

General

1. The Board of Eagle Star Insurance is responsible for formulating and implementing plans for the development of the Company along lines agreed with B.A.T Industries. It is accountable for the performance of the Company, for providing reliable forecasts of future performance and for ensuring that timely action is put in hand to counteract any adverse trends in that performance.
2. Through the B.A.T Financial Services Board and through Project Teams set up at the Centre, Eagle Star should also contribute to the overall development of the Group's activities in Financial Services, particularly in UK/Europe and the Far East, co-operating with other Group companies where appropriate.
3. A high priority should be given to reinforcing the management strength of the Company both to support the existing businesses and to prepare and implement plans for expansion.

Financial Guidelines

4. Dividends : Net dividends paid should be increased by at least 12% p.a. from 1989, giving the following minimum progression:-

£m	1989	1990	1991	1992	1993	1994
Net Dividend	80	90	100	112	126	141
Tax Credit	14	16	18	21	24	27

Eagle Star should pass up the full amount of Advanced Corporation Tax credits relating to its franked investment income. The amounts shown above are estimates which might be revised.

5. Eagle Star should, where possible, lend its spare financial resource to B.A.T Industries on an arm's length basis. Work to identify and study the optimum utilisation of such resource should be completed by the end of 1989.
6. General Insurance : Eagle Star's general insurance business should achieve a minimum pre-tax return of 20% on opening smoothed shareholders' funds. (This calculation should exclude Eagle Star's deferred investment gains account but include minorities in shareholders' funds.)
7. Eagle Star should seek to ensure that, in the longer term, the core general insurance activity achieves a substantial underwriting return after crediting attributable investment income.
8. The solvency margin based on smoothed shareholders' funds should be maintained at about 50% of insurance liabilities. In addition, Eagle Star's conventionally measured solvency margin (unsmoothed funds as a percentage of net written premiums) should be above the median margin of the five major listed UK competitors.
9. Eagle Star Life : In the life assurance business, Eagle Star should aim for the annual increase in embedded value, together with the net transfer to the shareholders, to be at least 20% of the opening embedded value (estimated by the Chief Actuary at £885 million as at 31st December 1988).

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10. Net transfers to shareholders should increase by at least 13% p.a. from a base of £28.6 million in 1988:-

£m	<u>1989</u>	<u>1990</u>	<u>1991</u>	<u>1992</u>	<u>1993</u>	<u>1994</u>
Net Transfer	32	36	41	47	53	60

11. Worldwide total life premium income should be increased by at least 10% p.a. in real terms, based on the average figure for the period 1986 to 1988.

Specific Priorities

12. Eagle Star's primary aim should be to continue to achieve rapid growth in both turnover and profits, building particularly on the Company's strengths in General Insurance Personal Lines.
13. A high priority should be given to implementing fully the organisational and reporting changes which have recently been introduced to achieve better control and accountability of expense levels throughout Eagle Star. Also to ensuring that through these, combined with improvements in productivity and efficiency, the Company is established in a competitive position with regard to expense ratios.
14. Eagle Star should critically review investment plans to ensure that an acceptable profits progression is maintained. Priority should be given to investments aimed at strengthening the competitive position of the business, particularly with regard to systems and the quality of service provided. The pace at which investment in new capacity is undertaken should be reviewed to ensure that an appropriate balance is maintained between capacity and business growth.
15. Eagle Star should continue to review the attractiveness and feasibility of acquiring, or establishing a joint venture with, a Building Society in order to strengthen Eagle Star's distribution in both the Life and General Personal Lines business.
16. In the UK General Insurance market, Eagle Star should seek to influence the market to adopt realistic premium ratings. Consideration should be given to the adoption of an aggressive stance with regard to premium rates in selected lines, possibly accepting some short-term loss of market share where the performance and longer-term strength of the business is not endangered by doing so.
17. Plans for optimising the potential of the Division through separate management of the Personal and Commercial Lines should be implemented. In addition, the strategy of focussing primarily on the major distribution channels in each business sector whilst continuing to support secondary channels should be actively pursued.
18. The proposed pan-European development of the Commercial Lines business should be pursued, consistent with B.A.T Industries' wider development strategy in Europe. Particular emphasis should be given to developing small-case Commercial business.
19. Strategies should be developed and implemented to further improve performance in the Employers' Liability account.

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20. The desirability of entering the Professional Indemnity market should be critically reviewed.
21. For the Life Division, Eagle Star's performance in the regular-premium market should be critically reviewed and plans established for bringing about a significant improvement in performance within a reasonable timescale.
22. The agreed plans for establishing a strong position in providing financial services to the elderly should be implemented.
23. A high priority should be accorded to securing adequate distribution channels for the Life business and to ensuring that Eagle Star Life's organisational structure is appropriate to service those channels.
24. Product design, mix and profitability should be reviewed with a view to optimising the products sold through each channel.
25. Eagle Star should closely monitor the progress made by the introduction of Direct Marketing of motor business with a view to Direct Marketing being adopted for the distribution of other Eagle Star products, including Life products.
26. Eagle Star should continue to develop its existing International businesses, concentrating on improving performance and on developing plans to strengthen the position of the businesses in each country.
27. The potential benefits of establishing the Portuguese operation as a separate business should be reviewed.
28. Eagle Star should also be prepared to participate in project teams set up at the Centre to consider and determine the optimum strategies for the Group's development in UK/Europe and the Far East respectively.
29. In Asset Management, there should be specific plans to establish investment performance objectives, to develop an optimum investment strategy and to measure and monitor performance.

GJB/DJA  
20th July 1989

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