



Equitable Members'  
Action Group

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Mr. Mark Hoban MP  
Financial Secretary  
The Treasury  
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London SW1A 2HQ

8<sup>th</sup> Oct 2010

Dear Mark,

Further to our meeting on the 7th September, we have had various exchanges of correspondence with Towers Watson and it is now appropriate for us to comment on their Stage 2 aggregate loss in the range £4.0-4.8 billion.

### **Transparency**

We are sorry to report that there has been little transparency about the information provided to us. For example, Towers Watson claim to be incapable of estimating the percentage of the fund represented by with profits annuities or of estimating the “relative loss” incurred by premiums paid between July 1991 and December 1992. The information provided in respect of with profits annuities has been entirely inadequate and they refuse to provide any information in respect of specific policies. In short, they refuse to do top-down estimates and won't provide comprehensive bottom-up calculations. When we met you on the 24th of May you assured us that the Coalition's commitment to the Parliamentary Ombudsman's recommendations and to transparency had been communicated to your Treasury officials and to Towers Watson. Our experience is that the message has not got through.

### **Timing**

EMAG repeatedly requested access to Towers Watson's calculations of “relative loss” from soon after your appointment in May. The tightness of the timing derives entirely from the long delay by the Treasury and Towers Watson in not providing any material information until September.

### **Assessment**

Subject to the above lack of transparency and to the matters mentioned below, we do believe that the Towers Watson Stage 2 estimate has been properly prepared and can form the basis of an accurate assessment of “relative loss” as recommended by the Parliamentary Ombudsman.

The issues where we believe adjustment is necessary are as follows:-

### **Start Date**

The Parliamentary Ombudsman found that the start date for maladministration was July 1991, but for spurious reasons of his own Sir John Chadwick chose to delay this effectively to December 1992. This enabled him to duck the problem that full information is not available for that period. As a result, no attempt has been made to reconstruct this information. We believe such an attempt could be made and Towers Watson could certainly estimate the amount involved from the information which they have. In EMAG's view this would increase the aggregate "relative loss" by about £700 million.

### **Work in Progress**

Towers Watson in July gave you a range of between £4 & £4.8 billion. Our assessment is that they have calculated £4.8 billion as being the relevant loss up to 31 December 2007, but they believe that by incorporating data for the next 2 years they can reduce the aggregate by £800 million. While we believe there may be some reduction in the "relative loss" applicable to those who were still invested in Equitable Life at December 2007, we cannot see it that could possibly amount to £800 million. In any event, it is time that Towers Watson finalised this estimate so that Ministers can make a decision based on a more reliable number.

### **Exit Costs**

Over the years following the Society's closure, something in excess of 2/3rds of policy holders by value moved their money elsewhere. The vast majority of these did so to protect themselves from future losses and / or to escape Equitable Life, which was no longer capable of operating as a with profit office. Many of these suffered substantial exit costs, which should form part of their "relative loss". However, the methodology which Towers Watson has used assumes that anyone who left Equitable Life during that period upon a non contractual basis would also have left the comparator company on the same basis. Of course, if investment had been made in the comparator no such non-contractual exit would have been necessary. This has the effect of eliminating exit costs from the aggregate of "relative loss". They should be re-instated.

### **Policies in Existence Before the commencement of maladministration**

Chadwick ducked this issue by calculating losses based upon his reconstructed version of Equitable Life. Since its results were, according to him, almost identical to the Society's actual performance, the effect is to value these losses at nil, or in some cases as profits. It is entirely possible to make an appropriate addition for such policies, but Towers Watson need to address it as a matter of urgency.

## **With Profit Annuities**

The information provided in respect of with profit annuities is entirely inadequate, but the result seems to produce losses which are proportionate to those suffered by other policy holders. This strikes us as very likely to be inadequate. In any event, we do not believe that it is appropriate, in circumstances where almost all the industry only offered conventional annuities, to use the Prudential and Scottish Widows with profit annuities as the comparator. In our view, the appropriate comparator for the vast majority of Equitable Life with profit annuities (average investment of about £47,000) is a conventional fixed annuity.

## **Conclusion**

We are sorry to note that you did not act upon the request contained in our letter of 3<sup>rd</sup> September to “re-commission Towers Watson to recalculate “relative loss” unfettered by Chadwick’s template”.

In our view, the Towers Watson’s Stage 2 estimate provides a sound starting point for the proper calculation of “relative loss” as recommended by the Parliamentary Ombudsman and Towers Watson are capable of making the necessary estimates to correct the deficiencies referred to above and produce a reliable figure upon which Ministers could make a decision. There is just time for you to issue the necessary instructions so that they can do so.

Yours sincerely,

**Colin Slater FCA**  
Director