

**ADDENDUM TO  
THE EQUITABLE LIFE ASSURANCE SOCIETY**

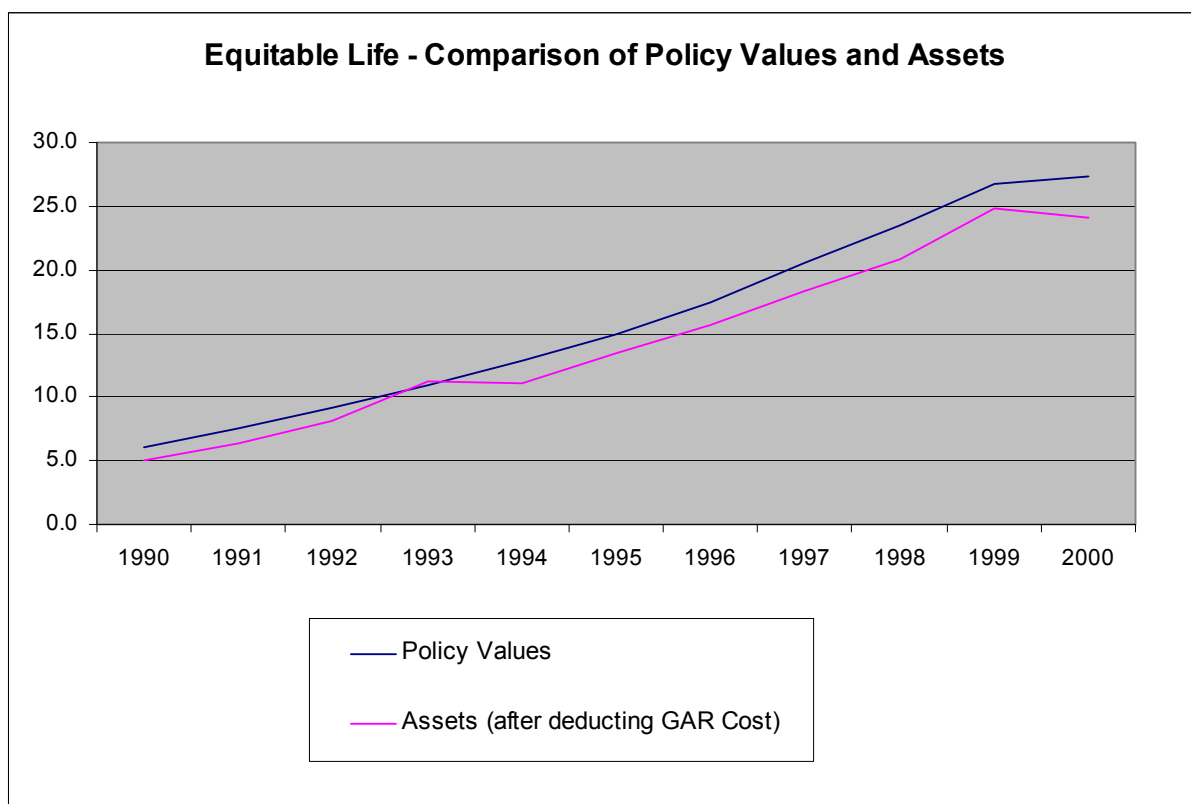
**WITH PROFIT FUND 1993-2000**

**INTRODUCTION**

In our original report we said ‘Our researches suggest that the policy values, which Equitable indicated to members, paid on maturities and used extensively for marketing, were only fully covered by assets at one year end (31<sup>st</sup> December 1993) during the entire decade of the nineties’. Since our report was compiled solely from the published information available, we could not be entirely sure that there was indeed an asset deficit going back to 1990.

Subsequently, during the action of Equitable Life v. Ernst & Young (the previous auditors) there was produced to the Court of Appeal a report prepared for the Directors by Catherine Payne (an Equitable Life Actuary) entitled ‘Comparison of Global Assets at Market Value with Full Policy Values’ (Document number 1988). This covered the period 1995-1999 inclusive and is the comparison we attempted to make on behalf of EMAG members in our original report. The publication of this document has enabled us to complete the picture for 1995-1999 and to make reasonably accurate revised estimates for 1990-1994 and 2000.

The graph below shows the effect of the revised figures:



On the attached Schedules we have shown:

- A comparison of our original estimates with the ‘official’ figures now released.
- A note showing how we arrived at revised estimates for 1990-1994 and 2000
- A note of the unexplained difference that arises for 2000.
- An extract from the Court Transcript
- A Copy of the ‘Comparison of Global Assets at Market Value with Full Policy Values’

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**MATTERS REVEALED BY THE COMPARISON**

Our original Report made clear that we established With Profit policy values by working backwards from Independent Actuary Michael Arnold's statement that the deficit was 10% at 31<sup>st</sup> December 2000. The Society refused to provide any figures for assets, policy values or GAR Cost used in making that statement. In the circumstances we assumed 'conservative' ones in order not to exaggerate the deficiency.

It will be seen that the Society's own figures recently revealed to the Court of Appeal confirmed that Policy Values indeed exceeded assets for each of the years concerned (1995-1999 inclusive). In each case the Asset figure is close to that used in our estimates, but the policy value figure and consequently the deficit is substantially greater.

We believe that the explanation for this disparity is that Michael Arnold used a lower (by £700m) estimate of the Guaranteed Annuity Rate cost at 31<sup>st</sup> December 2000 (£1.1 billion) than that contained in the Society's Accounts and Regulatory Returns (£1.8 billion). The Society has repeatedly refused to allow him to explain his estimates. If our interpretation is correct, then the deficit at that date (using the accounts figures for GAR Costs) rises from the 10% of With Profit Assets (£2.6 billion) indicated by Mr Arnold to 12.7% or £3.3 billion.

We ask Lord Penrose to seek an explanation from Independent Actuary Michael Arnold as to why he appears to have used a figure for GAR costs at 31<sup>st</sup> December 2000 that was £700 million less than that contained in the Accounts and Returns.

**CONCLUSION**

From the information provided by the Society for the Court of Appeal we can safely conclude:

- a) The methodology used in our Report was valid
- b) Our estimates of With Profit assets were accurate
- c) It is now confirmed that the Society's assets fell short of aggregate policy values at year-ends from 1995 to 1999 by amounts of between £1.6 to £2.7 billion (8% to 12%). It is extremely likely that a similar deficit arose at year-ends 1990,1991,1992 and 1994 of between £1.0 and £1.8 billion (13%-20%). 1993 only seems to have escaped the same fate by reason of a short-lived stock market spike.
- d) There was indeed a 'black hole' (quite separate from GAR matters) of well over £1 billion going back to 1990

Subject to Lord Penrose's confirmation, we believe the total deficiency at 31<sup>st</sup> December 2000 was nearer 13% (£3.3 billion) than the 10% (£2.6 billion) indicated by Michael Arnold.

**Burgess Hodgson**

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Chartered Accountants  
Camburgh House, 27 New Dover Road, Canterbury, Kent CT1 3DN  
Tel: 020 7930 4966 and 01227 454627 Fax 01227 452967