



HM Treasury, 1 Horse Guards Road, London, SW1A 2HQ

Bob Blackman MP
House of Commons
London
SW1A 0AA

15 February 2011

Re: Bob

Thank you for your letter of 2 December about Equitable Life.

I would like to begin by assuring you that the Government takes the Equitable Life issue very seriously and has taken significant steps in establishing a payment scheme for policyholders that is swift, fair and transparent.

In our Programme for Government, we pledged to "implement the Parliamentary and Health Ombudsman's recommendation to make fair and transparent payments to Equitable Life policy holders, through an independent payment scheme, for their relative loss as a consequence of regulatory failure". The actions we have taken on this issue have been in order to meet that pledge.

While there has been some disappointment in the amount that will be made available for the scheme, it is important to recognise the economic backdrop that the country is in. The Ombudsman recognised that in our role as stewards of the public purse, it was appropriate to take into account the impact on the public purse of any scheme. That is why while accepting that relative losses total £4.1 billion, the Government can only allocate £1.5 billion to the payments scheme.

Despite the difficult economic climate, we still managed to recognise the plight of one particular group of policyholders – With Profits Annuitants (WPAs). They are trapped in policies that are providing a declining income in their retirement. They are also generally the eldest of the eligible policyholders. Recognising these factors, the Government decided to cover the full cost of losses to this group. This was not a matter of treating some policyholders unfairly in order to do benefit others; it was a matter of listening to views of many MPs and action groups who highlighted the plight of WPAs.

The Government also set up the Independent Commission on Equitable Life Payments to advise on the fair allocation and prioritisation of the remaining funds amongst all other policyholders. The Commission's report was published on 26 January 2011. The Government accepted the principles recommended by the Commission and the Treasury is now in the process of preparing a detailed scheme design document that sets out the practical delivery implications of the Commission's advice along with other scheme related issues.

I feel that the progress we have made on this issue has gone a long way towards meeting our pledge. I was pleased to see a copy of the Ombudsman's letter to you as co-chair of the All Party Parliamentary Group in December that said, in reference to our decisions on this scheme, that "I cannot say that those decisions are incompatible with the recommendations in my report".

With regard to the specific issue of non-British policyholders, I can confirm that as far as the Government is concerned, there are no substantive differences between those policyholders and British policyholders. Their losses are included in the calculation for relative losses. The principles recommended by the Independent Commission on Equitable Life Payments, which the Government has accepted, will apply to non-British policyholders as far as is practicable.

The Government's ambition is to start making payment in the middle of this year.

Thank you for taking the trouble to make me aware of these concerns.

*Yours sincerely
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MARK HOBAN