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Sir John Chadwick
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Dear Sir John,

Quantitative Matters

Introduction

As I shall be travelling for the next six weeks[1], as previously explained to Simon Bor, I feel that I must return to the unsatisfactory situation that has been created in regard to 'quantitative matters'. It now seems unlikely that I will be able to submit any further considered responses before your Final Report is published, and so I am writing about matters which have been left hanging in mid-air.

In essence, those of us who are not in some way 'numerically challenged' must contest the way in which you have approached the task of designing a satisfactory EGP scheme. You have allowed yourself to be guided by subjective opinion to far too great an extent, using 'arm-waving' as a substitute for proper numerical analysis, and you have not properly shared with your interlocutors such quantitative information as has been made available to your actuarial advisors. I address these issues in the remainder of this letter.

Background

I have written to you both informally via Simon Bor and more formally in letters addressed to you personally, about the vital need for proper quantitative data in setting up and reviewing a satisfactory EGP scheme. I made the point in early January[2] that *"..there has been almost no disclosure on the quantitative front or on the actuarial assumptions behind the quantification of loss, which are, for policyholder advocates, equally important."* I made the further point that *"It would not be in any way reasonable or realistic for you to assume that the advice you receive from your actuarial advisors was free of defects or unconscious bias."*

[1] Available irregularly only via the above email address
[2] My letter to you of 6 January 2010

In my most recent letter [3] I pressed the point again when I wrote that *"all that is available in IR3 is partial and incomplete data going back to 1992 which greatly hampers the calculation of gains and losses, and increases the likelihood of serious unfairness in framing the EGP Scheme. It is clearly causing you considerable difficulties in that you are unable to take account of possible overbonusing prior to 1990 (IR3 7.8)"*

We have previously been told that release of such data was a matter for the Treasury, which is contradicted by the latest assertion [4] to the effect that Towers Perrin report directly to you.

To be explicit, I do not see how you can produce satisfactory and soundly based recommendations without such comprehensive data. Many of the arguments[5] so far deployed by the various interested parties are either specious or lacking in fact, and your own provisional proposals would be laughed out of court for lack of proper substance were they ever to be brought before a qualified tribunal.

Specific Issues

In IR3 there is a limited amount of quantitative data provided as a separate Appendix[6], but it is manifestly incomplete and does not reconcile with the data on number of contracts in the Insurance Returns. This remains the situation after nearly 15 months of your study of the EGP scheme. One has to ask what is the point of retaining expensive actuarial expertise in the persons of the Towers Watson Organisation if it cannot supply such essential data after all this time?

The reason why this matter is so important, both to me and to policyholder advocates in general, is that I have been drafting for your consideration an examination of the true state of weakness of the Society's finances at the times when the GAD and the Regulators were telling Ministers that all was satisfactory in the State of Equitable. My provisional conclusion was that by 1988 the premium fund for WP policyholders was in substantial deficit. It was certainly so in 1990 as evidenced by Schedule 5 of the Insurance Returns. This represented a truly disastrous state for a WP fund, as the Society had not even been able to retain the net assets contributed to it in premiums, let alone any growth on those assets.

I further suspect that this deficit extended into the late 1990s, but without full and accurate statistics it is impossible to present a proper analysis. The GAD scrutineers should have pursued the matter in 1990 (but they did not) and they should certainly have monitored the situation in subsequent years (of which there is no sign).

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3 **Critique of your Third Interim Report 24 March 2010**

[4] Laurence Emmett to MJ 29/3/2010

[5] I except those of Peter Scawen whose command of an independent quantitative base of data gives a valuable advantage to the WPAs whom he so ably represents.

[6] Appendix E to IR3

No doubt the Treasury will assure you that squandering the premium fund was just '*a normal commercial decision'* on the part of the Society's Directors, and therefore not a Regulatory matter, despite its implications for the Reasonable Expectations of any policyholder, as well as for the security of all the pensions covered by the fund.

I spoke again to Simon Bor about the slow and inadequate provision of policy statistics and he responded that we had been provided with all that was currently available. Subsequently he offered to set up a meeting with your staff and key actuarial advisors 'after Easter' to clarify *my needs.* He clearly is under the impression that quantitative data is a sort of 'optional extra' in setting up a proper EGP scheme!

While I would have valued the opportunity to take part in such a meeting in January or February, by the third week of April it would be too late for any consequential information to be analysed and incorporated into a proper submission that could have any influence on your Final Report, even had I been available which unfortunately is not the case.

Frankly, as you will no doubt have inferred from the tone of this letter, I am angry at the apparent disregard of the importance of quantitative data by your team as a whole and I am frustrated by the inevitable harm this will cause to the validity of your eventual proposals. I have done what I could to remedy the matter, but now it is time to return the problem to your own hands.

A Recurrent Motif

I suspect that the true responsibility for these shortcomings lies elsewhere, Sir John. Policyholders who have followed the long saga of the state of the Equitable Life WP Fund since the loss of the Hyman Case in mid-2000 will not be surprised that proper statistical information is still not available. Your clients, The Treasury, have pursued a policy of non-disclosure and cynical diversions for the whole of that time in order to ensure that the full losses were not brought into account and that the Society, although realistically insolvent, could continue to operate in crippled form at the expense of the policyholders themselves. It is fair to say that the pattern still repeats itself, and will no doubt continue until there is a wholesale clearout of those responsible.

Yours sincerely

Michael Josephs