

Guidelines for Allied Dunbar : July 1987

GIB  
2/12

General

1. The Guidelines for Allied Dunbar reflect the expectation that the company should be able to achieve sustained rapid rates of growth in turnover and profits through building on the strengths inherent in:-
  - (a) A customer base of 1 million relatively affluent policyholders and investors.
  - (b) A large direct salesforce and a good relationship with 3,000 independent life assurance and investment brokers.
  - (c) A management team experienced and innovative in life, pensions, retail funds and related fields.
  - (d) A highly efficient administrative team, experienced in these fields and capable of operating sophisticated computer systems and controls.

Financial Guidelines

2. Returns : Allied Dunbar should aim for the annual increase in the value of B.A.T Industries' attributable share of the assessed value of the business together with net dividends paid to B.A.T Industries to be 25% of the opening value of the attributable assessed value. B.A.T Industries' attributable share should reflect the net liability of B.A.T Industries on outstanding shares and share options.  
*propose to*

*1.5% p.a. net  
2.5% p.a. net*

Additionally, Allied Dunbar should seek to increase the Financial Surplus from £67m in 1987 to £137m in 1992, which represents a pre-tax return on B.A.T Industries' estimated book value rising from 19.9% in 1987 to 35.7% in 1992.

3. Gross Initial Commissions : Allied Dunbar should aim to achieve 10% p.a. real growth in gross initial commissions.
4. Dividends : Allied Dunbar should seek to increase the dividend per share by at least 10% p.a. in real terms. On this basis and assuming B.A.T Industries acquires shares promptly after issue, the minimum dividends required from Allied Dunbar are:-

£m	1987	1988	1989	1990	1991	1992
Net Dividend	35.0	40.4	46.8	54.1	62.5	72.2
Tax Credit (ACT)	12.9	14.9	17.3	20.0	23.1	26.7
	47.9	59.3	64.1	74.1	85.6	98.9

~~(These figures assume average inflation of 4.5% p.a. and an ACT rate of 27%)~~

Specific Priorities

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5. The first priority is to retain the commitment and motivation of the salesforce and sales management in a period when it may be necessary to adjust products, selling methods and commission arrangements to meet the requirement of new legislation and regulatory arrangements. ~~If, as part of this, it is intended to redesign or replace the existing share option scheme, provision should be made for appropriate consultation.~~ This will be borne in mind in the examination of the options <sup>provision</sup> and a new incentive scheme to replace the existing share option scheme, which expires in 1990.

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*continuing*

6. ~~Since margins on policies are likely to decline significantly there will need to be particular emphasis on improving salesforce productivity through attracting more customers and by providing existing customers with a wider range of attractive policies. Specific provision will need to be made for ensuring the adequacy of the training and back-up services which Allied Dunbar provide to the salesforce. A long term plan should be considered~~
7. There should be continuing emphasis on ensuring that the quality and capacity of the information systems used within Allied Dunbar is such that these can not only support the existing business but can also be used as a positive factor in promoting new activities and services. The plans for Allied Dunbar should include adequate provision for the necessary investments both in the systems and in the management resource required for their operation and development.
8. Allied Dunbar should continue to consider, with Eagle Star, the extent to which cross-selling of Eagle Star Life and General Insurance products can be made attractive to the two companies and to individual salesmen.
9. There should be continuing emphasis on the need to achieve above average investment performance. Criteria should be developed for measuring this performance, which should be monitored on a continuing basis relative to key comparator companies.
10. There should be further consideration of options for enhancing the existing business base including:-
  - (a) Strengthening the branding of the names Allied Dunbar and the Financial Planning Service.
  - (b) Reassessing opportunities in the Broker market.
  - (c) Developing a segmented salesforce aimed at different customer groups.
  - (d) Developing an International salesforce.
  - (e) Developing 'twinning' arrangements with other financial service institutions similar to those already established with Estate Agents.
- (f) Considering the potential for extending the customer base to compete more strongly in the sectors of the market currently served by Industrial Life companies.
11. Allied Dunbar should also consider the possibilities for further extending its activities in financial services through a major acquisition, to be funded by B.A.T Industries. In assessing these possibilities, key criteria to be met will be that the acquisition should be in an activity where the existing strengths and expertise of Allied Dunbar can be applied to enhance the value of the company acquired and that it should enable Allied Dunbar to establish a strong competitive position within the relevant market sector.

*when investment need*

RS/DJA  
21st July 1987

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