



# Scottish Widows & the Financial Services Compensation Scheme

## Introduction

Recent events in world markets have undoubtedly made some customers concerned about the security of their savings and investments.

The purpose of this briefing is to help you reassure your customers and potential customers about the security of Scottish Widows and its products.

References to the services provided by the Financial Services Compensation Scheme (FSCS), and in particular compensation payments and limits, are based on Scottish Widows' understanding of the information available to us, including the relevant provisions of the FSA Handbook.

## Financial Strength

Scottish Widows plc is well-capitalised and one of the strongest companies in the life and pensions industry. It is part of the Scottish Widows Group, which is itself wholly owned by the Lloyds Banking Group.

Independent ratings companies assess the financial strength of life companies through in-depth analysis. Financial strength ratings given to Scottish Widows plc by three of the most commonly used companies are:

- Moody's Aa3 (Excellent)
- Fitch AA- (Very Strong)
- Standard & Poor's A+ (Strong)

These ratings compare well with our peers. They are current at April 2009.

The capital underpinning our long term insurance business is subject to strict regulation. Our financial strength is there, first and foremost, to help us meet our obligations to our customers; it cannot be directed away from that purpose. Scottish Widows has consistently managed its financial strength to protect its customers' interests.

## Financial Services Compensation Scheme

The Financial Services Compensation Scheme (FSCS) is the UK's statutory fund of last resort for customers of authorised financial services firms, such as Scottish Widows.

This means that, in the very unlikely event of Scottish Widows being unable to meet its liabilities, the FSCS can pay compensation to our customers.

The amount and form of compensation available from the FSCS depends on the type of protected business.

The relevant limits for types of protected business provided by Scottish Widows are described in this document.

Where a customer has two or more claims relating to the same type of protected business with a single firm, the relevant FSCS compensation limit applies to the aggregate value of those claims, rather than to each claim separately.

Joint owners of a protected product can separately claim compensation from the FSCS, for their share of the product value.

## When can a customer make a claim to the FSCS ?

The FSCS is a fund of last resort.

It will pay compensation to eligible claimants when an authorised company is unable or likely to be unable to meet its liabilities. The firm will at this point generally be 'in default'.

The FSCS will only consider claims where the authorised firm is no longer trading or does not have sufficient assets to meet its liabilities. If these conditions are not met claimants will need to make a claim against the company itself or its administrators.

## What form of compensation does the FSCS provide?

The FSCS generally pays compensation to the claimant as a cash sum. In some circumstances, it may pay compensation to another party.

For long term insurance contracts, unless the policy proceeds are due to be paid, the FSCS will normally aim to secure 'continuity of cover' for the customer. This simply means that, rather than pay a cash sum, the FSCS will arrange to transfer the contract to another firm, or arrange a replacement contract.

## How are Scottish Widows pension products covered?

Our range of group and individual personal\* and stakeholder pensions and occupational pension products are long term insurance contracts. This includes our Retirement Account, income drawdown, Trustee Investment Bond and Executive Pension products.

Should Scottish Widows be unable to meet its liabilities, our customers would currently be covered by the FSCS for 100% of the first £2,000 of value lost, and 90% of the remainder.

The FSCS would normally aim to secure the protected value with another firm.

Please also see 'What about the investment risk of Scottish Widows funds?' and 'What if an external fund manager defaults?'

For further information on the Retirement Account, please refer to 'What about the Retirement Account?'

\* The non-insured part (the part administered by Capita on our behalf) of our Self Invested Personal Pension product is classed as 'investment business' for the purposes of the FSCS. Investment business is currently covered for 100% of the first £30,000 of value, and 90% of the next £20,000. This does not apply to our Retirement Account which is a fully insured product.

## How are Scottish Widows Single Premium Bonds & Endowments covered?

Our range of single premium bonds and endowment products, including our Flexible Options Bond and Regular Savings Plans, are long term insurance contracts.

Should Scottish Widows be unable to meet its liabilities, our customers would currently be covered by the FSCS for 100% of the first £2,000 of value lost, and 90% of the remainder.

The FSCS would normally aim to secure the protected value with another firm.

Please also see 'What about the investment risk of Scottish Widows funds?' and 'What if an external fund manager defaults?'

## How are Scottish Widows OEICs and ISAs covered?

Our Open Ended Investment Company (OEIC) products, including our Individual Savings Account (ISA) are covered by the FSCS as investment products.

This means that, should Scottish Widows be unable to meet its liabilities, customers would currently be covered by the FSCS for 100% of the first £30,000 of value lost, plus 90% of the next £20,000. This gives a maximum claim value of up to £48,000.

## What if I have more than one product with Scottish Widows?

As explained earlier, where a customer has two or more claims relating to the same type of protected business with a single firm, the relevant FSCS compensation limit applies to the aggregate value of those claims, rather than to each claim separately.

For example, a customer with a Scottish Widows Flexible Options Bond and Personal Pension plan could claim for the aggregate value of those products, rather than for each product separately, if Scottish Widows was to default.

For different types of protected business, for example long term insurance contracts and investment business, the respective compensation limits apply separately.

Scottish Widows Group is made up of a number of companies, including:

Name	Type(s) of protected business
Scottish Widows plc	Long term insurance contracts
Scottish Widows Unit Trust Managers	Investments
Scottish Widows Bank	Deposits
Scottish Widows Investment Partnership	Investments

Each company is separately covered by the FSCS for the type of protected business it provides.

## What about the investment risk of Scottish Widows funds?

The FSCS can pay compensation to our customers if Scottish Widows is unable, or likely to be unable, to meet its liabilities.

It cannot pay compensation in any other circumstances. Specifically, the FSCS does not cover investment losses.

For example, if a Scottish Widows fund has exposure to securities issued by a company that subsequently fails, a customer with units in that fund could not claim compensation because the value of their product was reduced as a result.

## What if an external fund manager defaults?

In addition to investment risk, where a Scottish Widows fund invests in an external fund, there is also the risk that the manager of that fund could default. In these circumstances, neither Scottish Widows nor our customers could claim compensation from the FSCS for any loss.

Most external fund links available under Scottish Widows products invest in collective investment schemes. For these schemes, the underlying investments must be held separately from the fund manager by an independent trustee or depositary. As such, in the event that a fund manager defaults, the underlying investments will remain intact.

Where an external fund link invests in a fund of another insurer, again the underlying investments are held separately from the fund manager, meaning they should remain intact if the fund manager defaults. Scottish Widows has also put in place market-standard security documentation to provide further protection in the event of a reinsurer's default.

## What about the Capital Protected Funds?

The Capital Protected Funds (CPFs) are sub-funds within Scottish Widows Investment Solutions Funds ICVC. This is a UK authorised OEIC, and as such the underlying investments must be held separately from the fund manager by an independent depositary.

For approximately the first three months (the 'Cash Investment Period'), each CPF has exposure to a range of cash type assets, both directly and indirectly via other collective investment schemes.

Should the manager of an underlying scheme default, neither Scottish Widows nor our customers could claim compensation from the FSCS for any loss. However, as the scheme's investments must be held separately from the fund manager, they should remain intact despite the fund manager's default.

Following the Cash Investment Period, each CPF enters into a series of derivative contracts backed by a counterparty, in most cases Lloyds TSB Bank plc.

During this period, the CPF is exposed to the remote risk that a counterparty defaults.

In the event that a counterparty did default, neither Scottish Widows nor our customers could claim compensation from the FSCS for any loss. However, to help protect against losses in such circumstances, cash or other secure investments (known as 'collateral') is deposited with an independent custodian.

The collateral is calculated as a percentage of the daily value of the derivatives. If a counterparty did default, the CPF would receive the supporting collateral.

## What about the Retirement Account?

The Scottish Widows Retirement Account can offer access to a wider range of investments.

## Fund Supermarket and Discretionary Fund Managers

For customers who invest in collective investment schemes via the fund supermarket, or with one or more of the discretionary fund managers, there is a risk that the fund manager(s) could default. In these circumstances, neither Scottish Widows nor our policyholders could claim compensation from the FSCS for any loss.

However, as explained previously, the investments of a collective investment scheme must be held separately from the fund manager by an independent trustee or depository, meaning that the underlying investments would remain intact despite the default of the fund manager.

For discretionary managed portfolios, the manager is required to segregate their clients' assets from their own. This is generally achieved by using the services of a separate custodian or nominee company. As a result, in the event of a default of a discretionary fund manager, the investments would remain intact.

## Commercial Property

Commercial property is not a designated investment, and so is not directly protected under the FSCS. However, if Scottish Widows were to default, policyholders could make a claim to the FSCS, as described previously.

## Control Account

The value of the Control Account can be linked to deposits with any number of UK authorised deposit-takers. Should a particular deposit-taker default, neither Scottish Widows nor our customers could claim compensation from the FSCS for any loss. However, we only place deposits with firms which we consider to be financially very strong.

At present, Control Account are linked to deposits held within the Lloyds Banking Group. Based on our own and independent assessments of Lloyds TSB's financial strength, we consider these deposits to be secure.

## Additional information

More information on the Financial Services Compensation Scheme can be obtained from their website: [www.fscs.org.uk](http://www.fscs.org.uk)

### Important

This information is based on Scottish Widows' understanding of current UK financial services law and regulation, including the rules of the Financial Services Compensation Scheme.



As part of the Lloyds Banking Group, Scottish Widows is proud to be an Official Provider of the London 2012 Olympic and Paralympic Games.

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Scottish Widows plc is authorised and regulated by the Financial Services Authority. Our FSA Register number is 191517.

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Scottish Widows Unit Trust Managers Limited is authorised and regulated by the Financial Services Authority. Our FSA Register number is 122129.

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