

Annexe 4

A note by Aviva on the PIP uplift assurance and the treatment of late lapses

Letter to the policyholder advocate from John Lister,

Finance Director of Aviva

2 September 2009



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Personal Addressee only

Ms C Spottiswoode CBE
Office of the Policyholder Advocate
Dixon House
Lloyds Avenue
London

2 September 2009
Dear Clare

Project Wagner

I write further to recent correspondence regarding assurance that the PIP formula given in Schedule 3 of the Scheme, when applied to Eligible Policies, generates an aggregate PIP of the amounts we agreed.

The governance processes described in the attached document have been reviewed by our internal audit team and deemed satisfactory. These processes were used to test the Election PIP figures. You will see that the document contains references to external auditing work that will be repeated by Ernst and Young, the Aviva internal auditing team, actuaries and members of the Wagner project team for the Payable PIP.

We can confirm that having reviewed the results of the work carried out for the Election PIP, we are satisfied that the formulae in Schedule 3 will generate the correct aggregate PIP amount.

In order to speed up payments to policyholders after the Effective Date, we agreed during the negotiations that it was appropriate to refresh the individual data on eligible policies (to remove policies that are no longer eligible as a result of voluntary discontinuance) at the end of the month preceding 'E-day minus 1 month' (for 1st October 2009 Effective Date this would mean August 2009) rather than the Effective Date.

I note that you have recently suggested that the variance threshold should be set at 1% of the aggregate PIP payable. I agree with this approach and therefore undertake that, if for any reason (including late lapses of eligible policies), the difference in the aggregate PIP payable as at the Effective Date is in excess of 1% of the aggregate PIP payable (assuming 100% election) we will agree with FSA an appropriate means by which to compensate electing policyholders for the shortfall.

Yours sincerely

John Lister
"Finance' Director

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Project Wagner

PIP Uplift Assurance and the Treatment of Late Lapses

The purpose of this note is to expand on the description of the PIP formula given in Schedule 3 of the Scheme and provide additional assurances regarding the calculations and the governance of the process.

In simplified terms and subject to a minimum PIP of £200, the individual PIP is calculated as: $\text{PIP Liability} \times \text{Weighting Factor} \times \text{PIP Rate}$

The PIP Rate¹ is set so that the sum of the individual PIPs equals the aggregate PIP.

1. Election PIP

The figures shown in the Election Mailing to policyholders represent the minimum amount that will be paid at E day to electing policyholders. Prior to their inclusion in the mailing materials the calculations were assessed and signed off using the following governance process:

a) Testing in theoretical mode using the Wagner Data Store

A series of iterations of automated PIP Calculation for the Election PIP were conducted on the Wagner Data Store (WADS) in 'theoretical mode'. For each iteration, a report was produced for the Aviva Actuarial team showing, for each eligible policy, the Election PIP and providing a summary reconciliation comparing the total value of the Election PIP to the aggregate minimum £500 million offer to eligible policyholders.

The reports provided information which;

- Allowed for the aggregate amount of the Election PIP to be independently validated by the Aviva Actuarial Team and the Wagner Data Team;
- Facilitated random testing at individual policy level;
- Formed the basis for comparison tests conducted to prove that the PIP amounts on the report match those on the Wagner Data Store;
- Allowed 'reasonability tests' to be performed to check that each eligible policy received the correct Election PIP.

Once the requisite checks were completed and signed off the automated calculation for the Election PIP was run in 'Real Mode'.

b) Modelling audit

In addition to the governance checks described above, the modelling and calculation process has been subject to both internal and external audit - by Aviva Group Audit and Aviva's external auditors.

2. Payable PIP

The calculation of the individual PIP payable amounts takes no account of the election voting results. It is based on the eligibility determined by the Wagner Data Store August 2009 data refresh.

¹ It should be noted that the PIP rate is consistent across all policies

In line with the process previously used to calculate the Election PIP a series of iterations of automated PIP Calculation for the PIP Uplift will be conducted on the Wagner Data Store (WDS) in 'theoretical mode'.

This will take the Election PIP for each eligible policy and uplift it by the percentage rate (determined by Aviva) to correspond with the average valuation of the inherited estate (the Reattribution Estate).

For each iteration, a report will be produced for the Aviva Actuarial team showing, for each eligible policy, the Election PIP, the Payable PIP and providing a summary reconciliation comparing the total value of the Payable PIP to the aggregate Reattribution Estate based on a 100% take-up assumption.

It should be noted that, the PIP Rate applied to the PIP calculation will not only take account of the Reattribution Estate value, but will also take account of the 'sharing' of the value of the individual PIPs for policies which lapsed before the August Data Refresh (and therefore lost eligibility for the reattribution offer).

Once the requisite checks are completed and signed off the automated calculation for the Payable PIP will be run in 'Real Mode'.

The same governance processes will be executed to validate the results including the 'Real Mode' End of Iteration report. Subject to completion of governance and audit processes, this 'Real Mode' PIP will represent the "PIP Uplift Reconciliation Baseline". Through versioning on the WDS, this baseline will be preserved.

a) Additional Controls

The PIP Uplift process governance model will follow the same process as that used for the Election PIP (as described above), it also includes the following additional controls:

- Data refresh signoff
- Payable PIP signoff

3 Data Refresh

As described above, the calculation of the PIP payable will be based on the eligibility determined by the Wagner Data Store August 2009 data refresh - this earlier date was agreed with the policyholder advocate during negotiations in order to speed up the payments process. A further refresh is due to take place in September to update the Wagner Data Store ready for the mailing of PIP payments.

Both data refreshes are subject to a robust sign-off process that has been utilised many times and includes data proving activities. It has been rigorously tested and also audited by Aviva Group Audit as well as Aviva's external auditors.

As part of the loading of Payment PIP Data Refresh at the end of September, the latest state of eligibility for each policyholder will be derived. The Data Refresh process will then undergo data proving checks prior to sign off.

Sign off of Payment PIP Data Refreshes will follow the usual audit-approved process consisting of a period of data proving checks conducted by the Data team and with the

refresh being signed off by business users from the Wagner Service Delivery and Actuarial teams.

4. Payable PIP

A comparison will be made of the PIP Uplift Reconciliation Baseline and the revised volumes of eligible policies and the resulting Payable PIP (including the Uplift) compared. These results will be recorded on the Reconciliation Baseline report.

Prior to commencement of the PIP Payments, the volumes; values and any differences will be reviewed and signed off by representatives from the Actuarial, Finance, Wagner Delivery and the IT & Data Programme.

Following the above signoffs, the project will proceed to commencement of the Payment event.

5. Treatment of Late Lapses

As can be seen from the description of the data refreshes in section 3 above, there is a potential for any voluntary lapses of eligible policies during September 2009 to benefit shareholders. This is because a number of policies could become ineligible during the period leading to a lower aggregate PIP payable than originally set aside.

Aviva agrees with the policyholder advocate that a threshold of 1% of the aggregate PIP Payable (assuming 100% election) should be adopted for such late lapses. On that basis, the working assumption is that if as a result of late lapses the difference in the aggregate PIP payable between the August and September 2009 data refresh is less than 1% of the aggregate PIP Payable then no action is required. If however, this difference is in excess of 1% of the aggregate PIP Payable action is required to provide additional benefit to electing policyholders - the format and timing of such redress to be agreed with the FSA should the situation occur.

a) Lapse Trends

Analysis of the volume of non-contractual terminations has shown us that the majority of the terminations related to unit linked bonds and, to a lesser extent, endowment products. This is generally consistent with expectations.

Movements in PIP value for the last 3 refreshes show circa 5,000 policies have 'lost' eligibility.

On the basis of the historical trend of non-contractual terminations, a PIP reduction of 3000-4000 policies could be expected with a corresponding reduction in the aggregate PIP payable of £3-5m. The redress to electing policyholders is therefore not expected to be necessary.

6. Governance Results

The results of the various governance checks undertaken for the Payable PIP (including interim progress updates) will be shared with:

- Aviva Boards;
- With-profits Committee;
- Life Executive team;
- Financial Services Authority.

Appendix A

Sample Report for the PIP Uplift Reconciliation baseline:

Iteration:	Sept 2009 Iteration 1	PIP Calc Run Date:	2nd Sept 2009	Data Refresh Version:	25
Rounding	Up to the nearest pound (or EUR/USD)				
TARGET		Total PIP Value from WDS (GBP):		495,931,668	
		Total PIP Value from Data Variances (GBP):		4,0668,332	
		Total PIP Value (GBP):		500,000,000	
ACTUALS		Reconciliation Baseline	At E Day	Difference	
Volume of Policies – WDS		968,044			
ACTUALS		PIP Amount Reconciliation Baseline	PIP Amount At E Day		
Total Policy Level PIP Calculated (Including rounding) £1 = \$1.37 £1 = \$1.07	GBP	480,067,035			
	USD	6,262,683			
	EUR	12,342,565			
	TOTAL (ignoring currency)	498,672,283			
PIP Mln £200.00 €214.00 \$274.00	TOTAL (GBP)	496,173,444.00			
Total Estimated PIP Value from Data Variances (GBP):		3,826,556.00			
Total PIP Value (GBP):		500,000,000.00			
Issue/Notes					
SIGNOFF:					
PIP Rates and Minima verified:			YES/NO	Checked by:	
PIP Rates detailed in MIAH803A report are as requested? PIP Minima (including currency conversion) detailed in MIAH803B report are as requested?					
Data Variances verified:					
Signed (Actuaries):		Signed (Wagner Data Team):			