



## **Equitable Life and the Ombudsman's report**

### **Q: What did the Government say in response to the Ombudsman's report?**

A: After carefully considering the complex and important issues raised by the Ombudsman's report the Government agreed that there were some cases of maladministration by the public bodies, that is by the regulator or the Government Actuary's Department. The Government apologised to policyholders on behalf of the public bodies and successive governments responsible for the regulation of Equitable Life between 1990 and 2001 for the maladministration it accepts took place.

The Government's formal response to the Ombudsman's report on Equitable Life and the statement made by the Chief Secretary, Rt Hon Yvette Cooper on 15<sup>th</sup> Jan 2009 can be found at [http://www.hm-treasury.gov.uk/equitabliflife\\_govt\\_response.htm](http://www.hm-treasury.gov.uk/equitabliflife_govt_response.htm). The formal response sets out in detail the reasons why the Government reached the view that it could not accept some of the Ombudsman's findings.

### **Q: The Government says it will set up an ex gratia payments scheme. What does that mean?**

A: The Government does not believe that it is generally appropriate for the taxpayer to pay compensation where there is regulatory failure. The responsibility to minimise risks and to prevent problems occurring in a particular financial institution lies, first and foremost, with the people who own and run that institution.

Nevertheless, the Government recognises that some policyholders have been disproportionately affected by the events at Equitable Life. The Government has therefore decided to set up a scheme to make ex gratia payments to those hardest hit by the maladministration it accepts has taken place.

The Government does not, however, currently hold the information needed to implement a payment scheme and so has asked Equitable Life to make available their detailed policyholder data. The Government has also asked former Lord Justice of the Court of Appeal, the Rt Hon Sir John Chadwick, to look at the information and consider a number of issues in relation to determining relative losses suffered by policyholders, and their impact.

### **Q: What does "disproportionate impact" mean?**

A: The Government wants help under the payments scheme to be targeted where it is most needed but has not yet been able to form a precise view on what factors will need to be considered because it lacks the information at present needed to do this. The Government has asked Sir John Chadwick to consider what factors may be appropriate to take into account.

### **Q: What else has the Government asked Sir John Chadwick to do?**

A: Sir John's full terms of reference can be found in the Government's response to the Ombudsman's report at [http://www.hm-treasury.gov.uk/d/equitabliflife\\_150109.pdf](http://www.hm-treasury.gov.uk/d/equitabliflife_150109.pdf)

### **Q: What progress is being made? When will Sir John Chadwick give his first update?**

A: The Government believes it is important to establish a scheme that can pay out as swiftly as possible. Sir John has been asked to undertake his work as quickly as he is able, including providing interim updates, the first of which we hope to get very soon. Work is also going on in relation to practical issues in parallel without waiting for all Sir John's work to be concluded.



**Q: When will Sir John Chadwick make his final report to the Government?**

A: Sir John has not yet said when he expects his work to be completed.

**Q: When will the scheme start paying out?**

A: The Government will introduce a fair ex gratia payment scheme for policyholders who have suffered a disproportionate impact, with the benefit of Sir John's advice, and taking account of other relevant considerations such as the position of the public finances. The timing of the introduction of the scheme will not be known until Sir John is much closer to completing his work but the Government has stated its desire to get the scheme up and running as soon as it can.

**Q: Some people need help now – will you introduce an interim hardship scheme?**

A: The Government is not ruling anything out, but considers it is most important to press ahead with the ex gratia payment scheme and avoid taking any action which might delay that.

**Q: Why don't you just pay everyone the full amount that the Ombudsman suggested?**

A: The Ombudsman recognised in her report that the public interest is a relevant consideration. What this means is that it is appropriate to consider the impact on the general taxpayer of any payments. The Parliamentary Select Committee on Public Administration, in its report on Equitable Life, also recognised the principle that payments should reflect the maladministration that occurred. The taxpayer should not fund payments for loss attributable to other factors, such as market conditions or the actions of Equitable Life itself.

**Q: Will payments from the scheme be means tested?**

The Government recognises the concerns that have been expressed by some policyholders on the question of means testing. It is hoped that this can be avoided, particularly because we want to have a payment scheme operational as soon as possible but it would not be appropriate at this stage to rule out any methods for allocating resources fairly under the scheme.

**Q: How do I register for the payments scheme?**

A: The Government will publicise the ex-gratia payments scheme when it has been established, and will give direct notification to key stakeholder groups.

**Q: How much will I get? How much money have you set aside to pay for the payments scheme?**

A: We do not know yet how much the scheme will cost or how much individual policyholders are likely to receive.

**Q: How can the Government throw taxpayers' money at the banks (RBS, Lloyds, Northern Rock, Bradford and Bingley, Icelandic Banks) but not do the same for Equitable Life?**

A: The Government has not just thrown taxpayers' money at the banks: action was taken in the banking sector order to preserve general financial stability in the UK. The issues facing the 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. The circumstances relating to Equitable Life in the 1990s are quite different.

Where the Government has taken action to recapitalise banks, this has give it a capital stake - an



investment - so the money is exchanged for assets, and the Government has charged commercial rates for money it has put in. Where banks have been taken into public ownership, the Government again holds assets. Where the Government has given guarantees on bank assets rather than made investments it has charged appropriate fees.

Action to protect depositors in Northern Rock, Bradford and Bingley and Icelandic banks was important to preserve financial stability. Not all of these costs will be met by the public purse. Amounts up to £50,000 are covered by the Financial Services Compensation Scheme, 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 KSF and Heritable and the winding up of Landsbanki.

**Q: Will the ex gratia payments be passed to the estates/families of the deceased policyholders?**

A: The issue about people's estates is an important one and it will be taken into account when deciding on the final terms of the payments scheme.