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Equitable Life compensation proposals unsound, says ombudsman

Parliamentary ombudsman Ann Abraham says Equitable Life proposals would 'not enable fair and transparent compensation'



Ann Abrahams found evidence of 'serial regulatory failure' over Equitable Life

Proposals that victims of the Equitable Life scandal should share no more than £500m in compensation were today branded "unsafe and unsound" by the parliamentary ombudsman.

Ann Abraham's unusually forthright attack on last week's government report will boost the case for a bigger payout – perhaps running into billions of pounds – to the million or so policyholders who saw their retirement savings slashed as a result of the company's problems.

Policyholders reacted with fury after the report, written by retired judge Sir John Chadwick, suggested they should receive just a tenth of the £4.7bn they claim they are due.

The Treasury minister, Mark Hoban, did not endorse or dispute Chadwick's proposals and offered no other guidance as to how much policyholders might receive – leaving many of them with the impression they were being advised to prepare for disappointment.

They were delighted to learn today that Abraham has written to MPs warning that Chadwick's proposals would not deliver justice to those who have lost money.

"I thought it important to let members know as soon as possible that the Chadwick proposals seem to me to be an unsafe and unsound basis on which to proceed," she wrote, adding: "It seems to me that those proposals, if acted upon, would not in any sense enable fair and transparent compensation to be delivered."

The insurer was brought to its knees in 2000, and later repeatedly slashed the value of policyholders' investments, after it lost a legal battle over pension guarantees. In a 2008 report Abraham said she had found evidence of "serial regulatory failure constituting maladministration and resulting in injustice".

The Chadwick report, commissioned by the previous government and published last Thursday, suggested policyholders lost up to £4.8bn in the debacle but should only receive a payout of between £400m and £500m between them.

In May, the coalition government signalled its intention to go much further in helping policyholders than Labour had indicated it would had it stayed in power, saying it would implement Abraham's recommendations to make fair payments to affected people. As a result, Abraham said, the Chadwick report's approach had been "overtaken by events".

She warned that the report "misinterpreted" central parts of the conclusions she had reached in her own report and has ignored other findings, despite the fact she had explained to Chadwick how she had reached them. "I find these flaws particularly concerning, providing as they do the basis for some of the central and more controversial proposals," she wrote.

The government will not say exactly how much compensation is to be paid until this autumn's spending review. Hoban said details would be revealed in October and the aim was to begin making payments to policyholders in the middle of 2011. But he warned that the overall size of the compensation fund would be considered "in the light of what is affordable".

Equitable Life payout report 'is unsound'

A government-commissioned report that said victims of the Equitable Life scandal should receive compensation of just £266 each has been branded “unsafe” and “unsound” by the Parliamentary Ombudsman.

By [Rosie Murray-West](#), Deputy personal finance editor Published: 7:00AM BST 27 Jul 2010



Former Bond girl Honor Blackman protests with pensioners outside parliament in London Photo: EPA

The verdict yesterday by Ann Abraham has given fresh hope to the victims, who feared they would be left with a “scandalously” low amount if the Coalition adopted the proposals.

Many of the victims of Equitable Life’s near collapse lost most of their life savings. However, Sir John Chadwick’s report, published last week, recommended that they receive just £400 million compensation in total – about £266 per policyholder.

This was despite a report from a consultancy firm, published at the same time, which suggested losses sustained by policyholders were between £4 billion and £4.8 billion.

Ms Abraham wrote to all MPs yesterday saying the Chadwick report was an “unsafe and unsound basis on which to proceed”, and accused Sir John of “explicitly rejecting” her help when deciding on the level of compensation that should be paid.

Equitable Life victims fear the Coalition will adopt the Chadwick Report despite assertions from the Treasury Minister Mark Hoban that the Conservatives would abide by Ms Abraham’s own report in 2008, which found the Government guilty of maladministration and recommended a full compensation scheme.

Paul Braithwaite, head of the Equitable Members Action Group (EMAG), said the ombudsman’s stance had “vindicated EMAG’s assertion that the Chadwick Report was a Treasury dirty trick to cheat Equitable Life policyholders”.

Ms Abraham said of the Chadwick Report: "These proposals, if acted upon, would not in any sense enable fair and transparent compensation to be delivered."

The Labour government agreed to set up a limited scheme that would compensate only those who had lost the most, and instructed Sir John to proceed on that basis. Mr Hoban said at the time that the Tories would accept the ombudsman's findings and pay out on that basis.

However, when he published the Chadwick Report last week, Mr Hoban said it would be an "important building block" in deciding how much compensation victims would receive. He also indicated that the amount would be constrained by Britain's economic woes.

Equitable Life report is unsafe, says Ombudsman

By Alistair Dawber

The Parliamentary Ombudsman weighed into the row about compensation for victims of the Equitable Life scandal yesterday, saying she could not support the findings of a Government-backed inquiry published last week.

Ann Abraham said that proposals in Sir John Chadwick's report, to which the Government has lent its support, "seem to me to be an unsafe and unsound basis on which to proceed". The Chadwick report recommended the total compensation on offer should be capped at a maximum of £500m – about a tenth of the amount claimed by Equitable savers who saw the value of their private pension policies slashed after the insurer came close to collapse in 2000 when it lost a legal battle over pension guarantees. About 1.5 million Policyholders who had paid into the scheme lost up to £4.8bn.

In 2008, the Ombudsman reported on her own investigation into the scandal, blaming maladministration stemming from "serial regulatory failure", and recommending that policyholders should be fully compensated for their relative losses.

Ms Abraham said later that the previous Government's response to her report did not go far enough to "address the injustice suffered by Equitable Life policyholders".

In a letter to MPs yesterday, Ms Abrahams said the terms of reference for Sir John's inquiry were no longer relevant. "[They] included the rejection or qualification by the pervious Government of many of my findings ... and the rejection of my recommendation," she added. "In the light of the new Government's commitment to implement that recommendation in full, the Chadwick report has thus been overtaken by events and cannot provide a basis for the implementation of my recommendation."

In May, the coalition signalled its intention to implement the Ombudsman's recommendations and plans were included in the Queen's Speech. Last week, the Financial Secretary to the Treasury, Mark Hoban, said the Chadwick report was one of a number of "building blocks" in the attempt to resolve the situation, adding that compensation levels for savers would be disclosed in October.

The Equitable Life Members' Action Group has accused the Government of trying to limit payouts. Ms Abraham said she backed a number of the Government's proposals for managing compensation payments but rounded on the details of the report which, she said, "if acted upon, would not in any sense enable fair and transparent compensation to be delivered".

Sir John's report was commissioned by the previous Labour government, which apologised for the maladministration that contributed to the insurer's problems, but rejected the recommendation that it should compensate every policyholder.

Ms Abrahams' comments follow criticism from the chief executive of Equitable Life, Chris Wiscarson, who said last week: "We cannot support the conclusions of a report which has objectives that appear to us quite different from what was anticipated by the Parliamentary Ombudsman."

Mr Wiscarson added that the £4.8bn figure should be the basis for compensation.

Watchdog demands more Equitable cash

By Tim Shipman 27 July 2010, 11:00am

Plans to hand only £500m to the victims of the Equitable Life scandal were condemned as 'unsafe and unsound' yesterday.



Investigation: Parliamentary Ombudsman Ann Abraham

Parliamentary Ombudsman Ann Abraham has written to MPs warning them that the Government must not adopt the paltry payouts suggested by the Chadwick Report last week.

But ministers have admitted that even that sum might be slashed further during the public spending review this autumn.

Miss Abraham was the first to say the 1.5m policyholders should be paid compensation after finding ten instances of maladministration by regulators and Whitehall officials in relation to Equitable in the period leading up to December 2001.

Former Appeal Court judge Sir John Chadwick's report found that the policyholders lost between £4bn and £4.8bn - but he said the victims should be paid only between £400m and £500m.

In her letter to MPs, the Ombudsman warned that Sir John's report misinterpreted central parts of her conclusions.

She said: 'I find these flaws particularly concerning. The Chadwick proposals seem to me to be an unsafe and unsound basis on which to proceed.'

Those who lost money when Britain's oldest mutually-owned insurer went bust said the Government had to ignore the £500m figure.

Paul Weir, director of the Equitable Life Action Group, said: 'I agree 100% with what she's saying. Chadwick is not fair or transparent.'

'It's not justice. Even Chadwick found that we collectively lost nearly £5bn. We're not going to be satisfied with less than 10% of that.'

Equitable Life compensation plan rejected by Ombudsman



Chadwick recommendations "flawed" says Ombudsman Ann Abraham

A proposed compensation plan for those who lost money with the Equitable Life has been rejected by the Parliamentary Ombudsman, Ann Abraham.

Ms Abraham said the suggested plan limiting payouts to between £400m and £500m was "unsafe and unsound".

The Ombudsman's views were made in a letter to all MPs.

The government has said it may use the proposals, set out by former Appeal Court judge Sir John Chadwick, when deciding the amount to be paid out.

But Ms Abraham said it should not rely on the methodology used by Sir John, and nor should the coalition government use his figures to decide the final scope of compensation.

"It seems to me that those proposals, if acted upon, would not in any sense enable fair and transparent compensation to be delivered," Ms Abraham said.

"In studying the Chadwick report I have noted that it misinterprets central parts of the conclusions outlined in my July 2008 report and has ignored others.

"I find these flaws particularly concerning, providing as they do the basis for some of the central and more controversial proposals within the Chadwick report," Ms Abraham said.

Payments due

Last week, the government said it would set up an independent commission to decide how compensation should be distributed to the 1.5 million Equitable savers.



The level of compensation had still to be decided, Mr Hoban said

They were the people who saw the value of their private pension policies slashed after the Equitable closed and came near to collapse in 2000.

Compensation payments should start to be made in the middle of next year, the government announced last week.

But the total sum on offer is likely to be far less than the £5bn that campaigners have been demanding.

The amount will be decided this autumn, in the light of the government's desire to rein in public spending and cut the government's budget deficit.

Ms Abraham suggested that a figure of between £4bn and £4.8bn - the initial starting point for Sir John's own calculations - would be a "firm foundation" for deciding how much the Equitable members had suffered.

Regulatory failure

It was in 2008 that the ball was finally set rolling for a full compensation scheme when Ms Abraham published her second report on the Equitable saga.

She decided that the near-collapse of the company and the losses suffered by its customers were largely the government's fault, because various departments and agencies had failed to regulate the Equitable properly.

She recommended that a full compensation scheme be set up. The Labour government eventually agreed to set up a very limited scheme that would compensate only those who had lost the most - those who had been "disproportionately affected".

Sir John Chadwick was asked last year to devise a plan with that in mind.

Although the coalition had pledged itself to a much more comprehensive scheme, campaigners fear that in reality it will adopt much of Sir John's thinking and recommendations when working out how much should actually be paid.

Ombudsman: Report on Equitable Life was unsound and unsafe

Simon Bain 27 Jul 2010

The Parliamentary Ombudsman has re-entered the battle over fair compensation for Equitable Life policyholders by telling MPs that the report delivered by retired judge Sir John Chadwick is “unsound and unsafe”.

Ann Abraham had already broken with precedent by criticising the response of the Labour Government to her 2800-page report which called for fair compensation from an independent tribunal. Now she has effectively endorsed the complaints of the 40,000-member Equitable Members' Action Group that the Chadwick report is a creation of the Treasury, still acting on the mandate of the last government, and in defiance of the professed policy of the coalition.

Chadwick's report prompted outrage from Emag when it recommended a payout of only 10% of the more than £4 billion of relative losses which were sustained by the insurer's then one million policyholders after its near collapse in 2000.

The last government had briefed Chadwick to devise a system that would make ex gratia payments and only to those disproportionately affected, in a clear rejection of the key findings in the ombudsman's report in July 2008.

Abraham has now reminded MPs that the terms of reference set for Chadwick “include the rejection or qualification by the previous government of many of my findings” whereas the new government had made a commitment to implement her recommendations in full. The report had therefore been “overtaken by events”.

Abraham does concede that her original recommendations included recognition of the “potential impact on the public purse”. She writes: “I welcome the establishment of an independent commission to oversee the design and delivery of the compensation scheme.”

The figure of £4bn to £4.8bn of relative losses calculated by actuaries Towers Watson matched the figures produced by campaigners and included in her report, she added.

The Chadwick proposals however “would not in any sense enable fair and transparent compensation to be delivered”.

After giving Chadwick and his staff much assistance to explain the basis of her proposals, Abraham said: “I am very disappointed to discover that Sir John has rejected those explanations.”



Watchdog attacks Equitable Life plans

Published Date: 27 July 2010 By Jeff Salway

NEW proposals for compensating victims of the Equitable Life scandal have been rejected as "unsafe and unsound" by the parliamentary ombudsman.

Ann Abraham yesterday warned MPs that the compensation plan set out by Sir John Chadwick last Thursday would fail to deliver a fair or transparent outcome for policyholders.

In a report commissioned by the previous government and set to form the basis of the current government's compensation plan, Chadwick recommended a total payout of £475 million to £650m, well short of the £1 billion that campaigners had expected.

Consequently more than a million policyholders who lost money after the near collapse of Equitable a decade ago can expect compensation of less than £500 each when payouts begin next year.

But, in a letter sent to MPs yesterday, Abraham said: "I thought it important to let members know as soon as possible that the Chadwick proposals seem to me to be an unsafe and unsound basis on which to proceed."

She accused Chadwick of misinterpreting the conclusions of her July 2008 report into the regulatory failures that contributed to Equitable's downfall. "I find these flaws particularly concerning, providing as they do the basis for some of the central and more controversial proposals within the Chadwick report," she said.

Chadwick's report has also come under fire from Chris Wiscarson, chief executive of Equitable Life, who said he could not support conclusions apparently at odds with the expectations of the parliamentary ombudsman.

Equitable Life competition scheme condemned



Tuesday 27th July 2010

The Parliamentary Ombudsman has today issued a damning indictment of the U.K.'s proposed £400 million payout to Equitable Life sufferers, many of whom lost their life savings during the company's near collapse back in 2000. The £400 million compensation scheme, yet to be rubberstamped by the government, equates to just £266 per policyholder despite the fact that a recent report suggested losses for policyholders were between £4 billion and £4.8 billion. So is their new hope for Equitable Life sufferers?

There is no doubt that the damning report from the Parliamentary Ombudsman will make the UK government sit up and listen but whether additional funding will be injected into the compensation package remains to be seen. This has taken 10 years to bring to fruition and even now there is great controversy regarding the level of compensation and the admission of guilt on behalf of the UK government. While there is no doubt that the near collapse of Equitable Life, and the massive losses which some customers experienced, were the result of guarantees set up by the company itself the regulatory system in the UK was also called into question.

Whether or not the government is able to introduce more money into the compensation scheme is a matter for discussion in the short to medium term but ultimately there is no way they will increase the compensation pot from £400 million to anywhere near the £4 billion estimated losses.

Parliamentary Ombudsman denounces proposed £400m Equitable payout

by [Iain Martin](#) on Jul 26, 2010 at 14:40



The Parliamentary Ombudsman Ann Abraham has denounced Sir John Chadwick's proposal to pay Equitable Life policyholders just £400 million as 'unsafe and unsound'.

The proposals from former High Court Judge Sir John Chadwick would not lead to fair or transparent compensation process for the 1 million Equitable Life policy holders, stated Abraham (pictured) in a letter in MPs.

Abraham accused the Chadwick report of misinterpreting the conclusions of her July 2008 report into the mistakes made by the Financial Services Authority in its regulation of the mutual society that came close to collapse in 2000.

'I thought it important to let members know as soon as possible that the Chadwick proposals seem to me to be an unsafe and unsound basis on which to proceed,' stated Abraham. 'It seems to me that those proposals, if acted upon, would not in any sense enable fair and transparent compensation to be delivered.'

The terms of reference of the Chadwick report, which had been set by the previous government, were no longer relevant, according to Abraham. Abraham has repeatedly criticized the government for dragging its feet over the issue of compensation for Equitable Life.

Ombudsman attacks latest Equitable Life report

26 July 2010

Parliamentary ombudsman Ann Abraham has attacked proposals outlined in the Chadwick report on Equitable Life.

In a letter to MPs, Abraham said the proposals set out in the report seemed to be an “unsafe and unsound basis” for the government to proceed.

She said, ‘It seems to me that those proposals, if acted upon, would not in any sense enable fair and transparent compensation to be delivered.’

The ombudsman said she had called for fair compensation for any relative losses suffered by policyholders or annuitants, in her report, to be delivered as soon as possible, with recourse to the impact on the public purse.

Chadwick’s proposals, however, called for an ex gratia payment only to those who had been ‘disproportionately affected’.

In the letter, she said the report had misinterpreted central parts of conclusions set out in her 2008 report and had ignored other parts.

Abraham added, ‘I find these flaws particularly concerning, providing as they do the basis for some of the central and more controversial proposals within the Chadwick report.’

The ombudsman said the Chadwick report had factored in the previous government’s rejection of her original proposals, failing to take into account the coalition government’s pledge to compensate policyholders.

‘It is not for me to become engaged with future discussions surrounding the policy now to be adopted.

‘However, as ever, I remain ready to assist Parliament in its deliberations on these matters.’

Equitable report branded 'unsafe'

Updated on 26 July 2010

A report suggesting Equitable Life policyholders should share no more than £500 million in compensation has been branded "unsafe" and "unsound" by the Parliamentary Ombudsman.

Ann Abraham has written to MPs warning them that if the proposals set out in the report by former Appeal Court judge Sir John Chadwick are acted upon, they will not deliver fair and transparent compensation for people who lost money due to the problems at the society.

She warned Sir John's report misinterpreted central parts of the conclusions she had reached in her own report, while it ignored others, despite the fact that she had explained to him how she had reached them.

She said: "I find these flaws particularly concerning, providing as they do the basis for some of the central and more controversial proposals within the Chadwick report."

Ms Abraham added: "I thought it important to let Members know as soon as possible that the Chadwick proposals seem to me to be an unsafe and unsound basis on which to proceed."

Equitable Life policyholders expressed anger last week after Sir John suggested they should share only between £400 million and £500 million in compensation.

This was despite acknowledging that they had made relative losses of between £4 billion and £4.8 billion by investing their money with Equitable, rather than another life insurer.

He also estimated that they had seen the value of their policies fall by up to £3.7 billion as a result of the problems at Equitable.

But Ms Abraham said she did not think the approach used in the Chadwick report was even relevant any more, as his terms of reference were set by the previous government, which had rejected many of her findings.

As a result, she said using it would not enable the new Government to meet its commitment to implement her findings in full.

Ombudsman slams Eq Life compensation plan

26 July 2010 | By Leah Milner

Parliamentary Ombudsman Ann Abraham has slammed the compensation plans which could see Equitable Life victims entitled to just £400m, claiming their basis is “unsafe and unsound”.

Last week Sir John Chadwick published recommendations to the coalition Government over compensation for Equitable Life victims, which calculated that total pay-outs could be just £400m-£500m – just a tenth of the £4.8bn which the Equitable Members’ Action Group says policyholders have lost.

Abraham says that as the coalition Government committed itself to implementing her recommendations in full, Sir John Chadwick’s terms of reference are flawed because they are based on the previous government’s rejection of several of her findings.

In a letter to MPs responding to the report, Abraham says: “Those proposals, if acted upon, would not in any sense enable fair and transparent compensation to be delivered.”

Abraham says the Chadwick report “misinterprets” several of the conclusions from her own report of 2008, and “ignored” others.

Abraham says that despite the fact she offered her assistance to the Chadwick process, “Sir John has explicitly rejected those explanations and that assistance and has substituted his own interpretation of these matters without seeking my further comments.”

She says: “I find these flaws particularly concerning, providing as they do the basis for the central and more controversial proposals within the report.”

Abraham adds: “For these reasons, the Chadwick proposals seem to me to be an unsafe and unsound basis on which to proceed.”

In January 2009, the Labour Government rejected a substantial number of Abraham’s findings of maladministration and injustice.

It commissioned Chadwick to devise ex-gratia payment scheme within limited guidelines. Emag withdrew from working with Chadwick’s review of compensation in March, labelling his work a “Treasury stitch-up”.

The group won a High Court challenge last year, which found the Treasury’s brief to Chadwick was unlawful and forced the remit to cover all investments back to 1991 rather than 1999.