

The note summarises a presentation by David Gulland, Chair of the With-Profits Committee (WPC), and Callum Stuart, With-Profits Actuary, on the effect of the proposed Meridian transaction on with-profits policyholders.

Governance and responsibilities

- The WPC independently assesses whether with-profits policyholders are being treated fairly and advises the Board.
- David Gulland is independent of management and can escalate concerns to the regulator if the Board disregards the committee's advice.
- Callum Stuart performs a similar role but becomes involved earlier, ensuring that policyholder interests are considered as proposals are developed.

Summary of how with-profits currently works

- Policy values are primarily based on an asset share: accumulated premiums and investment returns, less expenses and the cost of risks and benefits.
- Since 2014, an additional ProfitShare (Previously called a special bonus) has been used to distribute surplus generated by the Society to with-profits policyholders.
- ProfitShare depends on the Society's overall performance and is distributed at a level considered to be supportable over the long term.
- Policyholder reasonable expectations are assessed using past communications, policy documents, the Society's legal framework and its Principles and Practices of Financial Management.
- With-Profits Policyholders (as a class) have no automatic entitlement to the Society's existing estate or surplus capital.
- In the event of closure, all Members could reasonably expect to share in the Estate of the Society in an equitable manner

Proposed Meridian arrangements

- A segregated sub-fund would be established containing current asset shares of all with-profits policies plus a £35 million merger allocation, against current asset shares of approximately £276 million.
- The allocation is intended to compensate policyholders for the loss of potential future ProfitShare.

- Asset shares would receive an immediate 5% increase.
- The remainder would be distributed over approximately 10–15 years, potentially adding a further 1%–1.5% each year above normal asset-share growth.
- An agreed expense rate card would restrict future charges to the sub-fund, providing greater certainty over costs.
- Existing members would remain members of the enlarged organisation.

Comparison with alternatives

- Actuarial modelling tested a broad range of assumptions for new business, investment returns, costs, transactions and operational performance.
- The proposed merger allocation was assessed as falling within the range of plausible future outcomes for ProfitShare distributions if the Society continued independently.
- Closing to new business and running off the Society was considered significantly less attractive because of:
 - high closure and restructuring costs;
 - increasing per-policy expenses as the business shrank;
 - the need to retain capital for longer; and
 - the risk of a tontine effect, where the final small group of policyholders receive an unfair windfall.
- Other options—including remaining independent, selling parts of the business and continuing as a smaller organisation—were also considered.

Independent review and conclusion

- The independent actuary concluded that the merger allocation and the loss of future Profitshare would not adversely affect policyholders.
- The independent review found that none of the principal alternatives was expected to produce a materially better outcome.
- Both the WPC and the With-Profits Actuary concluded that the financial arrangements were supportable and justifiable when considered as part of the transaction as a whole.
- Their overall view was that the outcome for the current generation of with-profits policyholders was within a reasonable range of expectations, while offering improved protection and certainty for with-profits policyholders.

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