DRAFT

>FA

Guidelines for Eagle Star : July 1987

General

1. The Executive Board of Eagle Star Insurance 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 this performance. It also has a responsibility for formulating and implementing plans for the development of the company.

2. Following the management reorganisation, Eagle Star should seek to develop clear guidelines defining the objectives and strategies for each division and integrating these into a strategy for optimising the performance and longer term development of Eagle Star as a whole, giving particular emphasis to:-

   (a) Pursuing growth in the Life Business.

   (b) Ensuring that the operating performance in the Insurance Services division compares favourably with that of competitor companies.

   (c) Developing expansion plans for the International Division, especially in Europe and, at a later stage, in the Far East.

   (d) Reviewing the strategies for the Australian business.

   (e) Considering the potential for expanding the Finance and Credit Services division and developing specific proposals for investment in new activities.

   (f) Developing clear policy guidelines and setting up systems to monitor the performance in the Investment and Property Management division.

   (g) Ensuring that the information systems used in Eagle Star are of the highest standard and that proper provision is made to develop and install systems to a standard that maintains Eagle Star in a leadership position in the industry.

   (h) Considering with Allied Dunbar, potential opportunities for mutually beneficial co-operation.

3. The priorities for Eagle Star should be reflected in the operating plan which is due to be discussed with the CPC in January 1988, prior to presentation to the Board~~s~~. However, there is also a requirement to produce papers for discussion with the Overseas Financial Services Project Team in October covering the proposed strategies for expansion in Europe and for the Australian business. In addition, it is understood that Eagle Star may wish to present specific proposals for an investment related to the Finance and Credit Services division during the latter part of 1987.

X

/...

2017918088

<u>Financial Guidelines</u>

4. <u>Dividends</u> : Eagle Star should pay the following dividends including ACT credits:-

£m	1987	1988	1989	1990	1991	1992
Net Dividend	50	55	60	66	72	80
Tax Credit	18	20	22	24	27	29
	68	75	82	90	99	109

5. <u>General Insurance</u> :-

   (a) The aim should be for Eagle Star General Insurance to achieve a 20% pre-tax historic cost return on opening asset values, ~~The profit result should include reported income plus capital appreciation derived from a moving 5 year average. Asset values should also be determined on a 5 year moving average basis.~~ including the deferred investment gain account.

   (b) The solvency margin, based on smoothed shareholders' funds, should be maintained at about 50% of insurance liabilities.

   (c) Where there is excess capital which is not required for the business, Eagle Star and B.A.T Industries should consider together how this might be redeployed to provide the optimum return for the Group.

6. <u>Eagle Star Life</u> :-

   (a) In its Life Insurance business, Eagle Star should aim for the increase in the assessed value of the shareholders' interest (excluding the value of future business to be written) together with the net transfer to Eagle Star Holdings to be 20% of the opening assessed value in each year.

   (b) Eagle Star Life should also achieve increases in the after-tax actuarial surplus of at least 13% p.a.

   (c) Worldwide premium income should be increased at at least 10% p.a. in real terms. Since different products carry different expected margins and risk factors, Eagle Star should also aim to reduce the overall risk in order to build a profitable quality business.

<u>Specific Priorities</u>

7. For the Life Business, expansion should be pursued along the lines already developed.

   There should be particular emphasis on establishing a strong competitive position in the pensions market in order to be able to take advantage of the expected opportunities arising from the new legislation.

next page

8. For Insurance Services, the objectives for growth and market positioning should be consistent with an overall objective to earn reasonable returns from each class of insurance.

/...

2017918809

[illegible]

9. There should be specific objectives for achieving and maintaining levels of operating performance comparable to or better than major competitors.

10. Consideration should be given to the possible implications of further rationalisation within the industry, the impact that this might have on Eagle Star's competitive position and the desirability of considering the acquisition of another general insurer.

11. For the International Division, there is a continuing requirement to review all the operations and to divest any where the prospects for profits are poor. Ways for reducing the commitment in South Africa should continue to be sought, aiming to reduce the equity holding to a minority.

12. There should be a clear allocation of priorities, concentrating the available resources in those activities which have the best long term prospects.

13. Opportunities for growth should be sought in Europe, concentrating particularly on France, Spain, Italy, Turkey, Portugal and Greece. However, it should be noted that opportunities in Germany and Scandinavia will be pursued by other Group companies. It has also been noted previously that because of the operating environment in the Netherlands, establishment there is unlikely to be attractive.

14. The strategies for the Australian business should be reviewed and consideration given to the potential for a major expansion of this business.

15. Eagle Star should also consider other possibilities for expansion in the Pacific Basin and should assess the possible benefits of appointing a senior manager with a specific responsibility to formulate and subsequently implement a development plan in the region.

16. Strategies should be developed for the Finance and Credit Services division covering both organic growth and the possibility of a major expansion either through a greenfields investment or through an acquisition.

17. For the Investment and Property Management division, the plans should reflect the need to maintain a high degree of flexibility within a clearly defined framework of agreed policy guidelines and of measures of performance which can be monitored and compared with market averages.

RS/DJA
21st July 1987

201791810