

## A short guide to the Equitable Life scandal – January 2009

**Much has already been done by the government and its agents to hide the truth about the near collapse of Equitable Life in 2000 and to seek to deny compensation for the losses sustained by its victims. Here is EMAG's brief summary of the story to date.**

### What went wrong?

From the early 1980s Equitable management had effectively given away the estate built up over the previous 200 years.

By the start of the 1990s it was on the verge of insolvency but this was known only to the actuaries in control and the regulators. The company embarked on an aggressive marketing campaign, drawing in funds from hundreds of thousands of new policyholders in order to pay out bonuses far in excess of earnings to members departing the fund. A Ponzi scheme in all but name. By 2001 the Society was hiding a deficit of around £5 billion. As a result it made a series of cuts to policy values, starting with a brutal 16% cut in July 2001. Reductions in bonus, exit penalties and further cuts in 2002 left some policyholders nursing losses in excess of 30% through no fault of their own. Cuts were then inflicted on With Profits Annuitants, who have seen their annual income slashed by as much as 50%. Now “rescued” by the Prudential, they have been told that their annual pensions will continue to decline in a twisted form of “inverted index linking”.

### The failure of the regulators

Throughout the 1990s the UK regulators failed to intervene to stop Equitable from operating this sustained deceit. Equitable was technically insolvent throughout the decade. The Parliamentary Ombudsman has found the regulators guilty of 10 counts of maladministration and she has recommended compensation. The EU Parliament has called on the UK Government to pay compensation. And now the influential Public Administration Select Committee has backed compensation.

Equitable policyholders were victims of a shocking scandal operating under the noses of regulators for more than 10 years. Not only did the regulators do nothing, they made things even worse by covering up their failures.



### The “fat cat” myth

The Treasury has sought to portray Equitable policyholders as rich but this is highly misleading. The half million savers with personal pensions had an average fund of just £46,000 in Equitable, only enough to buy a fixed annuity of less than £70 a week. A further million people whose retirement investment was via group AVC schemes had an average fund of only £4,000.

### Selective quoting of Lord Penrose

Government ministers have been very keen to divert attention from the findings of the Parliamentary Ombudsman, and to quote Lord Penrose as saying “*principally, the Society was author of its own misfortunes*”. But they avoid the paragraph’s continuation: “*but it may be appropriate to comment that the practices of the Society’s management could not have been sustained over a material part of the 1990s had there been in place an appropriate regulatory structure.*”

The Parliamentary Ombudsman, Ann Abraham, raised this selective quoting with the PASC on 30 October: “*To pick up some of the language that has been used, whether or not Lord Penrose was saying that Equitable’s management were the villains here, I think he was also saying, if the police - in this case the regulators - had been doing their job properly they would have been caught a lot earlier.*”

## **Voting arithmetic**

1.5 million Equitable policyholders in the UK amounts to around 2,400 voters per constituency plus their immediate families who have also been affected or disillusioned by the Equitable scandal.

## **Waiting for a Government response**

The Parliamentary Ombudsman found the regulators guilty on 10 counts of maladministration in July 2008 and yet we will not have a response from the government until mid-January at the earliest. This suggests that the government is either in denial or desperately trying to find a face-saving way out.

If, after seven years of prevarication, the government finally does the decent thing and accepts the Parliamentary Ombudsman's recommendations, then there will probably be a tribunal set up to determine what proportion of the losses incurred by policyholders should be attributed to the failure of the regulators. This is where the greatest risk now lies for policyholders. On past form the Government could easily seek to put in place a "reliable" chairman to shift a major part of the blame onto the Society, or to come up with some carefully devised comparison with a dubious basket of other pension products after including exit penalties, designed to minimise the compensation bill.

## **Maladministration or worse?**

The Parliamentary Ombudsman said that the acceptance of a "reinsurance treaty" by the regulators *'resulted in the true financial position of the Society being concealed and misrepresented through the publication of returns which contained a misleading picture of the Society's solvency position.'*

In 1998 the regulators (the Treasury, the FSA and the Government Actuary's Department (GAD)) were insisting that Equitable Life find assets to cover the liability for the Guaranteed Annuity Options amounting to £1.6 billion. The GAD suggested financial reinsurance which Equitable then pursued in the form of a worthless "reinsurance treaty" with Ireco.

However, this act of assistance in window-dressing by the regulators raises a more serious question than maladministration: Did the deliberate

misrepresentation and connivance by the Treasury, the FSA and the GAD amount to misfeasance? What was the real agenda? Was it, spoken or unspoken, that the Equitable had to be kept going at all costs? And if the dodgy and valueless device which saved it was such a sham, did that lead to deliberately turning a blind eye to what followed?

## **EMAG's view**

If we'd known the Equitable's truly parlous state from 1990 onward we certainly wouldn't have put our money with Equitable in the first place – so the regulators failed us 100%.

Secondly, our losses were crystallised with the swingeing funds cuts in July 2001 – money that was unjustly taken from our savings to fill in a gaping black hole in Equitable's coffers that had little to do with the guaranteed annuity rate (GAR) issue and should never been allowed by the regulators to build up over a period of a decade. Restoration of that draconian cut (plus reasonable interest from that date) is the only fair way to put us back where we would have been had the maladministration not occurred and we had invested our savings elsewhere.

More than 30,000 pensioners have died waiting for justice. We seek proper compensation - not a means-tested charity handout. Any compensation tribunal that is set up must be truly independent and that means the appointment of a chairman who is not in the government's pocket.

Equitable victims have suffered enough. The government has a one-time opportunity to put things right with good grace. Further delay or miserly compensation will only serve to increase the anger of policyholders. A million plus Equitable Life victims simply can't understand the very different treatment of savers in Icelandic banks and wonder when fairness begins for us. It's time for the government to own up and pay up.

**Paul Braithwaite**

**General Secretary of EMAG**

**5 January 2009**

[www.emag.org.uk](http://www.emag.org.uk)