

**From Rose Yobera,
Correspondence and Enquiry Unit of HM Treasury:**

"Dear Sir/Madam,

Thank you for your recent letter in relation to Equitable Life. I hope the following provides you with helpful information following announcements made on the 22 July.

It is two years since the Parliamentary Ombudsman reported that there had been maladministration in the regulation of Equitable Life. The Ombudsman's findings echoed those of Lord Penrose who produced a more wide-ranging report on Equitable Life in 2004. **Announcements made on the 22nd July demonstrate a clear commitment to meeting the pledge to honour the Ombudsman's recommendations as quickly as possible.**

The Government published Sir John Chadwick's final advice on the 22 July, on calculating relative loss, the extensive actuarial advice underpinning it, and all the representations he has received from interested parties. I hope the following brief summary of the overview of Sir John's methodology is useful.

Explanation of Sir John Chadwick's findings

The Parliamentary Ombudsman considered the financial loss suffered by policyholders was a consequence of the reduction in policy values in July 2001. This loss has been described as the absolute loss. The actuaries, Towers Watson, have estimated this as £2.9 - 3.7 billion.

Sir John identifies relative loss - that is the difference between the returns that policyholders actually received from their Equitable Life policies and the returns they would have received if they had invested in a comparable product in an alternative life insurance company. This step produces a figure of £4 - 4.8 billion.

For some policyholders, their relative loss is greater than their absolute loss, because of the strong performance of comparable companies. It would be unfair to the taxpayer for policyholders to be paid more through redress than they have lost. Therefore Sir John has proposed, consistent with the Ombudsman's findings, that relative loss should be capped at the absolute loss. This produces a figure of £2.3 - 3 billion

Had Equitable Life been properly regulated, some policyholders would have invested elsewhere, but some would have not. Quantifying how much investment would have fallen is matter of judgement. From his research, Sir John concludes that the majority of policyholders would have made the same investment decision, irrespective of maladministration. Sir John therefore proposes that policyholders should receive 20-25% of their capped external

relative loss. This results in a figure of £475-650 million.

Sir John identifies another type of loss - internal relative loss. This is loss that policyholders have suffered as a result of keeping money in Equitable Life, when it was not being regulated properly. Including this in the calculation this brings the loss figure according to Sir John's methodology to £400 - 500 million.

These are preliminary figures and there is further work to be done before a final estimate can be produced. The Government is aware that some of Sir John's findings will be contentious and are based on complex analysis, so the Financial Secretary will reflect on his report and will listen to representations by interested parties.

As the Ombudsman noted, it is appropriate to consider the impact of the payment scheme on the public purse. The scheme will be a significant spending commitment for this Government and as such, it would not be right to consider this in isolation from other spending priorities. At the Spending Review on 20 October 2010, a further update will be provided.

Independent Commission

The Ombudsman concluded that the payment scheme should be independent of Government. On 25th May, the Financial Secretary announced that he would establish an independent commission to provide advice on the best way to allocate payments. On the 22nd July he announced that the Independent Commission on Equitable Life will be run by Brian Pomeroy, John Howard and John Tattersall. They will start work imminently to enable payments to begin as soon as possible, and the commission have been asked to report in early 2011.

Although the independent commission is advising on the design of the scheme, the Government has already confirmed that there will be no means testing; and that the dependants of deceased policyholders will be included in the scheme.

At this time, it is not possible to give the individual policyholders information on how the scheme will affect them. However, further announcements will be made in due course. The Government appreciates there is substantial concern and is working hard to address the situation as quickly as possible.

The Treasury's website also has up-to-date information about Equitable Life www.hm-treasury.gov.uk

Yours sincerely,