



## DEBATE PACK

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# Errors in payments made to victims of the Equitable Life scandal

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## Summary

A debate on a motion relating to errors in payments made to victims of the Equitable Life scandal is scheduled for Thursday 21 January 2021.

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The House of Commons Library prepares a briefing in hard copy and/or online for most non-legislative debates in the Chamber and Westminster Hall other than half-hour debates. Debate Packs are produced quickly after the announcement of parliamentary business. They are intended to provide a summary or overview of the issue being debated and identify relevant briefings and useful documents, including press and parliamentary material. More detailed briefing can be prepared for Members on request to the Library.

# 1. Background

Founded in 1762, the Equitable Life Assurance Society (Equitable) is the UK's oldest insurer. In 1913 it started to sell pensions policies.<sup>1</sup>

A large proportion of its business was with-profits pension policies, which were first sold in the late 1950s. Under these policies, money from policyholders was pooled and invested. Regular bonus payments would then be made to increase the size of the policy. The size of the bonus would depend on factors like investment performance and the insurer's expenses.

On retirement people would typically buy an annuity using the total sum under their policy with Equitable, along with anything else in their pension pot. The insurer would look at the size of the pension pot along with other factors like a person's health, and then offer an amount they would be willing to pay as an annual income in exchange for receiving the pension pot.

Another factor determining the amount annuities would pay out was the state of the annuities market at the time someone wanted to buy a policy. Matters like interest rates, the return on government bonds (which might be used to support annuities) and the level of competition between providers could influence the payout.

To help people concerned about this uncertainty, a significant minority of Equitable's with-profits pension policies were written with an additional option: guaranteed annuity rates (GARs). GARs guaranteed a minimum annuity rate to policyholders when they eventually came to buy an annuity, regardless of the state of the market at the time.

Equitable and other providers that sold GAR policies expected their investment returns to continue to be high, and therefore annuity rates to stay high – but they were wrong. Increasing life expectancies and lower returns on government bonds meant that annuity rates in the market went down.

Equitable stopped offering GARs in the 1980s, having sold around 90,000 of these types of policies. Eventually the cost for Equitable of maintaining these policies became too high and it went to court in 1999, seeking a declaration that it could reduce the bonus paid on policies with a GAR. Equitable succeeded at the High Court but lost in the Court of Appeal and the House of Lords. The loss cost Equitable an estimated £1.5 billion (others argued it was considerably more).<sup>2</sup>

To fund the loss, Equitable's managers tried to restructure and sell the business, but could not find a buyer. It therefore closed to new business on 8 December 2000. Hundreds of thousands of existing policyholders had the value of their policies cut, meaning they would receive

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<sup>1</sup> See the Equitable Life website, [History and Facts](#)

<sup>2</sup> See the Commons Library briefing [Equitable Life:pre-Penrose](#) (internal link, in particular p16)

significantly less money than expected. Many withdrew their money to recover what they could, incurring significant losses.<sup>3</sup>

Numerous investigations then took place focusing on various aspects of what went wrong, often placing blame on some combination of mismanagement and regulatory failings. These include reports:

- by the regulator, the Financial Services Authority (the Baird report) in 2001;
- by the Faculty and Institute of Actuaries on behalf of the actuarial profession (the Corley Committee) in 2001;
- by judge Lord Penrose (commissioned by the Government, and reporting in 2004); and
- two reports by the Parliamentary Ombudsmen (one in 2003 and one in 2008);
- by a committee of the European Parliament (in 2007);
- by the Public Administration Committee (in 2009); and
- by judge Sir John Chadwick, on various technical issues and the path to proceeding to a resolution (which gave its final recommendations in 2010).<sup>4</sup>

The Coalition Government then passed the *Equitable Life (Payments) Act 2010*, establishing a £1.5 billion compensation scheme for affected policyholders. This was significantly less than the £4 - £5 billion which was requested by the Equitable Members Action Group (EMAG), which was set up to campaign for compensation for policyholders. The Government estimated total losses at £4.1 billion.<sup>5</sup>

The compensation scheme amount of £1.5 billion covers around a third of the total amount claimed. EMAG claims that because the Government agreed to completely cover the losses of those who were already receiving annuities, the vast majority of those affected received only 22% of the money they had lost. The Government has repeated on numerous occasions since the compensation scheme closed at the end of 2015 that it does not intend to make any further payments.<sup>6</sup>

Existing policyholders have since had their policies transferred to another company,<sup>7</sup> but EMAG continues to campaign for additional compensation for past losses and the All-Party Parliamentary Group for Justice for Equitable Life Policyholders currently lists 282 MPs as members on the EMAG website.<sup>8</sup>

Specifically, the motion for debate on Thursday 21 January concerns “*errors in payments made*” rather than the size of the payments under the compensation scheme. EMAG claims that:

There is serious doubt over the accuracy and reliability of the methodology used by the Treasury to calculate what’s owed.

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<sup>3</sup> Ibid

<sup>4</sup> See the Commons Library briefing [Equitable Life: Penrose and beyond](#)

<sup>5</sup> HM Treasury, Corporate report, [Equitable Life Payment Scheme: final report](#), 18 November 2016

<sup>6</sup> See most recently the following [Parliamentary Question](#) answered by John Glen, Economic Secretary to the Treasury, on 14 January 2021

<sup>7</sup> Financial Times, [Scandal-hit insurer Equitable Life finally leaves the stage](#), 31 December 2019

<sup>8</sup> EMAG website, [All party Justice Group](#)

EMAG has uncovered several cases involving policyholders who were significantly under-compensated for their losses due to errors in the Treasury's calculations. Of 160 upheld complaints about inaccuracies in the Treasury's methodology, only eight received recalculations. In all eight cases, recalculations resulted in increased payments made to the policyholder. In one case losses were calculated as £17 when they were in fact £8,661. EMAG is calling for an inquiry by the Public Accounts Committee into the accuracy of the calculation of individuals' losses.<sup>9</sup>

In representations to the Backbench Business Committee in October 2019, seeking to secure this debate, Bob Blackman said:

We have put in applications and had debates in the past about the scandal and the scam, but this application is about the transparency of payments to victims. The fact is that individuals who have been receiving payments of compensation seem to differ in the amount of money that they have been allocated. We have never been able to get to the bottom of how this allocation has taken place. The Government claim that there are no errors in the allocation of funds, but there are clear discrepancies between individuals who have exactly the self-same investments and rights to compensation but have been paid different sums of money.

Our suggestion—our request—is for a 90-minute debate. We do not need to debate it for a lengthy period, but we need a debate in order to encourage the Public Accounts Committee and the Public Administration and Constitutional Affairs Committee to establish a Joint Committee to look into the accuracy—or more likely inaccuracy—of the payments that have been made to the victims of the scam.<sup>10</sup>

The Chair of the Public Accounts Committee, Meg Hillier, sent a [letter](#) in March 2020 to the Treasury raising concern about errors in the allocation of compensation. The [response](#) from the Treasury, received in July 2020, said that no errors in the compensation scheme methodology have been found. It noted that a challenge mechanism was available as part of the scheme but it has now been wound down.

An article in *The Times* dated 1 December 2020 written by Bob Blackman and David Davis said the Treasury “has not been fully transparent about its methodology and calculations” in administering the compensation scheme, arguing that there are “serious questions about the accuracy of the payments made to date”. They said there were “victims in every constituency”.<sup>11</sup>

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<sup>9</sup> EMAG website, [F.A.Q.](#)

<sup>10</sup> Backbench Business Committee, [Representations: Backbench debates](#), Q24, 8 October 2019

<sup>11</sup> See section 2 below, entitled “Press Articles”

## 2. Press Articles

[MPs call for £2.6bn Equitable Life compensation](#) [Intranet link]

**Daily Telegraph**  
**8 December 2020**

[Ten years on, we must right the wrongs of Equitable Life scandal](#)

**The Times**  
**1 December 2020**

This year marks two significant milestones in the unfinished fight for justice for the victims of the Equitable Life scandal, in which over a million policyholders lost part of their pension savings as a result of a decade of regulatory maladministration.

It also provides an opportunity for a Conservative government to finish the job it started on this day in 2010 and deliver the full and fair compensation still owed to the victims, ten years on.

They are people like Dot, now 96, a Second World War veteran who worked as a freelance journalist while supporting a young family and a husband disabled in the war. Or Don, who flew 19 different types of aircraft in the war, serving his country to help defeat fascism. And Bill who experienced the trauma of the Luftwaffe's bombing of Liverpool as a child, lived through the privations of war and its aftermath and worked hard to better himself and his family. All three are part of the generation that helped build post-war Britain.

When the parliamentary ombudsman found that there had been a decade of serial regulatory maladministration, we were proud that it was a Conservative-led government that promised swift, fair and transparent compensation. It was, after all, government regulators that were found to have failed in their duty.

Sadly, the victims of this scandal continue to be let down, even though they did what was asked of them and saved responsibly for their retirement.

Ten years ago today, George Osborne, then the chancellor, announced the creation of a compensation scheme. But it was far from the full and fair settlement that was needed. For almost all of those affected, fairness and transparency have simply not been delivered. While some policyholders rightly received full compensation, other elderly pensioners were unfairly excluded and the vast majority — around nine in ten — have had only 22 per cent of what the government accepts they are owed.

We are not talking about rich people here. The vast majority had less than £20,000 in their pension pots. They include teachers and nurses, along with engineers and small business owners – the very people who form the backbone of our country. They were left to twist in the wind

while they watched banks bailed out and their customers' savings protected.

Inevitably, those affected are increasingly elderly and vulnerable. Shamefully, thousands have died without the fairness they were promised and more will do so with each passing week. They and their families cannot understand why a government that values hard work and self-reliance would refuse to repay the money it has itself acknowledged is owed.

The reason given by the coalition in 2010 was the state of the public finances. We Conservatives worked hard to repair them in the intervening years, yet despite calls from MPs across all parties the Treasury has consistently refused to make further compensation available.

Coronavirus has once again placed the public finances under enormous pressure and it will be a major task to rebuild them. But a debt is a debt. It was an unsettled debt of honour in 2010 and remains so today. The ombudsman said the victims should be put back in the position they would have been in had those failings not occurred. The government accepted her findings and recommendations "in full".

That compensation must also be seen to be fair. There are serious questions about the accuracy of the payments made to date. The Equitable Members Action Group has documented cases where the calculations have been wildly inaccurate. Both policyholders and parliament need to be reassured that a further injustice has not taken place. Yet despite repeated requests from the Commons public accounts committee and campaigners, the Treasury has not been fully transparent about its methodology and calculations.

Even after all this time, support for this cause remains as strong as ever, with victims in every constituency. The all-party parliamentary group for justice for Equitable Life policyholders, of which Bob Blackman is co-chairman, is one of the largest in parliament, with over 260 MPs signed up, including 108 Conservative backbench colleagues. As MPs from across the Commons and from all intakes we are determined to continue to represent the victims of this scandal and push for the fairness and transparency that we, the Conservatives, promised them in 2010.

As the prime minister said earlier this year, no one should be penalised for doing the right thing. As we mark ten years since a Conservative-led government first promised action, we must once and for all put right the wrong that Equitable Life victims suffered because of institutional failings and we must do so now.

Bob Blackman and David Davis are Conservative MPs

**[The 20-year fight for justice: Victims of Equitable Life scandal forced to ramp up their campaign after getting just a fraction of their money back](#)**

**Daily Mail**

**20 October 2020**

Two decades on from the near-collapse of Equitable Life, customers who lost more than £4billion have been handed less than £1.4billion from a Government compensation scheme.

Campaigners are also worried that miscalculations by officials managing the scheme mean many victims have received less than they should.

More than a million customers were affected when the renowned pensions and annuities firm came to the brink of failure in 2000. Most savers are now at an advanced age and many are worried they will die before they get their money back. The Equitable Members Action Group (EMAG), which represents policyholders, is calling on the Government to reimburse victims in full.

One of those who lost out is Alan Pratt, 90, from the West Midlands. He said: 'We've waited 20 years for justice.'

'We're not asking for a handout, but the return of our own savings that the Government accepts we have lost because of its failures. We put money into our pension. This year, my wife of 65 years died. How much longer must we wait?'

Equitable Life was founded in 1762, and former customers included poet Samuel Taylor Coleridge and abolitionist William Wilberforce.

The firm closed in 2000 because it did not have the money to meet its promises. The business was sold off in chunks. Policies are now managed by firms including Prudential and Utmost Life and Pensions.

The Parliamentary Ombudsman published a report in 2008, accusing Government departments and regulators of 'maladministration', and recommending that victims should be returned to the position they would have been in had it not occurred.

The then chancellor, George Osborne, set aside just £1.5billion compensation, of which only £1.4billion has been distributed because £100million is owed to savers who have died. This is despite the Ombudsman's report finding victims had lost £4.1billion.

EMAG is holding an online rally to demand full repayment. More than 200 MPs on the All Party Parliamentary Group (APPG) for Justice for Equitable Life Policyholders are supporting it.

Tory MP Bob Blackman, co-chairman of the APPG, said: 'In the public's perception, the Equitable Life scandal shows that pension savings are not safe.'

EMAG and the MPs also want a formal inquiry into the £1.4 billion of payments from Osborne's scheme as some complained they received less than expected.

**[Scandal-hit insurer Equitable Life finally leaves the stage](#)**

**Financial Times [£]**

**31 December 2019**

**[Equitable Life to shut down with surprise £1.8bn policyholder windfall](#)**

**The Guardian**

**15 June 2018**

The scandal-hit pension company that came close to collapse in 2000, is finally shutting down with a surprise £6,900-a-head windfall for the last remaining policyholders.

Around 261,000 people will share in a £1.8bn payout after Equitable said it would transfer its business to a separate insurer, Reliance Life, and unlock the capital tied up in funds.

The windfalls will mean that those customers who clung on after Equitable nearly went bust in 2000 will eventually see a profit on their policies. But around 800,000 former policyholders who were shifted to other providers or encouraged to cash in and accept their losses will not get anything.

Paul Braithwaite, whose Equitable Members Action Group has led an 18-year campaign for compensation, said policyholders who left Equitable still remain £2.5bn out of pocket.

“Equitable has crafted an elegant termination strategy for the small number of remaining members, but it will be no benefit to the vast majority of victims.

“If the remaining members vote in favour of this deal, they they are likely to come out ahead. But for every one of them, there are five who left the society who are much worse off.”

Existing members will be asked to vote on the deal in mid-2019 with payouts towards the end of the year.

Equitable chief executive, Chris Wiscarson, said: “When the Equitable closed to new business in 2000, it was inevitable that at some point the society had to come to an end. The benefit of bringing Equitable to an end sooner rather than later is that we can capture for with-profits policyholders the near-record high values of the investments backing their policies.”

The payouts will bring to a close two decades of disaster for Equitable Life, which was founded in 1762 and grew to become the country's second largest life insurer. But decades of excessive payouts and reckless guarantees on policies eventually led to its downfall.



It found itself locked into paying out high interest rates promised at a time of high inflation in the 1970s. But when inflation and interest rates fell, Equitable found it hard to fund those commitments, leaving a £4.4bn hole in its accounts.

In 2004, a report by Lord Penrose accused the former Equitable management team of “dubious” practices and nurturing a “culture of manipulation and concealment”.

Between 2006 and 2007 Equitable transferred hundreds of thousands of policyholders to Canada Life and Prudential, while a highly critical European parliament investigation demand compensation for victims.

In 2009 former Avengers star and Bond girl Honor Blackman added her voice to protests demanding government compensation in a demonstration outside the Houses of Parliament, at which 15 wooden coffins were borne aloft to symbolise the 15 Equitable Life pensioners who die each day, “waiting for justice”.

By 2010 the government agreed a £1.5bn compensation package, mostly aimed at 37,000 elderly annuitants who had “suffered most”.

But EMAG said the total compensation figure should be closer to £4bn, and continues its fight for justice, with a new website for victims launched just this week.

“The Treasury has run an attrition strategy, cynically depending on people walking away, dying or just giving up. But we will continue to pursue our case for the £2.5bn outstanding, and we have the support of 233 MPs,” said Braithwaite.

So how has Equitable been able to afford windfall payouts after decades of disastrous financial management? In many ways it has been saved by the collapse in interest rates since the great financial crash, which has made its bond investments more valuable.

When Equitable nearly went bust in 2000 it moved the vast majority of its money into bonds, whose underlying capital values have risen as interest rates have fallen, allowing the insurer to finance the payouts.

The windfalls will be added to Equitable’s policies and then transferred to Reliance Life, part of the £24bn US-backed Life Company Consolidation Group, which specialises in buying up so-called zombie funds which have closed to new business.

## 3. Parliamentary material

### [Equitable Life Assurance Society: Compensation,](#) HC WPQ, 14 January 2021

#### **Marco Longhi**

To ask the Chancellor of the Exchequer, what plans he has to reassess the calculation of the compensation payments made to people affected by the Equitable Life scheme.

#### **Answer**

#### **John Glen**

The Equitable Life Payment Scheme has been wound down and further guidance on the status of the Payment Scheme after closure is available at <https://www.gov.uk/guidance/equitable-life-payment-scheme#closure-of-the-scheme>

There are no plans to reopen any previous decisions relating to the Payment Scheme or review the £1.5 billion funding allocation previously made to it

### [Equitable Life: Compensation](#) HC OPQ, 20 October 2020

#### **Joanna Cherry**

#### **(Edinburgh South West) (SNP)**

If the Government will take steps to ensure that victims of the Equitable Life scandal receive full compensation for their losses. (907761)

#### **John Glen, The Economic Secretary to the Treasury**

In 2010, the Government set up a payment scheme to make payments of up to £1.5 billion to eligible policyholders. Since the scheme closed in 2016, the Government's position on this issue has been clear: there is no further funding in addition to that £1.5 billion and this issue is considered closed.

#### **Joanna Cherry [V]**

Many self-employed people and small business owners feel let down by the covid response, and the same type of people were let down 10 years ago today when victims of the Equitable Life scandal were told they would only get 22% of the money they had lost. The Treasury has ignored hard-working people like my constituents for a decade, so please will the Chancellor reconsider and commit to providing Equitable Life victims with the compensation they deserve?

#### **John Glen**

The Government continue to pay out to annuitants who were in payment from 2010. Indeed, we have a £100 million contingency to ensure that they are properly provided for. The Government were completely transparent about the calculation methodology and worked with the action group, the Equitable Members Action Group, to give explanations to policyholders. We met actuaries to ensure that it was as

fair as it possibly could be, so the Government's position on this remains as I have stated.

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## 4. Equitable Members Action Group Statement of Resolve

### Statement of Resolve<sup>12</sup>

We, the members of the All-Party Parliamentary Group for Justice for Equitable Life Policyholders,

representing the one million policyholders who were victims of maladministration, note that:

- Equitable Life policyholders' losses were found by the Parliamentary Ombudsman to be a direct result of a decade of maladministration by government and regulators, including HM Treasury
- the Ombudsman recommended that policyholders should be put back in the position they would have been had that maladministration not taken place
- the Government accepted the Ombudsman's recommendations in full
- the Government accepted that the losses arising from maladministration amounted to £4.1bn
- only £1.5bn was made available to compensate policyholders, with the vast majority receiving only 22% of their losses
- the most elderly and vulnerable with-profits annuitants were excluded from compensation and only received an ex-gratia payment following a cross-party campaign
- there are significant questions over the accuracy of the payments that have been made and the level of transparency around how individuals' losses have been calculated
- it is now 20 years since Equitable Life collapsed and 10 years since partial compensation was first announced

We believe that:

- Equitable Life policyholders acted responsibly by saving for their own future, before suffering loss and hardship because of government maladministration
- policyholders deserve justice: from those who helped rebuild Britain after the war to the nurses, teachers, civil servants, shop workers and postal workers who followed them and worked hard to save, with most having less than £20,000 in their pension pot
- there have been too many delays and excuses for failing to do the right thing, with too many victims continuing to die without the proper compensation they were promised

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<sup>12</sup> Signed by 140 MPs by 8 December 2020 -[www.emag.org.uk](http://www.emag.org.uk) [Accessed, 19 January 2021]

- there must be greater transparency about the basis and accuracy of payments that have been made
- the Government must finally honour the debt owed to Equitable Life victims and provide the full compensation to which they are entitled.

As Members of Parliament from all parties we therefore resolve to:

- continue to campaign until the full compensation due to Equitable Life policyholders is forthcoming
- call on the Public Accounts and Public Administration and Constitutional Affairs Committees to inquire into the accuracy and transparency of payments made to date

## 5. Further reading

### Previous Commons Library Briefings

[Debate on a motion relating to the 'Equitable Life scandal'](#), Debate Pack, 2020

[Compensation for Equitable Life policyholders](#), Briefing, 2017

[Equitable Life: further compensation debate](#), Briefing, 2016

[Equitable Life: compensation scheme](#), Briefing, 2015

[Equitable Life: Penrose and beyond](#), Briefing, 2011

[Equitable Life \(Payments\) Bill \[Bill 62 of 2010-11\]](#), Briefing, 2010

[Equitable Life: pre-Penrose](#), Briefing, 2004 [Intranet link]

[Equitable Life: Parliamentary Ombudsman Report](#), Briefing, 2003 [Intranet link]

[Equitable Life: Baird Report](#), Briefing, 2001 [Intranet link]

### Government/Parliamentary/EU reports

[Letter from Tom Scholar, Permanent Secretary HMT, to Meg Hillier MP, Chair of the House of Commons Public Accounts Select Committee](#), July 2020

[Equitable Life Payment Scheme: final report](#), HMT, 2016

[Administering the Equitable Life Payment Scheme](#), National Audit Office, 2013

[Equitable Life Payments Scheme: achieving a fair allocation and order of payments Advice to the Government](#), 2011

[The Equitable Life Payment Scheme design](#), HMT, 2011

[Equitable Life](#), House of Commons Public Administration Select Committee, 2010

[Advice to Government in relation to the proposed Equitable Life payment scheme](#) [Chadwick Report], 2010

[Equitable Life: a decade of regulatory failure fourth report session 2007 to 2008](#), PHSO, 2008

[Report on the crisis of the Equitable Life Assurance Society](#), European Parliament, 2007

[Report of the Equitable Life Inquiry](#) [Penrose Report], 2004

[The prudential regulation of Equitable Life 4th report 2002 to 2003](#), PHSO, 2003

[Equitable Life and the Life Assurance Industry: an Interim Report](#), House of Commons Treasury Select Committee, 2001

[Report of the Financial Services Authority on the Review of the Regulation of the Equitable Life Assurance Society from 1 January 1999 to 8 December 2000](#) [Baird Report], 2001

### Other reports

[Did anyone learn anything from the Equitable Life? Lessons and learning from financial crises](#), Richard Roberts, Professor of Contemporary History, King's College London, 2012

[Report of the Corley Committee of Inquiry regarding The Equitable Life Assurance Society](#), Actuarial Profession, 2001

### Websites

[Equitable Life timeline 1762-2020](#) – company website

[Equitable Life Payment Scheme](#) – UK Government

[Equitable Members' Action Group](#)

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