

**Written Ministerial Statement**

---

**EQUITABLE LIFE PAYMENT SCHEME**

**The Financial Secretary to the Treasury (Mark Hoban):** Our Programme for Government pledged to “implement the Parliamentary Ombudsman’s recommendation to make fair and transparent payments to Equitable Life policyholders, through an independent payment scheme, for their relative loss as a consequence of regulatory failure.” It has been this Government’s priority to provide a swift resolution to policyholders who have been waiting ten years for justice.

A commitment to fair payments must be founded on a fair assessment of the losses suffered by policyholders, and that must start with the Ombudsman’s approach. She sets this out in her report, *Equitable Life; a decade of regulatory failure*, where she introduces the concept of ‘relative loss’: that is the difference between what Equitable Life policyholders actually received from their policies, and what they would have received if they had invested elsewhere. The representations I have received over the summer from policyholders and their representatives have overwhelmingly supported this definition, and I believe that it is the right basis for calculating loss.

I am aware that parts of Sir John’s analysis were controversial, and I have always said that I would consider representations from interested parties on his work alongside it. Last week’s inquiry by the Public Administration Select Committee and their subsequent report recommended that Sir John’s final findings could not be used in order to determine the payments due to policyholders as his terms of reference included only the findings of maladministration accepted by the previous Government.

I have therefore decided to reject the final findings of Sir John’s report, as the later parts of his methodology are dependent upon which of the Parliamentary Ombudsman’s findings were included in his Terms of Reference, and which were not.

However, Sir John’s methodology includes a calculation of total relative loss, calculated from the end of 1992, is not affected by the restrictions on his terms of reference. Although there is disagreement around some aspects of this figure, there is considerable consensus around the main tenets that produce it, including the “alternative approach” he advocates which removes the need for individual assessment of policyholders’ claims. The comparators chosen to reach it have generally been recognised as being appropriate by various interested parties. The Parliamentary Ombudsman has also told me that she broadly supports the manner in which Sir John has approached this calculation.

Therefore I believe that it is a fair representation of the relative loss suffered by policyholders. Towers Watson calculate this figure as £4.3bn.

As the Parliamentary Ombudsman and PASC have recognised, the Equitable Life Payments Scheme must deliver fairness to taxpayers as well as policyholders. Given the significant pressures on public finances, it would not be fair to taxpayers for the Payments Scheme to pay out the full value of relative loss. Taking into consideration other spending commitments, and the reduction in bonuses suffered by policyholders as a result of the policy value cuts in 2001 and 2003, the Government has decided that £1 billion should be allocated to the Payments Scheme in the first three years of this Spending Review period.

However, when affordability is taken into consideration, it is important that the position of those who have been hardest hit by their losses is recognised. Policyholders with With Profits Annuities were particularly vulnerable to reductions in the value of their policies because they were unable to move their funds elsewhere, or to mitigate the impact of their losses through employment. They have consistently been highlighted to me by all groups as those most in need of compensation.

In light of these factors, the Government will cover the cost of the total relative loss suffered by With Profits Annuitants (WPAs) who took out policies after 1 September 1992, estimated at £620m. WPAs will receive regular payments, based on their full past and future relative losses.

The £1 billion set aside for the first three years of this Spending Review period will cover both the cost of the first three years of WPA regular payments, and all payments to other policyholders. The Independent Commission on Equitable Life Payments will advise on the allocation of funding to policyholders other than WPAs. I have also asked the Independent Commission to advise me on the prioritisation of payments to policyholders within this group, to ensure that those whose need is greatest are paid first. WPAs will continue to receive regular payments beyond the Spending Review period, over the course of their lifetime. In this way, the payments will effectively replace the income that they would have received from their Equitable Life policies. Once these payments are taken into account, I expect that the total amount paid out through the scheme will be in the region of £1.5 billion.

I have further decided that these payments will be free of tax.

I have today written to the Independent Commission on Equitable Life Payments informing them of my decision and its implications for their work, and re-iterating my request for their advice on how this funding should be distributed by the end of January. As I announced on 22 July, it is our ambition to make the first payments to victims by the middle of 2011, and I hope that all parties will work together to help meet this goal.

I am publishing alongside this the Government's response to PASC's Third Report on Equitable Life, copies of which are available in the Vote Office. I am further publishing an updated letter from Towers Watson providing their final calculation of relative loss figures. This is available on the HM Treasury website, along with further information.

**HM Treasury**  
**20 October 2010**