



Transaction Services - The sale of £8billion of liabilities

Company Overview

During the 1980s and 1990s Equitable Life Society was recognised as been a market leading personal pension provider with a record of operating with one of the lowest expense ratios in the industry. However, during 1999 and the first half of 2000 a legal test case was fought to clarify the Society's approach to the Guaranteed Annuity Rates (GAR) offered by some with-profits pension policies sold up to the late 1980s.

In July 2000 the House of Lords ruled that the Society's approach was inappropriate. As a result the then Board decided that it was in the best interest of members to put the Society up for sale.

After much initial interest in the Society, each potential purchaser withdrew. Without the proceeds of a sale to restore the capital strength of the with-profits fund. The former Board decided on 8 December 2000 to stop selling new business.

The Challenges

A new Board was appointed and over the next few years they moved the Society towards a more stable and secure position significantly strengthening the Societys' reserves.

During this period they also began to consider the range of strategic options available to the society and how they could be evaluated and eventually implemented

The Solution

By early 2006 a competitive tendering process for elements of the Equitable Book of Business was underway and resulted in a number of detailed bids being received from counterparties.

At this time Equitable appointed LPI2 to provide support to the Strategy Programme in a number of key areas including:

Provision of due diligence expertise for the sale of £4.6 billion of its non profit annuities to Canada Life. The scope of the work within this transaction included:

- Liaising with the in-house and external legal teams to develop and agree the processes for Due Diligence
- Facing off to the counterparty during the Due Diligence process and ensuring their questions were answered in an accurate and timely manner
- Managing a number of in-house teams from various business functions to support the Q&A process and on-site interviews and inspections during the Due Diligence process
- Arranging and managing the counterparty on-site
- Developing the warranties with the in-house legal team and external advisors
- Supporting the final stages of negotiation

Following a successful completion of the Due diligence process

Project Management support during the development and execution of the transfer of £1.8bn of Equitable Life's with-profits annuity policies to Prudential.

LPI2 were retained to provide project management support a second transaction involving a large number of with profit annuities:

- Working with the in-house and advisory actuarial teams in designing the transaction structure and ensuring that the it was in the best interests of all policyholders
- Analysing the existing book of business for anomalies and addressing them in advance of any sale
- Management of the bid assessment and due diligence processes and support of the negotiations
- Implementation of the Actuarial and Financial aspects of the transaction
- Ensuring the independent expert had all the relevant information to produce a timely and informed analysis for the Part VII process

This work resulted in the successful completion of the transfer of the policies by the end of 2007.

What was the outcome?

At the beginning of 2008 Equitable Life had managed to remove over £8 billion of liabilities from its balance sheets and could start to consider its options for the remaining policyholders.