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HM Treasury and National Savings  
and Investments

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# Administering the Equitable Life Payment Scheme

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## Key facts

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**£1.5bn**

provision made to make  
payments to policyholders

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**1.46m**

total eligible policyholders

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**£57m**

original budget to administer  
the Scheme

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<b>£577 million</b>	value of payments made up to the end of March 2013
<b>407,000</b>	payments made to policyholders up to the end of March 2013
<b>0.02</b>	percentage of members of Group schemes to have received a payment
<b>664,187</b>	payments left to pay at the end of March 2013
<b>17 to 20 per cent</b>	estimated range of proportion of policyholders who will not be found, despite tracing attempted by the Scheme

# Summary

**1** The Equitable Life Payment Scheme (the Scheme) was set up by the government in 2011 to provide *ex gratia*<sup>1</sup> payments to policyholders of the Equitable Life Assurance Society (ELAS). Policyholders of ELAS had paid contributions into investments or pensions over the course of their working lives to provide them with retirement income. Many policyholders saw their investment or retirement income fall dramatically when ELAS had to close to new business. Policyholders included pensioners and beneficiaries of estates, some of whom made relative losses<sup>2</sup> on the income they thought they would have.

**2** An investigation by the Parliamentary and Health Service Ombudsman concluded that regulatory failure was part of the reason for ELAS's failure. HM Treasury (the Treasury) was given powers to make just over a million payments<sup>3</sup> to policyholders by The Equitable Life (Payments) Act, which received Royal Assent in November 2010. Policyholders who made relative losses between September 1992 and December 2000 were eligible for payment and the 2010 Spending Review provided a cap of £1.5 billion to make these payments. The first £1 billion was provided for payments during 2011–2014, and the remaining £500 million was for payments from April 2014 onwards. This provision was only to make payments and not to cover the cost of administering the Scheme, which would be borne directly by the Treasury through its Parliamentary grant.

**3** There are three main types of policyholders:

- **Annuitants** are those policyholders who had an annuity with ELAS. An annuity is a contract in which a consumer pays a firm a lump sum in exchange for a series of payments, usually annually. They were to be paid 100 per cent of relative losses as annual payments over the duration of their annuity.
- **Investors** are individuals who were paying contributions into ELAS investment funds, many of which were for personal pensions, when it closed to new business. They were to be paid 22.4 per cent of relative losses as a one-off payment.
- **Groups** refer to members who were paying contributions into an ELAS group pension scheme, through their employer. They were to receive the same percentage as Investors.

<sup>1</sup> Ex gratia payments are payments made out of favour, without the giver recognising a liability or legal obligation.

<sup>2</sup> Relative loss is the difference between the actual returns received, or expected to be received, from Equitable Life and the returns that would have been received if the investment had been made in a similar product with a comparable company.

<sup>3</sup> In this report 'payments' refers to payments made to policyholders who are eligible for a payment under the rules of the Scheme who suffered a relative loss to their investment of over the threshold £10 minimum level. It does not include the contacts to eligible policyholders who did not make a relative loss or whose relative loss was below £10.

**4** The Treasury engaged National Savings and Investments (NS&I) to be its partner to operate the Scheme. NS&I is an Executive Agency of the Treasury, and is best known for issuing Premium Bonds. NS&I outsource operations to ATOS, including those related to the Scheme. The contract between the Treasury and NS&I was set up under joint governance arrangements with a fixed fee for NS&I's management of the operations, and the operations invoiced for time and materials. The proposed overall budget for the Scheme was £57 million, £46 million of which was to cover NS&I's costs of paying out £1 billion during 2011–2014. A Programme Board, made up of representatives from the Treasury and NS&I, was set up to oversee the Scheme. Towers Watson, an actuary, was commissioned to calculate the individual payment amounts.

**5** This report looks at the Treasury and NS&I's implementation of the Scheme to date, and whether the government will meet its targets. Our recommendations aim to improve the Scheme's performance during its final year. Our report does not consider the reasons why the Scheme was created, the decision on the amounts to be paid, or the appropriateness of the calculation used to determine each payment. This report also does not cover the additional provision made for payments in the 2013 Budget for policyholders who held policies before 1992. These payments will be made under a separate payment scheme which requires new legislation to be passed.

### Key findings

**6 The Treasury was tasked with a difficult challenge in setting up the Scheme.** It had to set up a complex operation in a short period of time, with incomplete data, and there were many practical issues to overcome. By the end of March 2013, the Scheme had made 407,000 payments, totalling more than £577 million. This can be broken down into 90 per cent of Annuitants receiving their first payment and 75 per cent of Investors receiving their one-off payment (paragraphs 2.3 and 1.14).

**7 The government's target of making the first payment by June 2011 was met, but this meant problems were experienced later on in the Scheme.** In work we have previously undertaken on government compensation schemes,<sup>4</sup> we have found that such schemes can be difficult to set up and administer. To meet delivery targets, schemes need to be carefully planned, have in place the correct governance structures, strong contractual arrangements and appropriate systems. The Treasury had to establish the Scheme quickly so that the first payments could be made by June 2011 but, in so doing, failed to learn lessons from previous schemes of comprehensively planning the Scheme before making the first payment. In particular, the Treasury focused its early planning on developing policy and ensuring that the first payment was made by the deadline, rather than planning in detail how the Scheme would be provided. Also, providing the Scheme required investment in developing systems at NS&I, as the operations of the Scheme were a departure from its normal operations, and the time needed to do this was underestimated (paragraphs 2.2 to 2.4).

<sup>4</sup> Comptroller and Auditor General reports, *The compensation scheme for former Icelandic water trawlermen*, Session 2006-07, HC 530, National Audit Office, June 2007 and *Coal Health Compensation Schemes*, Session 2006-07, HC 608, National Audit Office, July 2007.

**8 The Scheme has had to deal with significant data issues.** The data ELAS provided on the identity of policyholders was incomplete or out of date. This left the Scheme with the significant task of having to trace policyholders while also processing payments. Additionally, the payment amounts, calculated by Towers Watson, contained issues which led to delays as scheduled payments had to be postponed while these issues were rectified (paragraphs 2.8 to 2.10).

**9 Payments to policyholders have been delayed against the original plan.** In the initial plan, £500 million should have been paid out by the end of the 2011-2012 financial year. However, £168 million was paid out by this date. By June 2012, most Annuitants should have received their first payment, and 70 per cent had received their payment. There has been a delay in paying members of Group schemes, who make up 52 per cent of the population to be paid and equates to £187 million, where very few payments have been made so far. The delays experienced by the Scheme have led to dissatisfaction among some policyholders who also found responses to their queries and complaints, and the customer service more generally, to have been poor (paragraphs 1.15, 2.11 to 2.19).

**10 NS&I's operational costs have been increasing.** The operational costs are those costs which are spent on processing payments to policyholders, which also includes responding to queries, verifying identities and contacting eligible policyholders even if they are not due a payment. They do not include additional external costs or the costs of building the systems necessary to process the payments. These costs have generally increased month-on-month between December 2011 and March 2013 due to the activity involved in tracing policyholders. The number of payments NS&I has processed each month over this period has fallen (paragraph 3.9 and Figure 18).

**11 The original plan to prioritise estates and the older policyholders was changed.** Where NS&I were able to prioritise estates and older policyholders, they did. However, in many cases it was impractical for it to do so. This was because payments to estates were more complex to make, and because NS&I did not have complete data on policyholders, it was not able to prioritise the older ones (paragraph 3.2).

**12 Achieving the Scheme's objective to pay all policyholders that can be traced by the end of March 2014 is at risk.** The government had the objective to pay all policyholders of ELAS eligible under the Scheme's rules and to do this by March 2014. As at the end of March 2013, the Scheme has 664,178 payments, with a value of £370 million, left to pay. However, NS&I will not manage to trace everyone and is currently estimating that 7 to 9 per cent of Annuitants, and 18 to 20 per cent of Investors, will not receive payments. Overall, 17 to 20 per cent of all policyholders will not be found, despite efforts made by the Scheme to trace them. For the policyholders who will be traced there will be difficulties in making the remaining payments by March 2014 within the overall forecasted budget because (paragraphs 3.2 to 3.10):

- Some payments for the final year of the Scheme will take longer to process. For example, paying estates requires the Probate Office to provide information on 10,000 to 15,000 cases at a rate faster than they are currently able to do. Overall, NS&I will have to process cases at a faster rate than they have, on average, done so far.

- Only 35 per cent of payments have been made to date against a total population of 1,177,783, and 72 per cent of the budget has already been spent. This is because of the upfront payment of implementation costs, such as IT systems, as is normal for a project of this type. NS&I's current estimation of a £4.1 million overspend will need to be continuously monitored to ensure it is based on robust assumptions. The Treasury's current forecast is that overall there will be only a £1.5 million overspend, as its costs will be lower than the original budget. However, there is a risk of this increasing further.

### Conclusion

**13** The Scheme was set up to provide payments to just over one million policyholders of ELAS who lost some of their expected retirement income. However, 17 to 20 per cent of policyholders will never receive any payment since they cannot be traced. Many of the 80 to 83 per cent who will receive payment, have now been paid, and others will be paid before the closure of the Scheme in April 2014. The Treasury and NS&I have had problems in processing some payments, which have caused delays and other problems for some policyholders. As the volume of remaining payments is relatively large to make by the time the Scheme closes, and there are a number of risks in getting the information to process them, the Treasury and NS&I may find it hard to make these payments by April 2014 given the scale of the challenge.

### Recommendations

**14** The Treasury, with NS&I, should use the lessons they have learnt during the running of the Scheme to construct a new plan to ensure that all policyholders, who can be traced, receive payments within a reasonable timescale. This plan should use information on the length of time and cost to process payments, and should:

- Set out a more realistic timetable and budget, based on robust estimations, to provide the remaining payments. The Treasury and NS&I should be prepared for the Scheme costs to run over budget and need to consider a balance between making cost savings, and continuing to improve service quality.
- Outline how NS&I will deal with the large number of remaining payments, including those that may be more difficult to process, that now need to be made. NS&I should provide the Treasury with more details of how it intends to make the remaining payments over the next 12 months.
- Consider further how to trace the maximum number of policyholders to provide the greatest number of payments that is possible. As NS&I are anticipating that 17 to 20 per cent of policyholders will not be traced, the Treasury should consider alternative cost-effective approaches for tracing that could be employed.

**15** NS&I should continue to improve customer service quality. Following problems at the beginning of the Scheme with customer service, NS&I has taken a number of steps to improve, including developing more bespoke letters. It should continue to monitor customer service quality and find ways to improve for the final year of the Scheme and report plans and improvements to the Treasury.