

26 July 2010



Dear Member

EQUITABLE LIFE

Last week, the Financial Secretary to the Treasury made a statement to the House outlining the Government's plans to deliver its commitment, set out in *The Coalition: our programme for government*, to implement my recommendation for compensation to all those affected by the Equitable Life affair.

That statement was accompanied by publication of a report containing advice by Sir John Chadwick. This advice had been commissioned by the previous Government after its rejection of my recommendation, instead undertaking to devise a system of limited *ex gratia* payments only to those 'disproportionately affected'.

I am writing to each Member of Parliament about these developments in order to fulfil my undertaking to assist Parliament to consider what action should be taken as a result of my July 2008 report *Equitable Life: a decade of regulatory failure*. I do this also in recognition that all Members have constituents who have been affected by these events. Hence 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.

Background

As you will know, my July 2008 report contained a central recommendation, namely that a scheme should be established and funded by Government to provide fair compensation to remedy any relative losses suffered by policyholders and annuitants. I suggested that such a scheme should be guided by the principles of independence, transparency and simplicity and should be delivered as soon as was possible in the circumstances. I also said that it was appropriate to consider the potential impact on the public purse of any payment of compensation in this case.

Parliament will wish to know my initial assessment of the extent to which the proposals made by Sir John Chadwick within his report and the other steps outlined by the Financial Secretary will enable the Government to meet its commitment to implement this recommendation.

My initial assessment

There is much to be welcomed in the Government's statement about next steps. I welcome the appointment of an independent commission to oversee the design and delivery of the compensation scheme which is now to be established. I also welcome the clear timetable set out for beginning payments to those affected and the commitment to consider representations on the way forward.



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The work done by Towers Watson to calculate the relative losses sustained by policyholders and annuitants is also to be welcomed. I note that the provisional figures of £4 to 4.8 billion for those losses are broadly consistent with the amounts claimed by those who complained to me and which informed the representations I received while finalising my July 2008 report. This all provides a firm foundation on which to build.

Unfortunately, I cannot say the same for the proposals within the Chadwick report. It seems to me that those proposals, if acted upon, would not in any sense enable fair and transparent compensation to be delivered.

I say that for two reasons. First, if I understand the Government's commitment correctly, the approach embodied in the Chadwick report is no longer relevant. Sir John's terms of reference included the rejection or qualification by the previous Government of many of my findings of maladministration and injustice and the rejection of my recommendation. In the light of the new Government's commitment to implement that recommendation in full, the approach embodied in the Chadwick report has thus been overtaken by events and cannot provide a basis for the implementation of my recommendation.

Secondly, 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.

Anyone involved with this subject matter will recognise that it is complex. When Sir John was undertaking his work, I responded to his request to assist him and his staff in understanding the content and structure of my report. I also explained to him the basis on which I had come to my conclusions and what my recommendation for compensation involved. I am very disappointed therefore to discover that Sir John has explicitly rejected those explanations and that assistance and has substituted his own interpretation of these matters without seeking my further comments.

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

Next steps

I have informed the Chairman of the Public Administration Select Committee that I am sending this letter. I have also sent advance copies of it to the Speaker, to the Financial Secretary, to Sir John Chadwick, and to the Chairman of the Treasury Select Committee.

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.

Yours sincerely



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