LONDON & COLONIAL ASSURANCE PCC PLC

FLEXIBLE ANNUITIES

DUE DILIGENCE AND INFORMATION PACK FOR USE BY PROFESSIONAL ADVISERS AND INTERMEDIARIES ONLY

LONDON & COLONIAL
INNOVATION IN PENSIONS

PART OF

STM GROUP PLC

WHO WE ARE

LONDON & COLONIAL ASSURANCE PCC PLC ('LCA') IS A GIBRALTAR BASED LIFE INSURANCE COMPANY OPERATING OUT OF GIBRALTAR'S HIGHLY REGULATED AND LONG ESTABLISHED FINANCIAL CENTRE. LCA WAS ESTABLISHED IN 2001 AS A PUBLIC LIMITED COMPANY AND A LIFE INSURANCE PROVIDER.

LCA is licensed to write Class I – Life and annuity and Class III – Linked long-term assurance business and was primarily established to provide an alternative to conventional annuities for high-net-worth individuals wishing to use their pension funds to purchase an annuity that provides greater flexibility for income and investment choice.

LCA is part of STM Group Plc, a multi-jurisdictional financial services group listed on AIM, a market operated by the London Stock Exchange. Established in 1989, the Group specialises in the administration of client assets in relation to retirement, estate and succession planning and wealth structuring. Today, STM Group Plc has operations in the UK, Gibraltar, Malta, Jersey and Spain.

In their country risk analysis published in August 2018, AM Best categorised Gibraltar's economic, political and financial risk as a CRT-1 country with a very low level of risks in all categories.

Specifically, a CRT-1 country is defined as having a *"predictable and transparent legal environment, legal system and business infrastructure; sophisticated financial system regulation with deep capital markets"* and a *"mature industry framework"*.

LCA *(As of end of 2018)*

RETAINS OVER

1,088

ANNUITANTS

HAS IN EXCESS OF

£266m

FUNDS UNDER ADMINISTRATION

HAS PAID OUT TO DATE

563

ANNUITIES

STM GROUP PLC *(As of end of 2018)*

ADMINISTERS IN EXCESS OF

15,500

RETIREMENT PLANS

+

2,800

LIFE ASSURANCE POLICIES

HAS APPROX.

£8.6 billion

ASSETS UNDER ADMINISTRATION ACROSS PENSIONS, LIFE, AND TRUST & COMPANY BUSINESS UNITS

PROTECTED CELL COMPANY (PCC) LEGISLATION

Both annuity products currently marketed by LCA utilise the Protected Cell Companies (PCC) structure as it affords a high level of policyholder protection. A PCC structure is subject to the provisions of specific Gibraltar PCC Law which was implemented in 2001 (Protected Cell Companies Act 2001).

In a PCC, legally recognised 'cells' are created within the company in order to segregate and protect each policyholder's assets from other policyholders and the company itself. This means that each individual policy is linked to a 'cell' and the assets backing the policy are owned by the 'cell' and hence completely legally ring-fenced from all other policyholders' and shareholders' assets.
Put very simply, a PCC is a form of company comprised of individual parts, known as 'cells'.

WHAT THIS MEANS FOR LCA'S POLICYHOLDERS

For each client that purchases an LCA annuity, a unique cell is opened within LCA.

Each cell has its own designation (the policy number) and is completely independent of all other cells and of the company's core. It is the Directors' duty to keep and account for the assets and liabilities of each cell separately. The PCC legislation prohibits the assets of a cell to be used to satisfy any liability not attributable to that cell.

In the unlikely event that anything should happen to LCA, your client's policy (and the assets within the policy) would remain secure from and untouched by any potential creditor. In other words, each cell is ring-fenced from all other cells, providing 100% policyholder protection.

Please note: *100% policyholder protection does not apply to the ongoing valuation of the investment as the value of investments can fall as well as rise. All the assets that LCA purchases within each policy are legally and beneficially owned by LCA. The policyholder has purchased the rights to the value of these assets but the policyholder does not own the assets. LCA does not make investment decisions. LCA will only purchase or sell assets within any policy if LCA receives a written request from the appointed investment adviser associated to the specific policy.*

FINANCIAL SERVICES COMPENSATION SCHEME

LCA markets two unit-linked annuities for UK tax residents, the Flexible Life Annuity and the Flexible Pension Annuity. Both annuities are covered by the Financial Services Compensation Scheme (FSCS). The FSCS was established to provide compensation to customers of authorised financial services firms which are unable to satisfy claims against them.

Insurers registered outside the UK wishing to offer their products to UK residents are able to do so by passporting their products and services into the UK. LCA however is Gibraltar (British Overseas Territory) based and while it has passported into the UK under the appropriate legislation, FSCS cover still applies for UK residents as Gibraltar does not have a similar compensation scheme.

In the unlikely event that LCA were to default on claims under its policies, sales of its products conducted in the UK, to UK residents at the time the contract commenced, are covered by the 'protected contracts of insurance' part of the FSCS. Please see the FSCS website for full details: www.fscs.org.uk

The Prudential Regulation Authority (PRA) covers the eligibility – see here for some useful information: https://www.bankofengland.co.uk/prudential-regulation/authorisations/financial-services-compensation-scheme

Detailed here is the PRA's latest list of eligible firms: https://www.bankofengland.co.uk/

OUR PRODUCTS

FLEXIBLE LIFE ANNUITY (FLA)

The FLA is a purchased life annuity. The initial annuity income is calculated based on the policyholder's age, the amount of the initial investment, expected investment return and LCA's expense loadings. During the lifetime of the annuity, the policyholder can elect to change the amount of the annuity payments (either increase or decrease).

Annuity payments continue until the earlier of the lifetime of the policyholder or the funding being exhausted. There is no death benefit payable. If there are any monies in the fund on death then the assets remain in the cell.

Income is paid gross of tax and LCA provides an annual statement showing how much of the annuity paid in that year is classed as a return of capital and how much is investment return. The policyholders only need to declare the investment return portion of the annuity payments in their annual tax return.

A wide range of assets are allowed although the assets must be chosen by an independent investment adviser and not directly by the policyholder to avoid being caught by HM Revenue and Customs personalised bond rules.

All investment income and gains on the assets held in the cell are received gross of tax.

FLEXIBLE PENSION ANNUITY (FPA)

The FPA is a lifetime pension annuity purchased on behalf of the policyholder by the trustees of the pension scheme holding the pension assets. As with the FLA, the initial annuity income is calculated based on the policyholder's age, the amount of the initial investment, expected investment return and LCA's expense loadings. The product allows full flexibility in terms of how much income the policyholder elects to take each year in line with pension freedoms.

Annuity payments continue until the earlier of the lifetime of the policyholder or the funding being exhausted. There is no death benefit payable. If there are any monies in the fund on death then the assets remain in the cell.

Income is paid net of tax. As this is a pension annuity, LCA must deduct tax at source via the PAYE system.

There is greater investment flexibility with the FPA as the policy is purchased by the trustees of the registered pension scheme. Hence an in-specie transfer of existing pension scheme assets is allowed as it is an investment in shares of the policyholder's own company. Residential property connected to the policyholder or the policyholder's family is not an allowable asset.

All investment income and gains are gross of tax.

PREFERENCE SHARE

With both the FLA and FPA it is possible for the policyholder to purchase a preference share in the cell containing their policy at policy commencement. At this stage the value of the preference share is minimal (usually around £1,000 with the actual amount depending on policyholder's age at annuity commencement). The preference share gives the holder of the share at the time of policyholder's death access to the assets being held in the cell.

The preference share is not to be treated as an investment. If the funds of the annuity have been exhausted, then the value of the preference share is zero. If, for example, the surplus on death was £200,000, then the value of the preference share would be £200,000. The preference share enables the funds from the cell to pass to the beneficiaries. Whoever holds the preference share on death has the right to the residual value.

CLAIMS RECORD

As noted earlier, LCA has 563 claims paid. All were paid as per the terms and conditions of the annuity.

RISK TO CLIENT

The FPA and FLA are unit-linked policies where the investment risk is borne by the policyholder.

The value of the investments can fall as well as rise, consequently the regular payments may cease earlier than anticipated. The assets in the policy are chosen by the investment adviser that is appointed to the policy. LCA has no responsibility for the investment decisions made by the appointed investment adviser.

Generally, LCA should not be subject to any income tax, capital gains tax or corporation tax in respect of assets allocated to the policy. Exceptions include withholding tax, which is tax withheld by some countries on certain types of income.

The actual tax position will depend upon a number of factors including the personal circumstances of the policyholder and LCA always recommends that the policyholder takes advice from their professional advisers. The UK Government could in future change the tax treatment of this type of plan or make changes that could affect the tax treatment of any proceeds from the redemption of preference shares.

ATTACHMENTS

Latest STM Group Plc Annual Report & Accounts

In addition to the Annual Report, the following technical marketing literature is enclosed:

- Why choose London & Colonial PCC Plc flyer
- London & Colonial PCC Plc Flexible Annuities brochure
- Purchase of Preference Shares flyer
- Flexible Life Annuity Key Features
- Flexible Pension Annuity Key Features

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