



An independent association of
Equitable Life Members & Policy-Holders
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Equitable Members Action Group Ltd

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Mark Hoban MP
The Financial Secretary to the Treasury
HM Treasury
1 Horse Guards Road
London SW1A 2HQ

Dear Mark,

First, we'd like you to understand that the EMAG board is constructive, well disposed and appreciative of your and the coalition's breath-of-fresh-air commitments to a swift, fair and transparent resolution. This contrasts very favourably with the last government's deplorable behaviour towards the victims of the Equitable Life scandal. But we want to share with you in advance, before it goes pear-shaped, our concerns about the real risk of banana skins.

We are keen to read a reply from you to our letter of 15 June. In particular we like you to facilitate, as we have asked before, the calculations made by Towers Watson to determine policyholders' comparative losses due to maladministration and also for you to tell us the other building blocks to which you referred in your last letter.

You have written to all MPs to reassure them that the compensation proposal will respect the fairness and transparency that the coalition government promised. Sadly we cannot agree that this is what is happening as long as the discredited and unchanged "Chadwick Process" and its terms of reference (TORs) remain centre stage.

Direct conversation with several MPs has revealed a trusted but unwarranted belief in the integrity of the "Chadwick Process", encouraged perhaps by your soothing written reassurances.

We know, and you should know by now, that the toxic TORs given to Sir John by the Labour government sought to minimise the cost to the public purse of ex-gratia payments by sleight of hand. These defy the spirit of what the Parliamentary Ombudsman intended, remain unchanged by you and continue to give Sir John the scope - indeed encourage him – to find reasons to reduce his assessment of losses and to continue to base his advice only on those findings by the PO that the Labour government chose to accept, taken individually and not as a whole as intended.

As Sir John's third interim report demonstrates, he has concocted a hypothetical model of the Society from a series of highly questionable assumptions to create a scenario in which it can be alleged that few victims sustained significant loss. It is clear to us that the framework that he plans to provide is a piece of actuarial alchemy to suit the Treasury's cunning plan, but has no foundation in the principles and intentions of the PO's report.

After 10 years of stonewalling, obstruction and obfuscation, can you wonder that EMAG and the victims of this scandal have absolutely NIL trust in the Treasury or its chosen advisors?

We cannot and will not accept figures for compensation founded on this basis and on these terms. We see "Head A" as the most truthful and transparent method for assessing losses - simply comparing the actual result of premiums invested after the start date with the result of those same premiums invested in a basket of competitor companies. Those competitor results can be verified from published information, for example from Money Management's tables. This is a mechanical calculation, with minimal need for actuarial input. On that basis, we see "Head A" as being in accordance with the PO's recommendations. We believe that the "Head A" calculation should be applied to all relevant premiums and the result published.

The PO's pre-1999 findings were primarily concerned with the lost opportunity to invest all premiums paid after the start date elsewhere, that is, with competitor companies. EMAG has always accepted that this necessarily implies that some deduction is required to allow for those passive policyholders who would not have taken that opportunity, despite being in possession of the truth about the Society's poor financial health

Our recommendation to the PO was:

a) That it would be quite impractical to require individuals to show what decisions they might have made in respect of multiple premiums paid many years ago

b) An explicit percentage deduction, which could be checked, and would be applied to all policies, would be acceptable.

We reject the "Head B" assessment of losses as being totally unacceptable. It is not in accordance with the PO's recommendations, involves far too many assumptions (some of which are not in accordance with the coalition's published policy) and is far too easy for the Treasury's actuaries to manipulate. It also fails on grounds of lack of transparency, simplicity and independence.

EMAG asks you, please, to avoid this turning into a political falling out. Please give us TW's "Head A" calculations to check and allow a truly independent commission to establish the scale of true losses as it's first task. This, after considering not only Sir John's obsolete and deviously conceived report but also subsequent critiques and submissions from EMAG, Equitable Life and other interested parties – including the Treasury.

That need not take more than a few weeks, which, whilst regrettable, in the context of nine years of delay and obstruction by the Treasury under Labour is worth waiting for to establish genuine, credible transparency and fairness.

Yours sincerely,

Paul Braithwaite

General Secretary

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