Equitable Life

Annual General Meeting – question and answer session

At the AGM on 11 May 2009, questions were asked by 10 members or their proxies. A summary of the themes covered is set out below:

1. Government compensation
2. TPA strategy
3. Remuneration
4. Miscellaneous

Government compensation

The Society believes that the Government's response to the Parliamentary Ombudsman's report is wholly inadequate. It is now a matter for Parliament as to what action to take. We believe there is a fundamental constitutional issue regarding the purpose of having an Ombudsman if her reports can be ignored by Government. The Chairman has called for the Ombudsman to resign as a matter of principle if she continues to be ignored.

If the Government continues to reject calls for a debate on its response to the Ombudsman's report, then whether such a debate and a vote happens will depend on the whether the opposition parties will make time on one of the days which they are allocated.

Equitable Life continues to lobby Parliamentarians vigorously to encourage Parliament to do the right thing for policyholders. It also encourages the media to report the issue whenever possible (though that normally depends on significant new developments). The Society encourages policyholders to contact their MPs to encourage them to support the Ombudsman.

None of the MPs we have spoken to have suggested that they would be excluded from taking part in a debate through being a policyholder or former policyholder. Indeed a number of MPs who have taken part in Westminster Hall debates have declared an interest before going on to speak in support of policyholders.

While not expressing political views, it was noted that the Conservative Party is on record as accepting the Parliamentary Ombudsman's findings on maladministration and injustice and her recommendation that compensation should be based on 'relative loss'. They have recognised that the state of the public finances may have an impact on compensation, in that staged payments may be necessary.

The presentations to the meeting explained why the Society did not believe that a judicial review of the Government's response would be in policyholders' interests – essentially, because the Court has no power to order the Government to pay any more compensation. For that reason, the Society will not use policyholders' funds in that way. A straw poll at the meeting suggested that those members attending were fairly evenly split between those in favour and those against financial support for a judicial review.

It was noted that the European Parliament has already recommended that the UK Government should compensate Equitable Life's policyholders, but the European Parliament has no power in this area and their report has had no impact.

It is also noted that the European Court of Human Rights has no jurisdiction in this area.

The Society is also ready to assist Sir John Chadwick (with his work advising the Government on their alternative proposal) and we have held a preliminary meeting with him. If the Government's approach does not change, we will do what we can to support a speedy implementation. Whether information given to Sir John is published will largely depend on what the nature of that information turns out to be and whether it is subject to any confidentiality agreement.

It would be very helpful if Sir John could determine a practical basis for calculating 'relative loss'.

TPA strategy

The purpose of seeking a long-term agreement with a third party administrator (TPA) is to secure cost savings in both the long and short term. The competitive nature of the market is reassuring in this respect and we hope to be able to demonstrate the benefits to policyholders once a contract is completed.

A large expenditure was incurred last year in preparatory work relating to the potential sale of the Society. However, a significant proportion of that work is necessary for describing the processes and services we require from a TPA, so policyholders will still benefit from much of that expenditure.

Remuneration

The Remuneration Committee determines the appropriate levels of Directors' pay which it recommends to the Board. In doing so, it recognises that there is a market for the relevant skills and it takes independent advice on the packages available elsewhere. It aims to set remuneration at the mid-point of the range (in spite of top-end performance) in recognition of the difficult circumstances suffered by many Equitable Life policyholders.

Market remuneration packages for executives typically include salary, bonus, pension and long-term incentive scheme (such as share options). The Society does not offer a pension scheme or a share based long-term incentive scheme for executive Directors so their remuneration package is all in cash.

The performance bonus system links the bonus to the achievement of objectives which are important to policyholders such as stability and service. Investment performance is largely determined by the financial constraints of the business and the market place. It would be inefficient to link executive bonus to issues over which they have little influence.

Comparisons relating to the remuneration of other individuals in the banking sector are inappropriate – in those cases there appears to be a consensus that those executives had presided over the failure (or near failure) of their institutions; in the Society's case the executive has rescued the Society from near collapse.

The Society introduced a long-term retention scheme because the Society had developed into a very unusual and challenging business. The executive had built up very particular knowledge and experience and it would have been difficult and expensive to find replacements who were willing to work at Equitable Life and had the skills necessary to do so. The retention scheme recognised that losing such specialised experience would not be in policyholders' interests.

The Society has negotiated with Mr Thomson so that he will stay until the TPA arrangements are largely established.

Longer term, as run-off progresses, costs can be expected to reduce. The Chairman has already had a reduction in pay in 2009, London office has been closed, the new Chief Executive will be recruited on a reduced remuneration package, non-executive Directors have not had a pay increase since 2004 and the size of the Board is reducing.

Miscellaneous

There remains a majority of policies which have Guaranteed Investment Returns of (typically) 3.5%pa. However, the guarantees are known and allowed for in the assessment of future liabilities and in the calculation of the allowance made for the cost of future guarantees. The Society manages the business as fairly as possible, though, in some circumstances, policyholders with Guaranteed Investment Returns may receive better value from their policies than those without. This is an issue which was inherited from the time when the Society was open to new business and it is not practical to remove such guarantees at this stage.

The Society continues to invest cautiously subject to constraints applied by the regulatory framework. The majority of the Society's investments are held in Government and corporate bonds with small elements in commercial property and equities.

Withdrawals in 2001 and 2002 on contractual terms (without financial adjustment) arose only when policy terms allowed. A large volume of withdrawals were possible because many of the Society's policies allowed a wide range of dates to be selected. For example, many retirement policies allowed pensions to be taken at any time from age 50 to age 75.

Surrender values in group pension schemes have always been calculated to provide the same economic value as for individuals. Financial adjustments for the whole business were calculated to reflect the overall performance of the whole business. In a similar way, financial adjustments for group schemes were calculated looking at the overall performance of the group. Depending on the cash flow of the scheme some group calculations produced financial adjustments which were higher and some were lower than the figures for the rest of the business from time to time. Those outcomes were a result of the calculations, there were no negotiations and no ‘special deals’. Because of concerns raised by members, the approach was changed early in 2002 so that group scheme surrenders always suffer a financial adjustment at least as high as applies to individuals. The Society was a major provider of public sector pension arrangements so some will have been involved in these surrender arrangements. However, the approach did not ‘single out’ public sector schemes in any way.