
Profile

PENSIONS | INVESTMENTS | TAXATION AND TRUSTS

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Legal & General International Policyholder Protection Overview

Legal & General International (Ireland) Ltd. is a wholly owned subsidiary of the Legal & General Group, one of the strongest insurance groups in Europe. UK investors in the International Portfolio Bond are afforded comprehensive protection as detailed below.

Financial Services Compensation Scheme (FSCS)

The FSCS is a scheme, created under the Financial Services and Markets Act 2000, intended to provide compensation for customers where a firm authorised by the Financial Services Authority (FSA) in the UK is no longer able to meet its obligations to customers.

Policyholder protection may be triggered if a firm is unable, or likely to be unable, to meet claims against it, for example if it has been placed in liquidation or administration.

There are a number of categories for protection including: -

1. Long term insurance (e.g. pension and life assurance) - is 90% of the claim with no upper limit.
2. Investments (e.g. stocks and shares ISA) – is 100% of the first £50,000 per person per firm.
3. Deposits (e.g. money held with a bank or building society) – is the higher of £50,000 or €50,000. In the event of default, the Euro amount will be calculated by reference to the currency exchange rate on the day of default.

The Legal & General International Portfolio Bond is categorised as a long term insurance arrangement and consequently falls within the protection regime outlined in point 1 above. Although Legal & General International is based in Ireland its UK policyholders are likely to be entitled to benefit from the UK FSCS scheme rules.

If Legal & General International (Ireland) Limited is unable to meet its obligation to individual policyholders, they may be entitled to compensation under the UK Financial Services Compensation Scheme (FSCS). This depends on the type of business and the circumstances of the claim. Currently, 90% of the value of the valid claim is covered by the scheme. Further information may be obtained from the FSCS on their website at www.fscs.org.uk.

Customers not resident in the UK when the policy is set up, will not, be entitled to compensation under the FSCS.

Segregation of Assets

Legal & General International is a European Union authorised life assurance company and, as such, it is required to segregate policyholder assets from those of shareholders. In this way the shareholder cannot use the policyholder's assets to support its financial position. The company's Appointed Actuary is charged with ensuring that policyholder's interests are taken into account as part of the company's business process. The Appointed Actuary reports to the Irish Financial Regulator in this regard on an annual basis although the Appointed Actuary is required to ensure that at all times the policyholder's interests are represented in the company's decision making process.

? Any questions?

If you have any questions or comments in relation to this article email lgiirequest@landg.com



Protection in respect of underlying assets within Legal & General International's Portfolio Bond

The protection afforded in respect of underlying assets is addressed under the headings of deposits, Internal Funds and External Funds.

Investment in deposit accounts

Deposit account holdings within the International Portfolio Bond are held with a variety of institutions, including the international subsidiaries of Irish banks, which are now subject to further protection, which is explained below.

In general, the rights of Legal & General International to recover losses in connection with any breaches by deposit account providers or the deposits they hold may not be as extensive as those of individuals investing directly in the relevant asset. This is because the protection for these assets is not usually extended to institutional investors.

This situation differs for a number of Irish Banks, as the Irish Government put in place a guarantee arrangement under the Deposit Guarantee Scheme (the "DGS") for the period 30 September 2008 to 29 September 2010 inclusive to safeguard all retail and corporate deposits up to €100,000. The following banks joined the DGS:

- (1) Allied Irish Bank, plc and its subsidiaries AIB Mortgage Bank, AIB Bank (CI) Ltd, AIB Group (UK) plc and Allied Irish Banks North America Inc;
- (2) Anglo Irish Bank Corporation Ltd and its subsidiary Anglo Irish Bank Corporation (international) plc;
- (3) The Governor and Company of the Bank of Ireland and its subsidiaries Bank of Ireland Mortgage Bank, ICS Building Society and Bank of Ireland (IOM) Ltd;
- (4) EBS Building Society;
- (5) Irish Life and Permanent plc and its subsidiary Irish Permanent (IOM) Ltd;
- (6) Irish Nationwide Building Society and its subsidiary Irish Nationwide (IOM) Ltd;
- (7) Postbank Ireland Limited.

The Irish Government introduced the Eligible Liabilities Guarantee Scheme 2009 (the "ELG"), which commenced on 9 December 2009 and guarantees retail deposits over the €100,000 limit of the DGS with all of the above institutions with the exception of AIB Mortgage Bank and Postbank Ireland Limited. The ELG is subject to ongoing reviews on a six monthly basis by the European Commission and has recently been extended beyond the end of June 2010 for a further issuance period of 6 months.

Investment in Legal & General International's internal funds

Individual policyholders, investing in Legal & General International's internal life funds would have a claim under the FSCS if Legal & General International were to be in default.

This protection does not extend to the underlying assets or deposits, should any of those fund managers or deposit account providers default, these are covered below. The internal funds are, however, pooled arrangements where investments and deposits are spread over a large number of assets and counterparties, significantly reducing any institutional risk.

Investment in external funds

Legal & General International's rights to recover losses in connection with any breaches by the external investment manager or the assets managed by them may not be as extensive as those of individuals investing directly in the relevant asset.

Policyholders would not themselves be able to claim under the FSCS against an external fund manager in default.

In practice, whether or not the investment is through a bond, the assets of the external fund are likely to be held separately from the external fund manager's own assets with an independent third party custodian and should not be threatened by the external fund manager's default.

Investments with Discretionary Asset Managers (DAM)

Should a DAM become unable to meet its liabilities, it is unlikely that Legal & General would be able to make a claim under the FSCS. In the event that assets were held with a DAM and LGII became unable to meet its liabilities, those policyholders who were UK resident at the time of taking out the policy are likely to have recourse to the FSCS as highlighted under the "Financial Services Compensation Scheme (FSCS)" section above.

Conclusion

Legal & General International is rated as 'very strong'* by AKG Actuaries & Consultants Ltd. This is the highest rating given by AKG to any offshore long term insurer; shared with only a few other UK financial services companies.

It is important to understand, however, that the performance of the assets in which a policyholder chooses to invest are not Legal & General International's responsibility. They do not have the right to claim compensation against Legal & General International in relation to the poor performance of any asset. Also, they do not have the right to claim compensation against Legal & General International in relation to the default of any external investment managers or deposit account providers.

*AKG report 2009

This is not a consumer advertisement. It is intended for professional financial advisers and should not be relied upon by private customers or any other persons.

This document is based on Legal & General International's current understanding of tax law, HMRC and Irish Revenue Commissioners' practice and legislation, which may change.

It should not be considered a definitive statement in law.

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Legal & General International (Ireland) Limited is authorised by the Financial Regulator in Ireland.

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