

# How MGM Advantage is managing the effects of the “Credit Crunch”

## How can I be confident MGM Advantage is as safe as larger, better-known financial companies?

The recent Government bail-out of several banks and financial organisations has proved that size doesn't provide protection against the credit crunch.

In fact, we think our mutual status, relatively small size and simple business model gives us a real advantage over our competitors when it comes to stability and reliability.

As a mutual, we don't face unreasonable pressure from shareholders looking to make short-term gains and we're able to make decisions for the long-term benefit of our customers. Our members and customers are always at the heart of what we do.

We've been running our business successfully for 156 years and we intend to keep taking the same prudent approach that has helped us protect our customers' interests for over a century and a half.

## How exposed is MGM to the current turmoil in the financial markets?

Every day brings more headlines about the credit crunch and the effect it's having on financial institutions like banks and life insurance offices like MGM Advantage.

The problems centre around three key areas which you've probably read about in the Press: -

1. Loans and borrowing arrangements between banks and other financial organisations, particularly those engaged in mortgage business
2. “Short-selling” of publicly listed shares
3. The dramatic fall in FTSE share prices

### Loans and Borrowing arrangements

We don't use borrowing or loans to fund the running of our business. We also withdrew from the mortgage-related side of our business more than a year ago, before the major slump in the property market.

### Short-selling of publicly listed shares

As a mutual organisation, we are not listed on the Stock Exchange and we have no shareholders so we can't be affected by “short-selling,” or anxious shareholders trying to dispose of their interests in our company.

### The dramatic fall in FTSE share prices

Of course, the falling stock markets do affect the value of our funds and we've taken a number of measures to protect customer investments and the underlying investments we use to meet our liabilities.

At the earliest indications of a potential economic downturn and sharp increase in market volatility, we restructured our investment portfolios, increasing diversification and raising cash levels in the funds.

You'll be reassured to know that within the equity portfolio, the funds have a significantly underweight exposure to the financial sector.

### How can I be confident about MGM's financial stability?

A good measure of a company's stability is the amount of liabilities they have compared to the amount of assets they have available. This is sometimes referred to as realistic free asset ratio.

MGM's realistic free asset ratio has always compared very favourably with our competitors, and as at 30th September 2008 was 18%\*. (\*Source: MGM Advantage Actuarial Department)

In a recent survey by an industry-leading publication (Money Management - August 2008), our realistic free asset ratio was ranked better than some of the market's biggest players like Prudential and CGNU.

### What is the impact on MGM's With Profits Fund?

The main feature of a with profits fund is to smooth the ups and downs of the stock market to protect all customers invested in the fund. That is why we keep back profits in the good times to make up for the bad times such as these.

Again, at the earliest signs of the stock market volatility to come, we reviewed the allocation of our investments and down-weighted our exposure to equities accordingly.

More information on the current make-up of our with profits fund is available on our website.

For more information on our general approach to managing our with profits fund, please read [Your guide to the MGM With Profits Fund](#), which you can download from our website at [mgmadvantage.com](http://mgmadvantage.com).

### How safe are MGM's annuities?

Once you've bought an annuity with MGM Advantage, the income you receive is guaranteed and won't be affected by any changes in the stock market.

And, the money to fund annuity payments is invested mainly in fixed interest portfolios such as bonds and gilts. We've deliberately focused on higher quality bonds which have no exposure to high-risk structured products, which triggered much of the recent turmoil.

### What would happen if MGM becomes insolvent?

In the extremely unlikely event that MGM's liabilities outweigh our assets and we become insolvent, customers will be protected under the Financial Services Compensation Scheme (FSCS).

For more information, please call the FSCS **020 7892 7300** or visit their website at [www.fscs.org.uk](http://www.fscs.org.uk).



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