

## INDIVIDUAL PENSIONS

SE also offers a comprehensive range of pension products for individuals. These include stakeholder pensions, pensions for executives and transfers from other schemes and policies allowing an individual to supplement corporate pensions, called freestanding additional voluntary contributions. In addition, SE is a leading player in income drawdown and phased retirement products aimed at individuals with significant pension funds who do not want to invest in an annuity immediately upon retirement.

## UK AND OFFSHORE BONDS

AEGON UK distributes both UK and offshore bonds. The difference between these bonds lies in the tax advantages related to each type of bond, as offshore bonds allow gross roll-up of assets, allowing personal tax to be deferred until the monies are repatriated to the United Kingdom.

## UK BONDS

**With-profit bonds** are life products, which give access to the with-profit fund of the life company. The SE with-profit fund allows policyholders to share the risk of market volatility through a smoothing mechanism. This fund is ring-fenced for the benefit of policyholders, so that AEGON shareholders are not exposed to any risk or benefit relating to this smoothing. The bond 'wrapper' provides a tax efficient means of investing, as withdrawals (within certain limits) are deemed capital reductions rather than income.

With-profit products have received a large amount of regulatory attention over the past three years. The primary focus has been on increasing the transparency of the product in order to clarify how the bonuses applied relate to the underlying fund returns. Also, a recent report sponsored by the United Kingdom government questioned the tax breaks applied to the bond wrapper. These factors have had a significant negative impact on the bond market in the United Kingdom in 2003.

During 2002, SE launched a range of with-profit funds that represents the next generation of the product. These funds continue to provide protection against market volatility but have no guarantees. The calculation of value is based on a published formula, thus achieving the transparency required by the public and the regulators.

SE also offers unit-linked bond products, which allow access to a range of internal and external funds, through the bond wrapper mechanism described above.

## OFFSHORE BONDS

**Scottish Equitable International Holdings (SEIH)** provides sophisticated packaged investment products with tax advantages for clients in the United Kingdom and overseas.

SEIH launched three new products during 2002: the Money Market Portfolio, the delegated custodian private client

product (the 'Dublin Private Client Portfolio') and the Investment Portfolio. The Money Market Portfolio allows access to low-risk money market fund investments within the tax efficient structure of an offshore bond. This product is distributed through independent financial advisors to both corporate investors and high net-worth individuals. The Dublin Private Client Portfolio caters to investment managers and private banks and allows the aggregation of a custom made portfolio of assets. The Investment Portfolio is a single premium unit-linked contract, which invests in internal funds. These products were enhanced during 2003. In addition, SEIH sells unit-linked bonds and has an inheritance tax planning product.

## INDIVIDUAL PROTECTION

**AEGON Individual Protection (AIP)** provides an innovative individual protection product under the collective brand name of Scottish Equitable Protect. The first offering of the Scottish Equitable Protect product was made in 2001 and consists of three menu-based products catering to the personal, mortgage and business protection markets, respectively.

One of the core strengths of this product is market-leading underwriting capability that allows a comprehensive array of cover to be provided, without the complexity usually associated with this type of insurance. Intermediaries are provided with direct access to underwriters together with underwriting help desks, newsletters and field underwriting techniques.

The individual protection market is segmented between 'price-led' and 'value-led' sales, the former relating to a strong re-brokering market. AIP focuses on the 'value-led' portion of the market where demand is less price sensitive due to the importance to consumers of flexibility and the ability to combine benefits in one place.

The product range was further enhanced in 2002 with the introduction of income protection products that provide insurance for unemployment due to illness or accident. During 2003, many reinsurers withdrew from the guaranteed critical illness market as medical advances made the product uneconomic. As a consequence, AIP withdrew from this market and will offer renewable contracts only.

## GROUP RISK CONTRACTS

**Scottish Equitable Employee Benefits (SEEB)** deals exclusively through independent financial advisors and offers a range of flexible corporate protection products to fulfill the needs of employers and employees. SEEB offers these group risk contracts through its Corporate and Employee Protection Menus.

The Corporate Protection Menu allows companies to create tailored employee benefits packages. The menu offers a number of different coverages that can be mixed and matched, including group life coverage, income protection, critical illness