

JEREMY QUIN MP
Member of Parliament for Horsham



HOUSE OF COMMONS
LONDON SW1A 0AA

19th December 2016

Dear Constituent,

RE: EQUITABLE LIFE

Thank you for contacting me about Equitable Life.

I appreciate that you and many other individuals remain very disappointed with the level of payments being made to Equitable Life policy holders. However, the Ombudsman was clear that the total sum should reflect the interests of the taxpayer.

In her 2008 report, which provides the foundation of the Equitable Life Payment Scheme, the Parliamentary Ombudsman stated that "It is appropriate to consider the potential impact on the public purse of any payment of compensation."

While the total Relative Losses suffered by this group are in the region of £4.1 billion, in light of the pressures on the public purse, the Government has decided to make £1.5 billion available for the payments scheme. It believes this is a fair balance between the interests of policyholders and taxpayers.

To determine how to distribute the remaining funds, the Government established the Independent Commission on Equitable Life Payments. The Commission invited views on this matter from interested parties and considered a number of options. Its final recommendation was that the simplest approach was for a 22.4 per cent pro-rata to be applied to payments to non With-Profits Annuitants, which the Government accepted.

At the 2013 Budget the Government announced that payments of £5,000 would be made to people who bought With-Profits Annuities (WPAs) from Equitable Life before September 1992, with a further £5,000 going to those on Pension Credit. The Government remains of the view that there is no basis for their inclusion within the wider compensation Scheme. It believes WPAs whose policies commenced before 1 September 1992 did so before any maladministration could have affected their investment decisions. Accordingly, they did not suffer a loss in respect of which any compensation would be appropriate. The reduction in the levels of annuity payments that they have experienced is largely due to a combination of poor investment market performance, and the fact that early annuity payments were artificially high due to the structure of the product and over-bonusing.

I know that action to protect depositors in other banks such as Bradford and Bingley has also been taken and the Treasury has stated that this action was important to preserve financial stability. The issues facing these banks were so profound that there was a significant risk of a loss of confidence in the banking system as a whole, which would have had a very serious impact effect on the UK economy. In contrast, the circumstances relating to Equitable Life in the 1990s were quite different.

Action to protect depositors in RBS, Northern Rock, Bradford and Bingley and Icelandic banks was important to preserve financial stability and I must stress that not all of these costs will be met by the public purse, unlike the case with Equitable Life. For these other financial institutions, amounts up to £50,000 are covered by the Financial Services Compensation Scheme (FSCS), which is funded by a levy on the financial services sector. The Government and the FSCS also expect to recoup funds from the administration processes for some of the other institutions affected.

The then Chancellor during the Summer Budget announced that eligible policyholders in receipt of Pension Credit will see their lump sum payment doubled. I am pleased that people who most need it will receive this extra help. The Government will make a further payment to Equitable Life policyholders on Pension Credit who received 22.4 per cent of their relative loss. This payment will be for an additional 22.4 per cent and will be made in early 2016.

Whilst it is welcome the most recent figures that show growth of 2.6 per cent in 2014, the UK is not immune to weakness in the euro area and instability in global markets. Moreover, though the deficit is down by almost two thirds, it has still not been eliminated and borrowing this year is forecast to be 3.9% of GDP.

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Therefore, the Government has sought to achieve fairness between Equitable Life policyholders and the taxpayers who must bear the cost at a time when the nation's finances are still in a difficult position.

The Equitable Life Payment Scheme was set up in 2011 to make payments to all those affected by the government maladministration of Equitable Life identified by the Parliamentary and Health Services Ombudsman in her 2008 report.

After making payments of over £1.1 billion to more than 900,000 policyholders, the Scheme has now closed. A final report on the Scheme's achievements will be published shortly.

Thank you again for taking the time to contact me.

Yours sincerely,

A handwritten signature in black ink, appearing to read 'Jeremy Quin'.