPSF. As noted in question 2, this change is considered to be in the interests of SAIF policyholders.

**Section 5.2.3** - This principle will be deleted as the Scottish Amicable Board and SAIF funds will not exist. This principle highlights that policies in the SAIF have been managed in a similar way to those in the WPSF so its deletion has no significant impact on policyholders.

Changes will also be required to the PPFM **practices** to align with the WPSF practices. We believe the changes in practices will be in the best interests of SAIF with-profits policyholders as set out in question 2 above. The current PPFM can be found on [pru.co.uk/funds/ppfm](https://pru.co.uk/funds/ppfm)