

Media Comments on Blake Report No. 2 on the Equitable Life Assurance Society: Out of the GAR Frying Pan into the GIR Fire

Equitable rebels to seek election, by James Moore and Antonia Senior, The Times, 3 May 2002

EQUITABLE LIFE, the beleaguered insurer, faces a challenge from three rebel policyholders who are seeking election to its board at the annual meeting this month. This follows growing policyholder anger at the state of the insurers finances, revealed in its annual report this week.

Paul Braithwaite, chairman of the Equitable Life Members Action Group, who is one of the three dissident candidates, has commissioned Professor David Blake, director of the pensions institute at Birkbeck College, University of London, to review Equitable's 2001 report and accounts.

The annual report disclosed that Equitable Life had released £1 billion using actuarial techniques such as changing assumptions and getting rid of guaranteed policy bonuses. Without the £1 billion the society would be close to technical insolvency.

Last month Equitable cut annual bonuses by 2 per cent and policy maturity values by 4 per cent. Analysts have warned policyholders that the situation is unlikely to improve quickly.

Mr Braithwaite said he believed the state of the society was far worse than policyholders were led to believe when they voted for a compromise deal to stabilise its finances.

Mr Braithwaite said the report was intended to help policyholders understand and interpret the true state of the society and its prospects.

The other rebels are Howard Jones, a chartered engineer who stood last year, and Rodney Allen, a former member of the London Stock Exchange who is seeking to use human rights legislation to gain government compensation for policyholders.

Society carries on sailing close to wind, FT MONEY - PERSONAL FINANCE, Financial Times; May 4, 2002

There is no end in sight to the long drawn-out suffering of Equitable Life policyholders, who this week learned that the society is still on a knife-edge, making prospects for future bonuses extremely dim.

This revelation came in the report and accounts published by Equitable, which appeared to reveal an improved financial position.

But the improvement is down to financial engineering rather than to any real increase in assets over liabilities.

Charles Thomson, chief executive, said: "After much hard work our vitally important compromise scheme is in place. The fundamental uncertainties of GARs (guaranteed annuity

rates) have been removed and the financial position of the fund in this report and accounts has been improved by £1bn."

Equitable has changed some of the assumptions used in calculating its figures, which has the effect of reducing liabilities - in this case by about £1bn.

Independent analyst Ned Cazalet says: "At the end of 2001, the spare capital not required to cover bonuses would have fallen to £100,000 without this adjustment - in other words there would have been no spare capital even allowing for the compromise deal."

Equitable was able to make the adjustment by moving money out of equities and into fixed interest instruments, which pay a higher income. This income, says Cazalet, can be used either to discount liabilities or to pay annual bonuses. The more you use for the former, the less you have for the latter.

"There is no free lunch. If you are using a high proportion of your portfolio yield for discounting purposes, there is very little left over for annual or terminal bonuses. That makes bonus prospects very thin indeed."

Equitable has not done anything unusual in making these adjustments to its figures. Life offices feeling the pinch often use this tactic to improve their financial position. But Equitable is sailing closer to the wind than most other life offices and has less room for manoeuvre.

"If things got worse, it could probably shift more into fixed interest," says Cazalet.

"But that would probably mean markets weren't doing well and Equitable would be forced to sell at poor prices."

The life assurer may have had to do this over the past year, accounting for its surprisingly poor performance in 2001, given the relatively low amount it held in equities by the end of the year.

The fund showed a loss of 6.4 per cent, less than the FTSE 100 index, but more than some other with-profits companies with a higher proportion in shares. Equitable had 44 per cent in shares and property by the end of 2001, compared with 71 per cent at the beginning of the year.

The society's parlous financial position is no real surprise. The weakness of the fund became clear last month when the society made a 4 per cent cut in maturity values. The exit penalty was also raised from 10 per cent to 14 per cent.

Equitable is unapologetic about the financial engineering revealed in its report and accounts. It says: "The decision to change the assumptions was made on the advice of the appointed actuary, and we believe it was the right thing to do."

"The financial position was greatly improved by the compromise scheme, but we made clear in the document that the fund would have challenges and remain weak."

Moreover, says Equitable, the investment climate has not changed since January and the problems will not suddenly go away. "We won't be in a position to pay any bonuses except those written into policies."

About 75 per cent of policies include guaranteed annual bonuses of 3.5 per cent.

Many policyholders feel they have been misled. "It is a grossly misleading statement to say there has been a Pounds 1bn improvement in the financial position," says Paul Braithwaite, chairman of the Equitable Members' Action Group (EMAG).

"It's all smoke and mirrors. Policyholders agreed under the compromise scheme to give up their rights so that Equitable could return to stability.

"Three months later, we have seen a series of draconian measures that completely undermine people's view of the compromise and reveal that it is still a can of worms."

EMAG has commissioned Professor David Blake of the University of London to prepare an independent assessment of the state of Equitable's with-profits fund and its prospects.

Policyholders who have stayed the course so far face, yet again, the difficult decision of whether finally to throw in the towel. Each new item of bad news has prompted such a review.

Some do not have a choice, being tied in via an annuity. But anyone who can leave needs to look carefully at the pros and cons of doing so.

Tom McPhail of adviser Hargreaves Lansdown says: "The option of staying is looking less and less attractive. I think this latest revelation is significant and anyone who has money in Equitable's with-profits fund should re-examine whether they are still comfortable with that."

Braithwaite is not optimistic either. "Equitable appears to have paper thin liquidity and any further downturn will inevitably result in further devaluations of policies."

Guru rubs more salt into British insurer's wounds, by Ruth Sutherland, Daily Mail, 11 May 2002

Troubled insurer Equitable Life is facing another huge liability, which is pushing its shrinking with-profits fund to the brink of insolvency, new research claims.

A report by Professor David Blake of Birkbeck College, London, says the mutual faces a massive new threat in the form of Guaranteed Investment Rate contracts.

GIR holders are entitled to have a 3.5 percent return added to their policy each year, no matter how bad the performance of the fund, which last year fell by 6.4 percent.

The GIRs, held by up to 80 percent of policyholders, mean Equitable's financial options are limited because it must keep more of its money in bonds.

It leaves non-GIR holders taking all of the investment risk because the bulk of their money is in the stock market.

Professor Blake says it gives them "a definite case for mis-selling."

Equitable claims it has been completely open about GIRs' existence in its returns to City regulators. But many policyholders are unaware of their existence.

Professor Blake also accuses Equitable, led by new chairman Vanni Treves, of failing to inform policy-holders of its true financial state.

The GIR liabilities are on top of the £1.1 billion Equitable owes to holders of Guaranteed Annuity Rate policies.

The mutual drew a line under its potential GAR losses in a compromise scheme this spring, overwhelmingly supported by members.

Blake says: "The directors failed to tell investors that the fund was close to insolvency even with the compromise scheme."

Paul Braithwaite, of the Equitable Members' Action Group, says: "There is a bitter, creeping realisation that we are not out of the woods.

"Policyholders were conned into voting "yes" to the compromise scheme."

Equitable denies it has misled investors. It says Mr Justice Lloyd, who approved the compromise, was dismissive of an earlier report by Professor Blake.

Chief executive Charles Thomson says: "I am not terribly flattering about Professor Blake and neither was the judge.

"We are solvent. The fund is not strong, but it is our job to nurse it back to health."

Equitable Life refutes report, by Leslie Kraft Burke, Personal Finance Editor, The Scotsman, 11 May 2002

EQUITABLE LIFE officials yesterday refuted a report by a leading pensions expert which said the troubled mutuals with-profits fund appears to be close to technical insolvency.

The report, by University of London professor David Blake, said: "The Equitable Life with-profits fund appears to be close to technical insolvency. The fund for future appropriations is so small that, given the commitment to add guaranteed interest rates (GIRs) of 3.5 per cent a year... the fund could not take any more negative investment returns before becoming technically insolvent."

An Equitable spokesman said: "The fund is not close to technical insolvency, however it requires careful financial management and it will have that."

Blake's report, funded by the Equitable Members Action Group (EMAG), also accused the society of failing to inform policyholders when they voted for the group's compromise survival scheme earlier this year that the fund would be close to insolvency even if the scheme were approved.

The report also said: "The compromise scheme documentation and the 2001 interim accounts indicated to policyholders that the with-profits fund would face an uncertain future only if policyholders failed to vote for the compromise.

"These documents gave no indication that even if the compromise was approved, the with-profits fund would be close to technical insolvency [or that] a GIR problem was facing policyholders immediately over the horizon."

The Equitable spokesman said: "The society disagrees. We made it clear that the society would still need careful financial management after the compromise. Policyholders were also told the society's position would improve if the scheme passed and it has improved."

EMAG chairman and independent candidate for a non-executive position on Equitable's board, Paul Braithwaite, said: "Professor Blake's conclusions about the fund's prospects are depressing but his suggestions – of creating a new fund alongside the existing one, or declaring it a fixed-interest fund or a unitised fund - are good ones. Unfortunately Equitable is being driven by actuaries that can't think outside the box."

Equitable 'faces new crisis over guaranteed returns', by Katherine Griffiths, The Independent, 11 May 2002

EQUITABLE LIFE is teetering on the brink of insolvency and has another potential time bomb ticking inside it which could push it into the red, according to a leading financial forecaster.

Professor David Blake, head of the Pensions Institute at the University of London, warned that the society faced another problem similar to the guaranteed annuity rate nightmare and which has not yet been understood. The new difficulty is the existence of another group of policyholders with a guaranteed return.

This time it is policyholders with a guaranteed investment return (GIR). The policies were written before 1995 and make up about 75 per cent of Equitable members by value. GIRs are promised a minimum 3.5 per cent annual return on the guaranteed part of their fund.

While the return is not that demanding, Professor Blake believes Equitable "has not understood the value of these guarantees or how to reserve to pay for them".

He warned that the existence of the GIRs puts an extra strain on Equitable's already very fragile finances. He also said that the society's financial position was worse than many people thought because Equitable had changed the way it calculated liabilities.

Professor Blake raised the alarm after noticing that Equitable has cut its fund for future appropriations, which provides a cushion against adversity such as a dramatic fall in the stock market. Equitable has reduced the fund by changing the actuarial assumptions on which it is based. The fund now stands at £1.1bn. But if it had used its old assumptions, it would only have £100m in the pot.

"This fund is negligible and at the point where it could not take many more negative returns from the stock market," said Professor Blake, who was asked to scrutinise Equitable by the Equitable Members Action Group (EMAG).

Charles Thomson, chief executive of Equitable, said Equitable was solvent but added: "We have never hidden the fact that the fund is not particularly strong."

Separately, Paul Braithwaite, chairman of EMAG, called on members to vote against re-electing Equitable's chairman, Vanni Treves, at its forthcoming annual meeting.

Equitable 'only £100m from collapse' say members, by Tessa Thorniley, Daily Telegraph, 11 May 2002

EQUITABLE Life is "just £100m short of technical insolvency" according to a report commissioned by the Equitable Life Members Action Group (EMAG).

Charles Thomson, chief executive of Equitable, denied this, saying: "We have never hidden the fact that the position of the society is not particularly strong, but the company is solvent. The full circumstances are shown in our report and accounts."

The accounts show that the society's financial position had improved by £1 billion.

However, Professor David Blake, director of the pensions institute at Birkbeck College, claimed the improvement was due to actuarial changes to the way liabilities are calculated. He was commissioned by EMAG to review Equitable's with-profits fund.

He said the size of the society's fund to pay future final bonuses is so small that given the commitment to add guaranteed interest rates (GIRs) of 3.5pc a year to guaranteed values, the with-profits fund cannot withstand many more negative investment returns.

Mr Thomson said: "We have been very open regarding the GIR position and as long as investment returns remain above 3.5pc there will not be a problem. If returns fell below 3.5pc, this would be a problem for the rest of the UK as well."

Time to seek life beyond Equitable?, by Maria Scott, The Observer, 12 May 2002

The misery for Equitable Life investors seems never to end. Having agreed reluctantly to a deal aimed at stabilising the insurer's finances, policyholders now hear talk of the company's potential insolvency.

Chief executive Charles Thomson admitted last week that solvency margins were thin. Hours later, David Blake, director of the Pensions Institute and professor of financial economics at Birkbeck College, London, said Equitable's with-profit fund was 'close to being technically insolvent'.

In a report commissioned by the Equitable Members' Action Group (EMAG), Blake concluded that the firm's finances faced a renewed strain due to guaranteed returns it must pay on policies representing around 75 per cent of its funds.

These are a different set of guarantees from those that sparked the crisis that forced Equitable to shut up shop. But they are guarantees nevertheless, and are now emerging as a drag on its finances which, say policyholders, had not been spelt out before. Well, not in terms that anyone could readily understand, anyway.

Paul Braithwaite of EMAG is now seeking election as a policyholders' representative to the Equitable board at the annual meeting on 27 May.

He has proved an impassioned and dedicated champion of policyholders' interests. But many will have no stomach to fight on. They have been failed by regulators, possibly by the new management as well as the old one, and have no way of knowing the future of Equitable's finances.

Those wanting to shed the worry have little choice but to head for the exit and damn the expense.

Equitable fears panic exit, by Maria Scott, personal finance editor, The Observer, 12 May 2002

Panic is spreading among Equitable Life policyholders, according to financial advisers, following reports suggesting the insurer is on the brink of insolvency.

Fresh evidence of Equitable's weakness is expected to emerge this week with publication by Companies House of its latest financial returns, filed by the Financial Services Authority late last week.

The FSA said the firm was solvent and in a better position than a year ago, before policyholders agreed to a deal capping the potential cost of the guaranteed annuity rate pensions behind its problems.

But Ned Cazalet, an independent insurance analyst, expects the figures to show that its solvency margins were slightly thinner than before the compromise deal.

Cazalet said the FSA used a different measure for solvency from his own. 'We are confident that when we see the returns there is going to be little meaningful difference between the liabilities and excess capital.'

A report published on Friday by David Blake, professor of financial economics at Birkbeck College, London, said Equitable's battered with-profit fund was 'close to being technically insolvent... The fund could not take many more negative returns.'

This followed an admission by Equitable chief executive Charles Thomson that the margins were relatively thin. However, responding to Blake's report, Thomson insisted it was solvent, but added: 'We've never hidden the fact that the position is not particularly strong.'

Advisers said Thomson's comments had provoked calls from investors seeking help in withdrawing money from Equitable, despite a new 14 per cent exit charge.

Graham Hooper of Holden Meehan said: 'Clients just want to get out. People think, "This is unravelling".'

'Equitable could face insolvency through GIR commitment' says Blake, by Ian Allison, Complinet Insurance UK, 13 May 2002

The Equitable Life with-profits fund could easily be tipped over into insolvency because of the need to deliver guaranteed interest rates and should consider unitisation, according to an independent analysis of the latest figures.

Professor David Blake, director of the Pensions Institute of Birkbeck College, stated that the society could be "out of the GAR frying pan and into the GIR fire", because of low assets combined with the need to deliver annual bonuses of 3.5 per cent to 75 per cent of the fund by value.

The Equitable Members' Action Group commissioned Blake to produce the independent report on the society's most recent documents: a letter of 15 April to policyholders and the 2001 annual report and accounts published at the end of April.

Blake said: "Again the full information on the fund has not been given out. If equities perform well then non-GIRs might get the 3.5 per cent rate, but they are basically taking all the risk."

"I didn't pick up the GIR risk last time I was commissioned by EMAG, but then the immediate problem lay with the GARs. But the actuaries must have known. Perhaps it was too much for them to reveal at once."

Blake found the annual report and accounts to be lacking in crucial information, as he did in last December's compromise scheme proposal. He found no clear statement of: the with-profits fund's available assets or any comparison between the available assets and aggregate policy values, where the latter are differentiated between guaranteed and non-guaranteed elements; no statement of whether the available assets are within the range of +/- five per cent of aggregate policy values as indicated in the appointed actuary's report of 22 November 2001; again, no reporting of the number of members of the with-profits fund at the beginning and end of the year.

Blake listed a number of ominous portents affecting policyholders. They have had the exit penalty raised to 14 per cent and the maturity value of their policies reduced by an unprecedented four per cent. Furthermore they have not received annual statements to date and are currently subject to no interim bonus.

He also pointed out that the spare capital not required to cover bonuses would have fallen to only £100m, had it not been for an adjustment due to increased discounting of technical provisions, bringing it to £1.1bn.

Blake's commentary reflected his previous insight regarding the GAR problem, that the non-GAR policyholders are acting as insurers for the GARs, who stood to get the first bite of the cherry. "Non-GIRs have become unwitting providers of insurance to GIRs but have received no insurance premiums," he added.

In terms of strategy, Equitable's appears to be using retentions to keep smoothing and try to recreate a with-profits operation. Blake predicted that the with-profits fund would remain a run-off fund heavily invested in bonds if no radical changes in structure take place. His preferred solution would be either to convert to a unitised fund, or to start a unitised fund alongside the with-profits fund. This would involve a switch without penalty, and the GIRs who join it losing their GIR rights.

"The board is maintaining the with-profits myth, but it's no exaggeration to say that the non-GIR policyholders are in a with-losses fund. With-profits policies have a complete lack of transparency, have now been widely discredited, and should be abandoned as a product sold to retail customers in the UK," he concluded.

Equitable did not return calls by press time.

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<http://www.complinet.com/insurance-uk/dailynews/>

Equitable Life, Money Box, BBC Radio 4, 11 May 2002 (Transcript of interview with Paul Lewis)

LEWIS: Now is Equitable Life solvent? In other words does the world's oldest life assurance company have enough money to pay its policyholders what it's promised them? That's the question being asked this week. On Friday, Professor David Blake of the Pensions Institute at Birkbeck College London published an independent analysis into Equitable's finances based on its recent annual report. His findings came just hours after Equitable Life chief executive Charles Thomson admitted that the society's solvency was relatively thin. So I asked Professor Blake was Equitable Life close to insolvency?

BLAKE: I think I want to prefer to use the word technical insolvency because the fund still has quite a large number of assets.

LEWIS: So if it had to pay out everything now and everybody left the fund it could do that?

BLAKE: It could just about do that. The problem is if we have another bad year in the equity markets then there is the risk that there won't be enough assets in the fund to meet the liabilities.

LEWIS: And what would happen then?

BLAKE: In that case the risk is that the fund would go into liquidation. Those with guarantees would get as much as they could and those without the guarantees, those without the guaranteed investment returns, would get what was left over.

LEWIS: Now you mention guarantees. I think most people listening probably think the guarantees were all got rid of by the court action but a new bunch of guarantees have appeared recently?

BLAKE: That's right. The court case got rid of the question of guaranteed annuity rates and that was a big problem over the last few years. But what the society wasn't clear at letting everyone know, letting policy holders know, was about the guaranteed interest rates or GIRs that have been promised on 75% of the policies. These were guarantees that everyone had before 1996 and they've been discontinued after 1996. The guaranteed rate of return is a minimum of 3.5% per annum, so however well or badly the stock market is performing or the fund is performing, those with guarantees have to be allocated 3.5% per annum. Last year the fund lost 6.4%.

LEWIS: Are there ways even at this late stage you think that Equitable Life could resolve these problems?

BLAKE: Yes, the simplest solution would be to convert the fund from a with profits fund into a non profit fund - switch all the investments into bonds and that at least will guarantee that the fund will generate a return of 3.5%, enough to pay all the policy holders. But they then won't benefit from any higher return after that. There's enough to pay them 3.5% but not enough for them to enjoy the benefits of any further equity performance.

Another alternative is to convert the fund from a with profit fund to a unit-linked fund and in that case then, so long as we got rid of the problem with the guaranteed investment returns, the minimum guaranteed return of 3.5%, then the fund could start to invest in equities in the long run. A unit-linked fund doesn't have this commitment to pay a minimum return of 3.5% whatever the state of the stock market: if you have to make that commitment you're heavily restricted to bonds. Bonds are the only asset that you can deliver a 3.5% return with. There are shorter term problems of stock market volatility, but in the long run, particularly the younger members of the society, they would get a better long term return on their investment if they switched to a unit-linked fund and away from the with-profit fund that's heavily invested in bonds and is likely to remain so while we have the problem of meeting guaranteed minimum returns.

LEWIS: So you're confident that from the information that you've got which is the same as policyholders have had this is a fair assessment of Equitable Life's fund, that it is in fact close to technical insolvency?

BLAKE: Yes, on the basis of the figures in the Report and Accounts, I've given as fair an assessment as possible of its true state. Other commentators have made similar claims so I think we're right in the right ball park here.

LEWIS: Professor David Blake. In response Equitable Life told Money Box that the with-profits fund is still solvent and the board will do everything possible to ensure it remains so. Equitable also said all Professor Blake's suggestions had already been examined and rejected. It considers his suggestions are anything but in the best interests of policyholders. Chief executive Charles Thomson said 'turning the with profits fund into a unit based one would be an impossible thing to do'.

Equitable 'at risk of technical insolvency', by Jason Corcoran, FT Your Money, 15 May 2002 and FT Adviser 16 May 2002

Equitable Life's with profits fund is on the brink of technical insolvency, it is claimed. According to an independent report, it has limited options if it is to survive. The report, commissioned by the Equitable Life Members Action Group, claimed Equitable was just £100m from technical insolvency, which occurs if a firm is unable to meet its payments when due.

The report's author, Professor David Blake of Birkbeck College's pensions institute, said the society had only three options. He said it could convert to a unitised fund, establish a unitised fund to run alongside the with profits fund or convert to a closed non-profit fund.

But Charles Thomson, chief executive of Equitable, insisted the company was solvent and pointed to last year's accounts, which indicated that the society's financial position had improved by £1bn. He said: "We have never hidden the fact that the position of the society is not particularly strong, but the company is solvent. The full circumstances are shown in our report and accounts."

In his report, Mr Blake said that the society's difficulties with guaranteed annuity rate (GAR) policies had been replaced by holders of guaranteed investment rate (GIR) contracts. Equitable drew a line under its potential GAR losses in a compromise scheme in March, overwhelmingly supported by members. The GIRs, who make up 80 per cent of policyholders, are entitled to a 3.5

per cent return each year, no matter how bad the performance of the fund, which last year slipped by 6.4 per cent.

Mr Blake said the future investment flexibility of the fund was constrained because of the low level of free assets and the 3.5 per cent annual commitment to the GIRs. He said: "The with profits fund is pretty close to borderline as to whether it can stay in existence."

Mr Blake also said the society's 2001 reports and accounts were missing vital information, such as no statement regarding the with profits fund's available assets and no reporting of the number of members of the fund at the beginning and end of the year on the with profits fund. He said with profits policies were now widely discredited and called for them to be abandoned as a product sold to retail customers in the UK.

Paul Braithwaite, chairman of EMAG, is seeking election as a policyholders' representative on the Equitable board at the annual meeting on 27 May. He called on members to vote against re-electing Equitable's chairman, Vanni Treves, at the meeting. EMAG is set to reposition its focus to put more pressure on the government.

FT MONEY: 'Equitable Life – All we have left is the obfuscation', by Pauline Skypala, Financial Times, 18 May 2002

The chairman of the Equitable Members Action Group hopes to join the mutual's board this month. "There is an intellectual vacuum at the heart of the society," he tells Pauline Skypala. "Nobody has taken ownership of the problem and there is no strategic thinking"

Paul Braithwaite describes himself as an ordinary Joe who has been moved to devote a year of his life to speaking up for Equitable Life policyholders from a burning sense of the injustice of the whole affair.

As (unpaid) chairman of the Equitable Members Action Group (Emag), he, along with other activists, has harried EquitableLife, and continues to do so. He is now one of three independent candidates attempting to get voted on to Equitable's board at the society's AGM on May 27.

He is not a City professional or a lawyer, as are most other members of the Equitable board, but sees this as a point in his favour. He is standing along with other policyholder representatives including Ron Bullen, chairman of the Equitable Policyholders' Action Group, who was co-opted to the board with effect from May 1.

"I don't like the fact that the society is driven by lawyers and actuaries," says Mr Braithwaite. "There is an intellectual vacuum at the heart of the society; nobody has taken ownership of the problem and there is no strategic thinking."

Mr Braithwaite is adamant that the strategy being pursued by Equitable is misguided and inappropriate, and believes chief executive Charles Thomson has not been frank with policyholders over prospects for the with-profits fund going forward.

He is also calling for chairman Vanni Treves to step aside, suggesting he has far too many other calls on his time for him to sort out Equitable. "Having succeeded in getting the compromise through, he should step aside so someone else can address the profound problems that are seemingly beyond the chief executive."

He maintains that, as a first priority, Equitable should stop trying to pretend it is running a with-profits fund. He urges the society to consider proposals from David Blake, professor of financial economics at the University of London. "Blake suggests that for everybody's safety the society should quit on the idea of being an equity based with-profits fund," says Mr Braithwaite.

"He estimates the fund is now down to around 25 per cent in equities, but even that is dangerous when the society is so close to technical insolvency. If the stock market were to drop 10 per cent, the fund wouldn't have the latitude to cope with the liabilities. He says Equitable should admit what it is and concentrate on matching assets with liabilities."

Prof Blake was commissioned by EMAG to prepare an independent assessment of the state of Equitable's with-profits fund and its prospects. He maintains that, if the fund was switched 100 per cent to gilts and bonds, it could certainly cover the 3.5 per cent guaranteed interest rates (GIR) written into the majority of policies.

Mr Braithwaite believes all the executives are interested in doing is getting back to being a with-profits fund. "Like naked tortoises trying to crawl back into their shell, actuaries feel too exposed without the obfuscations of a with-profits fund to shelter under. They want their smoothing kitty back, and the only way they can get there is by retaining money as a reserve that they would otherwise be paying as guaranteed bonuses."

The normal expectation of a with-profits investment, says Mr Braithwaite, is that you are buying into an equity-driven, upwards-only smoothed fund, with some obfuscation because of the smoothing. "All we have got left is the obfuscation."

He believes trying to play the with-profits game can only harm policyholders further, although Mr Braithwaite does not think Equitable will become insolvent. "We have seen time and again there are devices they can use to stave that off: retrospectively cutting bonuses, increasing the exit penalty and cutting policy values."

He is, however, furious that the promises of the stability the compromise deal was supposed to deliver have proved empty. "Vanni Treves said in a radio broadcast in January, after the compromise deal had been accepted, that policyholders could now stop worrying. He said the society would be stabilised and the threat of litigation would fall away. There is bitter disappointment that the stability we thought we would get turns out to be a dream." Mr Braithwaite is referring to the letter sent to policyholders in April informing them of a reduction in the bonus declared last year, a 4 per cent cut in maturity values and an increase in the exit penalty from 10 to 14 per cent.

Disappointment was deepened by the publication this month of the report and accounts, which showed Equitable is still very weak and is using standard with-profits financial engineering to create a solvency position it would not otherwise have.

Mr Braithwaite is particularly concerned about the position of policyholders holding with-profit annuities, who cannot move their money and are likely to have experienced a significant drop in income. "We understand the Inland Revenue would allow people to revisit the original bonus rate their annuity income is based on, but there is no evidence the board is doing anything to help the with-profit annuitants."

He is also up in arms over the raw deal meted out to policyholders who joined in the past few years, acknowledging that long-standing policyholders have done relatively well from the high bonuses sustained by Equitable over many years, even after recent depredations. "Half of the money in Equitable came in the last five years, after the society stopped writing policies with GIRs. Those people, and the late joiners coming in after the House of Lords decision, have had an appalling deal." He is optimistic that the late joiners will probably win all their money back. "The society has put aside £120m to cover compensation."

Mr Braithwaite's sights are now fixed on the AGM. He urges policyholders to use their votes, and warns that if they don't Mr Treves will use them instead to vote against the independent candidates. "If you don't exercise your prerogative you will get what you deserve," he tells policyholders.

He is convinced that Equitable is not being run for the benefit of policyholders. "I think this regime is serving a political agenda rather than policyholders. It appears that the full cost of nearly a decade of mis-regulation is being stuffed to the remaining policyholders, and the board is presiding over the fast rundown of the fund."

Firms bank on the future, FT Adviser, 26th June 2002

Four leading insurers would fail the FSA's first solvency rule of thumb if future profits were ignored.

The insurers have resorted to using future profits to avert solvency problems caused by falling share prices. Particularly affected are those insurers with a large amount of with profits or endowment business, where obligations towards policyholders with guaranteed bonuses have been partly financed by shares.

The FSA said it was still considering whether insurers should be able to continue using future profits after the practice came under fierce criticism in the wake of the Equitable Life fiasco.

An FA investigation found that on the FSA solvency test of required minimum margin of solvency, Royal London, Scottish Mutual, CGNU Life and R&SA Life & Pensions would fail the regulator's first solvency rule of thumb if their future profits were not taken into account.

If firms score under 200 points, the FSA's first line of defence, the regulator puts firms under closer scrutiny, including requiring them to give quarterly updates. Below 100 points they are insolvent on a required minimum margin measure and would have to close to new business. Taken as an average of the 17 largest insurers the required minimum margin has fallen from 340 points in 2000 to 232 in the year ended December 2001, excluding future profits.

Abbey National Life and R&SA subsidiary Sun Alliance & London, breach the 200-point level even with future profits taken into account. Scottish Mutual, which has just received a £150m injection from parent Abbey National, was only four points above it. The insurers said they were still trading above the minimum regulatory requirements despite further falls in share prices since the figures were compiled.

The news came as a separate study from Nottingham University showed that 20 top with profits providers were using future profits to bolster their solvency position. Professor David Blake, director of the Pensions Institute at Birkbeck College, London University said: "The chickens are

coming home to roost. It is not possible to use equities to cover guarantees when equities underperform bonds."

John Lister, deputy actuary at CGNU said: "Using future profits gets you some time rather than being forced into selling equities in a falling market."

Deborah Fowler, press officer at the FSA, said: "We monitor solvency as part of our ongoing supervision. The key thing is for firms to keep above the minimum requirement."

Equitable hits policy movers with 20 per cent loss of value, The Birmingham Post, Jul 02, 2002

Troubled mutual life assurer Equitable Life yesterday announced that anyone moving their policy away from the society before it matures will lose 20 per cent of its value.

The society blamed the rise in the financial adjustment, which was previously 14 per cent, on continued stock market volatility and a likely need to increase provisions for the with-profits fund.

It described the increase, which took effect yesterday, as being 'entirely necessary, yet most regrettable'.

The maturity value of policies for members who choose to take their benefits will also be reduced by 10 per cent, unless this takes the value of the policy below its guaranteed value, in which case the guaranteed value will be paid.

Equitable argued that the move was necessary to stop people taking more than their fair share of the with-profits fund, the value of which has been hit by stock market falls, when they moved their money away from the society.

Chairman Vanni Treves said: 'The society is solvent and we continue to meet our regulatory capital requirements. The board's primary objective is to act in the best interests of continuing policyholders.

'To do this we must ensure the society remains solvent and that the policyholders choosing to leave the fund do not take more than their fair share.

'We understand that this is unwelcome news for those who choose to go now but the board would be failing in its duty if we did not act.'

The society said that despite only holding around 15 per cent of its fund in equities, recent market falls had had a significant impact on its value.

It added that its close monitoring of the financial position of the with-profits fund had led it to conclude that it would be prudent to make further provisions.

Equitable would not expand on the level of extra provisions it was considering, but said details would be given in its interim accounts for the six months to the end of June, which are being published in the autumn.

The society added that policyholders who had already filled in the necessary forms to surrender their policy would be charged at the previous rate, provided the society had already received them.

Equitable's move follows Legal & General, which also increased the market value reduction (MVR) last month for a range of its products due to stock market volatility.

People transferring a pension away from L&G now face an MVR of around 19 per cent, while people who surrender a with-profits bond early will see 18 per cent knocked off its value.

Paul Braithwaite, chairman of the Equitable Members' Action Group, said: 'This is appalling. The news at Equitable goes from bad to worse.'

He said a study carried out for his group by Professor David Blake of the Pensions Institute had concluded that it was misguided for Equitable to continue to invest in equities.

Liz Kwantes, of the Equitable Members Help Group, said: 'We were expecting them to put up the MVA (financial adjustment).'

But she added that she thought it was very unfair that people who decided to take their benefits should lose 10 per cent of the value of their policy.

'I just can't believe they can do that. I think it's wrong,' she said.