

# SCOTTISH WIDOWS & THE FINANCIAL SERVICES COMPENSATION SCHEME

## INTRODUCTION

THE PURPOSE OF THIS BRIEFING IS TO HELP YOU REASSURE YOUR CUSTOMERS AND POTENTIAL CUSTOMERS ABOUT THE SECURITY OF SCOTTISH WIDOWS TRUST BASED PENSION PRODUCTS.

REFERENCES TO THE SERVICES PROVIDED BY THE FINANCIAL SERVICES COMPENSATION SCHEME (FSCS), AND IN PARTICULAR COMPENSATION PAYMENTS AND LIMITS, ARE BASED ON SCOTTISH WIDOWS' UNDERSTANDING OF THE INFORMATION AVAILABLE TO US, INCLUDING THE RELEVANT PROVISIONS OF THE PRUDENTIAL REGULATION AUTHORITY AND FINANCIAL CONDUCT AUTHORITY RULEBOOKS.

Our trust based pension products invest in insurance policies issued by Scottish Widows Limited. The value of each policy is linked to, and so determined by, the underlying assets we own. These can include both direct holdings of shares, fixed interest securities, property, cash and other assets; and indirect holdings, for example via other insurers' funds and collective investments schemes.

While the value of the scheme members' retirement benefits ultimately depends on the performance of the funds and underlying assets we invest in, members are also dependent on us being able to meet our liabilities when their benefits become payable. The security of members' benefits is therefore dependent on our financial strength.

### SCOTTISH WIDOWS'S FINANCIAL STRENGTH

Scottish Widows is one of the largest pension providers in the UK. We are part of the Scottish Widows Group, which includes Scottish Widows Unit Trust Managers Limited, HBOS Investment Fund Managers Limited and Scottish Widows Administration Services Limited. Scottish Widows Group is wholly owned by Lloyds Banking Group.

By law, we must maintain minimum levels of accessible capital, and must implement and comply with various capital management, governance, risk management, and reporting requirements, the purpose of which is to help ensure that we can continue to meet our obligations to our policyholders over time. Each year, we publish a Solvency & Financial Condition Report, which provides details of our approach to capital and risk management.

Independent ratings companies assess the financial strength of life companies through in-depth analysis. Financial strength ratings given to Scottish Widows Limited by three of the most commonly used companies are:

- Moody's A2\*
- Standard & Poor's A\*
- AKG B+\*

Our financial strength is there, first and foremost, to help us meet our obligations to our customers; it cannot be directed away from that purpose. Scottish Widows has consistently managed its financial strength to protect its customers' interests.

\*Moody's & Standard & Poor's rating correct at Feb 2020, AKG ratings correct at March 2020.

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## FINANCIAL SERVICES COMPENSATION SCHEME (FSCS)

The FSCS is the UK's statutory fund of last resort for customers of all UK authorised financial services firms, such as Scottish Widows. This means that, in the very unlikely event that we were unable to meet our contractual obligations, the FSCS could pay compensation to our policyholders.

## WHO CAN MAKE A CLAIM TO THE FSCS?

For trust-based pension products, the scheme trustees are the policyholder, and would need to make a claim to the FSCS on behalf of their scheme. Although the claim will be made by the trustees, we understand that the FSCS will treat the scheme members (or beneficiaries) as having the claim/any entitlement to compensation, meaning the trustees effectively claim on behalf of each individual scheme member (or beneficiary).

## WHEN CAN A CLAIM BE MADE TO THE FSCS?

The FSCS is a fund of last resort. It will pay compensation to eligible claimants when an authorised firm, such as Scottish Widows, is unable or likely to be unable to meet its liabilities. The firm will at this point generally be 'in default'.

The FSCS will only consider claims where the authorised firm is no longer trading or does not have sufficient assets to meet its liabilities. If these conditions are not met, the claimants would need to make a claim against the company itself or its administrators.

## HOW MUCH COMPENSATION CAN THE FSCS PROVIDE?

Protected contracts of insurance are covered by the FSCS for 100% of the value of the claim, without limit.

## WHAT FORM OF COMPENSATION DOES THE FSCS PROVIDE?

For long term insurance contracts, unless the policy proceeds are due to be paid, the FSCS will normally aim to secure 'continuity of cover' for the customer. This simply means that, rather than pay a cash sum, the FSCS will arrange to transfer the contract to another firm, or arrange a replacement contract.

## WHAT ABOUT THE INVESTMENT RISK OF SCOTTISH WIDOWS FUNDS?

The FSCS can pay compensation to our customers if we are unable, or likely to be unable, to meet our liabilities.

It cannot pay compensation in any other circumstances. Specifically, the FSCS does not cover investment losses.

For example, if Scottish Widows holds shares issued by a company that subsequently fails, a policyholder whose policy was linked to the value of those shares (through one of our funds) could not claim compensation because the value of their policy was reduced as a result.

## WHAT IF AN EXTERNAL FUND MANAGER OR OTHER PARTY DEFAULTS?

In addition to investment risk, where we invest in an external fund, there is also the risk that the manager of that fund could default. In these circumstances, neither we nor our customers could claim compensation from the FSCS for any loss.

Most external fund links available under our products invest in regulated collective investment schemes, such as unit trusts and OEICs. By law, the underlying assets of these schemes must be held separately from the operator and manager(s) of the scheme, normally by a trustee or depositary. This is designed to protect investors, should a scheme operator or manager default, by ensuring that the underlying assets of the scheme remain available and cannot be claimed by the operator or manager's creditors.

Where we invest directly in a fund of another insurer, we put in place market-standard security measures (e.g. claims on the assets of the insurer) to provide protection in the event of the insurer's default. In addition, the insurers we invest with are generally subject to the same or similar regulatory, supervisory, capital management, governance, risk management and reporting requirements as Scottish Widows.

Where SWL places money on deposit with a bank or other deposit-taker, we and our policyholders are exposed to the risk that the firm will default. To help reduce that risk, we carry out relevant due diligence, using a range of information available to us, including data sourced from independent credit ratings agencies, and only place deposits with firms which we consider to be financially very strong. Again, banks and other deposit-takers are also subject to strict national and international regulatory, supervisory, capital management, governance, risk management and reporting requirements.

## HOW ARE SCOTTISH WIDOWS ADMINISTRATION SERVICES LIMITED'S ISA AND GIA PRODUCTS COVERED?

SWAS customers' ISA and GIA investments in company shares, gilts and shares or units of regulated funds are held in a nominee company – Scottish Widows Administration Services (Nominees) Limited – separate from SWAS, and in accordance with FCA rules.

In the event a regulated firm with which money is invested or held defaults, the nominee company can claim to the FSCS on behalf of the customer. In these circumstances, the FSCS must treat the underlying customer as having the claim, not the nominee company. This means that the nominee company can claim to the FSCS on behalf of each customer separately:

- up to £85,000 per person for amounts held with another regulated investment firm;
- up to £85,000 per person for amounts held with a regulated deposit taker;
- for 100% of the claim, with no upper limit, for amounts held with a regulated insurer.

The assets of OEICs and other regulated funds must be held separately from the operator of the funds, which helps to protect investors should the operator default.

## ADDITIONAL INFORMATION

More information on the Financial Services Compensation Scheme can be obtained from their website: [www.fscs.org.uk](http://www.fscs.org.uk)

### IMPORTANT

This information is based on Scottish Widows' understanding of current UK financial services law and regulation, including the rules of the Financial Services Compensation Scheme.

Scottish Widows Master Trust is provided by Scottish Widows Limited and the platform operator is Scottish Widows Administration Services Limited.  
The Scottish Widows Master Trust is supervised by The Pensions Regulator. Pension Scheme Reference number 12007199.

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Authorised by the Prudential Regulation Authority and regulated by the Financial Conduct Authority and the Prudential Regulation Authority. Financial Services Register number 181655.

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