House of Commons

Committee of Public Accounts

Administering the Equitable Life Payment Scheme

Seventeenth Report of Session 2013–14

Report, together with formal minutes, oral and written evidence

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Committee of Public Accounts

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Additional written evidence may be published on the internet only.

Committee staff

The current staff of the Committee is Adrian Jenner (Clerk), Sonia Draper (Senior Committee Assistant), Ian Blair and James McQuade (Committee Assistants) and Alex Paterson (Media Officer).

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Summary

When setting up the Equitable Life Payment Scheme (the Scheme), HM Treasury (the Treasury) failed to learn the lessons from previous government compensation schemes. It focused on an arbitrary deadline for making the first payments to policyholders rather than on detailed operational planning and clearly defined responsibilities. This weak set-up led to a series of administrative failures including delays in making payments to policyholders and poor customer service. There is yet another arbitrary deadline of March 2014 for closure of the Scheme, increasing the risk that some policyholders, who remain untraced, will miss out on receiving the money they are owed.

Conclusions and recommendations

1. In 2010 the Treasury was given powers to make payments to just over a million former policyholders of the Equitable Life Assurance Society. The Treasury engaged National Savings and Investments (NS&I), an Executive Agency of the Treasury, to operate the Scheme, and NS&I out-sourced it to Siemens. The Siemens contract was subsequently bought by ATOS. At the end of March 2013, the Scheme had paid out a total of £577 million to 407,000 policyholders.

2. **The Treasury failed to learn the lessons from previous government compensation schemes when setting up the Scheme**. The Treasury focused on an arbitrary deadline of June 2011 for making the first payments to policyholders, at the expense of planning properly for how the Scheme would be administered and running a pilot to test the scheme. The experiences of previous government compensation schemes—for former miners and Icelandic trawlermen—should have alerted the Treasury to the importance of early investment in getting the systems and governance arrangements right, and the potential value of pilot work in exposing risks. In the end lack of good planning led to unacceptable delays in payments with only £168 million paid out by March 2012 against an anticipated £500 million.

   Recommendation: ***The Treasury should undertake a lessons-learned exercise on the Scheme, informed also by previous government compensation schemes. It should report back to us on the results and on how it will ensure these lessons are applied to both the current scheme and any future schemes introduced by the government.***

3. **The Treasury and NS&I cannot demonstrate that they have achieved value for money in their contract with ATOS to administer the Scheme.** NS&I is reimbursed by the Treasury for the costs of managing and administering the Scheme. Those operations which are performed by ATOS are charged to NS&I on the basis of a time and materials contract. Clearly paying ATOS in this way provides no incentive for the company to act efficiently and speedily. Furthermore, many claimants alleged duplication and unnecessary extra correspondence which is frustrating to the claimant and wasteful to the taxpayer. This makes NS&I's monitoring of ATOS crucial to ensuring only necessary activities are paid for by the taxpayer—but that monitoring has not been effective. Without any effective control, this leaves ATOS with the potential to pass on unnecessary costs to NS&I.

   Recommendation: ***NS&I must improve its control over the costs of administering the Scheme, and report regularly to the Treasury on its validation of ATOS activities and performance.***

4. **The Treasury has not used all the information available to trace as many policyholders as possible.** The Treasury currently estimates that it may not trace some 17-20% of policyholders—between 200,000 and 236,000 people eligible for a payment. It did not accept data on over 350,000 policyholders provided by the Equitable Members Action Group (EMAG), which could have enabled it to track down more policyholders, claiming this would have resulted in data protection

issues. However, it has not explored what more it could do to overcome these issues and use the data held by EMAG. It is imperative that the maximum number of policyholders is identified before the Scheme closes.

Recommendation: ***The Treasury must look again at what cost-effective approaches could be used to trace more policyholders. Specifically, Treasury and NS&I should, with immediate effect, work with EMAG to explore options for utilising EMAG's data to contact policyholders who have not yet received a payment.***

5. **The quality of service provided to some policyholders has not been good enough.** NS&I has not met the targets set by the Treasury for responding to policyholders' queries and dealing with complaints. We heard of cases where policyholders received duplicate requests for the same information needed to process their claim, and of policyholders with specific queries who received a series of generic letters in response, which failed to address the query raised. The scheme still has 664,200 payments worth £370 million left to pay by 2014.

Recommendation: ***NS&I must improve the quality of customer service provided by ATOS, including stopping duplicate requests for information and the inappropriate use of standard template letters.***

6. **Policyholders do not receive sufficient explanation of how their payments have been calculated.** Individuals have a right to understand how their payments have been calculated and on what basis. But recipients are not provided with explanations of how their payment calculations have been made. The Treasury is now responding to those cases where people have specifically asked for more information. The Treasury and NS&I are entirely reliant on calculations performed by the actuary Towers Watson, and accepted that, in some cases, the underlying data had been incorrect.

Recommendation: ***The Treasury should write to the Committee outlining what action it has taken to make sure the data used by Towers Watson are correct, and what it will do make sure policyholders receive better and fuller explanations on how their payments have been calculated.***

7. **We are concerned that some policyholders will miss out on their entitlement to compensation because of an arbitrary deadline for closing the Scheme in March 2014.** The Treasury's objective is to pay all eligible policyholders by March 2014. The Treasury and NS&I do not plan to publicise the closure of the Scheme until September, which limits the time allowed for some policyholders to find out about the closure and submit their applications for compensation. It also raises the potential for NS&I to receive a late surge in the number of applications, and they may struggle to process them in time.

Recommendation: ***The Treasury should bring forward its planned publicity of the closure of the Scheme.***

1 Administering the Equitable Life Payment Scheme

1. Many policyholders saw their investment or retirement income fall dramatically when the Equitable Life Assurance Society (ELAS) closed to new business in 2000. An investigation by the Parliamentary and Health Service Ombudsman concluded that regulatory failure was part of the reason for ELAS' failure and called for a compensation scheme to be established. The Equitable Life (Payment) Act received Royal Assent in November 2010 and gave HM Treasury (the Treasury) powers to make voluntary payments to just over a million policyholders who held policies bought between September 1992 and December 2000. The 2010 Spending Review put a cap of £1.5 billion on these payments. On the basis of a Report by the Comptroller and Auditor General, we took evidence from the Treasury, National Savings and Investments (NS&I) and representatives of the Equitable Members Action Group (EMAG) and Equitable Life Trapped Annuitants (ELTA) on the design and operation of the Equitable Life Payment Scheme (the Scheme).[1]

2. In May 2011, the Treasury signed a Memorandum of Understanding with NS&I, an Executive Agency of the Treasury, to operate the Scheme. The Government set a deadline of June 2011 for making the first payments to policyholders. Our previous examinations of government payment schemes for former miners and Icelandic trawlermen showed that in order to ensure that a scheme works well, it must be carefully planned and include strong governance and contractual arrangements.[2] The Treasury asked NS&I to run a pilot scheme in March 2011, but the Treasury and NS&I then decided to drop the pilot because it could not take place before the first payments were due.[3]

3. A series of independent reviews found that the governance structures set at the beginning of the Scheme were ineffective at dealing with changes to the requirements of the Scheme or responding to difficulties faced as part of its delivery.[4] The Treasury told us that it had commissioned four reviews of the way the Scheme was progressing, and improved its governance arrangements in response to each.[5] The governance arrangements were last updated in July 2012 and aimed to reduce the duplication of members within the boards governing the Scheme, as well as setting up working groups to respond to specific problems.[6]

4. The total budget for administering the Scheme is £57 million, which is additional to the £1.5 billion allocated for making payments to policyholders. The Treasury would

1 *Administering the Equitable Life Payment Scheme,* National Audit Office, HC 1043 Session 2012-13, April 2013

2 *Coal health compensation schemes,* 12th Report of Session 2007-08, HC 350, March 2008 and *The compensation scheme for former Icelandic water trawlermen,* 11th Report of Session 2007-08, HC 71, February 2008

3 Qq 49-54

4 C&AG's Report, para 2.7

5 Qq 35, 40

6 C&AG's Report, para 2.7

have liked to have had a fixed-price contract with NS&I, but instead agreed a contract based primarily on time and materials. This was because NS&I's contract with ATOS was based on time and materials, and there were uncertainties in running the operations, such as the work required to trace policyholders.[7] In addition to the time and materials, the Treasury pays a fixed price to NS&I for its management of the Scheme.

5. Where a time and materials contract has been agreed, careful cost control and monitoring of performance is crucial to protect public money. The costs of administering the Scheme, however, have increased every month since December 2011.[8] The National Audit Office (NAO) report found that NS&I was unable to demonstrate that it had performed effective quality assurance checks to verify that the data being reported to it by ATOS, on the basis of which the Treasury was charged for the costs of administering the Scheme, was correct. NS&I told us that the NAO's concerns about the adequacy of its quality assurance checks were based on an internal audit report which recommended that NS&I needed to be able to prove that these checks had taken place. It told us that the findings of the report did not mean that checks were not taking place, but accepted they had not been fully documented. It told us that it had taken action to fully implement the recommendation in the internal audit report. [9] In the NAO Report, NS&I further committed to developing more robust arrangements, including checking monthly management information for accuracy and consistency prior to it being issued to the Treasury.[10] NS&I currently estimates that the costs of administering the Scheme will go £4 million over budget. It told us that it had identified where it could reduce costs by £500,000 and was working to identify where it could make further savings.[11]

6. The Treasury and NS&I met the June 2011 deadline for making the first payments to policyholders, but with NS&I making only 224 payments in June 2011. NS&I told us that it used the first payments to refine and improve the Scheme before fully introducing it later in the year.[12] Later payments, however, were also delayed. The Treasury originally planned to pay out £500 million of the £1.5 billion available under the Scheme by the end of March 2012, but only £168 million was paid by that date. By the end of March 2013, the Scheme had made 407,000 payments to policyholders totalling more than £577 million. It still had some 664,200 payments, with a value of £370 million, left to pay. [13]

7. The Treasury aims to pay all policyholders eligible for a payment by March 2014. However, NS&I currently estimates that 17-20 % of policyholders – between 200,000 and 236,000 people—will not be traced and so will not receive payment.[14] EMAG told us that it had provided a (then) up-to-date record of the details and addresses of 353,000 policyholders to the Treasury in April 2011, but that this was destroyed by the Treasury

7 Q 105

8 Q 160, C&AG's Report para 1.11

9 Qq 108-109, 130

10 C&AG's Report, para 2.6

11 Q 152

12 Qq 47-50

13 C&AG's Report, paras 6, 12

14 C&AG's Report, para 12

owing to data protection issues.[15] The Treasury explained that it was not able to use the data as the individuals included in the dataset had not given their explicit consent for their details to be shared. The legal advice Treasury received at the time was that there was no option but to destroy the disc.[16] The Treasury did not, however, explore what options were available to it to work with EMAG to make the most of the data available to it without running into data protection issues, such as providing EMAG with the resources to allow them to contact policyholders on the Treasury's behalf.[17] The Treasury told us that it had now accepted the details of 10,000 policyholders from EMAG where the individuals had given their consent for their details to be shared.[18]

15 Qq 19-20

16 Qq 94, 99

17 Q 100

18 Qq 94-95

2 Service to policyholders

8. NS&I has met the majority of its performance targets set by the Treasury, but has not met those targets which relate to its performance in responding to policyholders' queries and dealing with complaints.[19] Groups representing policyholders told us that those responding to policyholders' queries appeared to be poorly trained and were unable to deal with simple issues. We heard of cases where policyholders had been sent multiple letters requesting the same information, or where policyholders had been sent generic or uniform letters, which had not dealt with their specific query.[20]

9. The Treasury and NS&I recognised the frustration and annoyance of policyholders who have been sent duplicate requests or generic replies to specific requests. But they told us that, at just under 6,800, the total number of complaints they had received was a small percentage of the total number of policyholders that had been contacted.[21] EMAG and ELTA told us that customer service and communication with policyholders has started to improve, but that it was still a frustrating experience for some policyholders. They expected the number of complaints to rise on the basis that policyholders were unlikely to complain until they had received their payment, or had at least been contacted.[22]

10. The calculations used to determine payments are undertaken by an actuary, Towers Watson. Policyholders have struggled to understand how their payments have been calculated and cannot, therefore, check that the amount that they receive is correct.[23] The Treasury and NS&I were themselves unable to explain precisely how payments were calculated. NS&I told us that it was responsible for making the payments based on the data that it received from Towers Watson and that it was not necessary for NS&I itself to be able to perform the calculations behind the payment amounts.[24]

11. The Treasury told us that the broad basis on which Towers Watson does its actuarial work is set out in the Scheme rules approved by Parliament. It provided policyholders with a core data report which showed the basic data that had been used to calculate their payments—including the policy they held, and when they had made payments.[25] EMAG told us that, while the Treasury has provided some policyholders with the data on which their payment was based, it had been unable to provide an adequate explanation of how their payment was calculated. Without this information, policyholders cannot check whether the payment they receive is correct.[26]

12. The Treasury accepted that there have been a number of instances where the data used to calculate payments to policyholders was inaccurate or missing and estimates had to be

19 C&AG's Report para 2.16

20 Q 11, 83

21 Q 120

22 Q 14

23 Qq 21-22

24 Qq 60-62

25 Qq 69-70, 72

26 Q 27

made to determine payment amounts.[27] It also accepted that some policyholders had been paid twice owing to computer errors, while others had been paid the wrong amount because the calculations provided by Towers Watson were incorrect. The Treasury told us that it was in negotiations with Towers Watson to accept some liability for the delays to payments as a result of these errors.[28]

13. The Treasury told us that it had made the decision not to give policyholders the details of the calculation used to determine each of their payments as it was not possible to provide this information as a simple, one-page report, and the information would be expensive and complex to produce for each policyholder.[29] The Treasury told us that it was trying to explain the basis of these calculations to the small number of cases where people have asked for more information.[30] It committed to publishing, "in the coming weeks", some examples of the calculations used to determine payments owed to policyholders.[31]

14. The Treasury has set a deadline of March 2014 for all new applications for payments to be made. We were concerned that a large number of policyholders eligible for the Scheme would not be aware of this deadline and asked what steps the Treasury and NS&I were taking to raise awareness of the deadline amongst policyholders. The Treasury accepted that it would be a challenge to raise the profile of the closure of the Scheme. NS&I told us that it planned to run a series of publicity campaigns advertising the deadline, with the first expected in September 2013.[32] NS&I did not think that it was necessary to bring forward the publicity campaign, explaining to us that it had already written to all the policyholders it had been able to trace stating that they would be paid in 2013, and that it was on track to make the payments to those to whom it had already written.[33] We remained concerned, however, that some policyholders will miss out, or that there will be a late surge in applications, particularly bearing in mind the 200,000 or more policyholders who have not yet been traced.[34]

27 Q 78

28 Qq 134-150, C&AG's Report para 2.10

29 Q 24

30 Qq 27, 72, 74

31 Q 132

32 Qq 86-87

33 Q 88

34 Qq 89-93

Formal Minutes

Monday 1 July 2013

Members present:

Mrs Margaret Hodge, in the Chair

Mr Richard Bacon	Mr Stewart Jackson
Guto Bebb	Fiona Mactaggart
Jackie Doyle-Price	Austin Mitchell
Chris Heaton-Harris	Ian Swales
Meg Hillier	Justin Tomlinson

Draft Report (*Administering the Equitable Life Payment Scheme*), proposed by the Chair, brought up and read.

Ordered, That the draft Report be read a second time, paragraph by paragraph.

Paragraphs 1 to 14 read and agreed to.

Conclusions and recommendations agreed to.

Summary agreed to.

Resolved, That the Report be the Seventeenth Report of the Committee to the House.

Ordered, That the Chair make the Report to the House.

Ordered, That embargoed copies of the Report be made available, in accordance with the provisions of Standing Order No. 134.

Written evidence was ordered to be reported to the House for printing with the Report (in addition to that ordered to be reported for publishing on [dates].

[*If the Committee is reporting written evidence for printing or publication which has not been previously so reported*]

[Adjourned till Wednesday 3 July at 2.00 pm

Witnesses

List of printed written evidence

List of Reports from the Committee during the current Parliament

The reference number of the Government's response to each Report is printed in brackets after the HC printing number.

Session 2013–14

First Report	Ministry of Defence: Equipment Plan 2012-2022 and Major Projects Report 2012	HC 53

Oral evidence

Taken before the Committee of Public Accounts

on Wednesday 15 May 2013

Members present:

Margaret Hodge (Chair)

Mr Richard Bacon
Stephen Barclay
Guto Bebb
Jackie Doyle-Price
Chris Heaton-Harris
Meg Hillier
Fiona Mactaggart
Nick Smith
Justin Tomlinson

Amyas Morse, Comptroller and Auditor General, National Audit Office, **Gabrielle Cohen**, Assistant Auditor General, National Audit Office, **Steven Corbishley**, Director, National Audit Office, and **Marius Gallaher**, Alternate Treasury Officer of Accounts, HM Treasury, were in attendance.

REPORT BY THE COMPTROLLER AND AUDITOR GENERAL

HM Treasury and National Savings and Investments: Administering the Equitable Life Payment Scheme (HC 1043)

Examination of Witnesses

Witnesses: **Paul Braithwaite**, General Secretary, Equitable Members Action Group, **Paul Weir**, Communications Director, Equitable Members Action Group, and **Peter Scawen**, Equitable Life Trapped Annuitants, gave evidence.

Q1 Chair: Welcome. I am sorry we are running a little late. First of all, just declaring interests, has any Member got any? I think I may have an interest, through my late husband's investments in Equitable Life, so I shall declare that. Has anybody else got any interests they want to declare? Right.

Thank you for coming and, again, apologies. I hope some more Members will join us, but there is a contentious debate on the Floor of the House and a lot of members of this Committee feel strongly about those issues, so they are there.

Can we just get some feel from you, because you are from slightly different organisations? Will you tell us how many people you think each of you represents, out of the million former policy holders? Would you like to start, Mr Weir?

Paul Weir: Yes. I will speak on Peter's behalf and say that he represents the with-profits annuitants as a specific sub-group, which is around 40,000 people. EMAG has a broader remit, in that we cover all policy types, which is somewhere between 1 million and 1.5 million people.

Q2 Chair: And how many active people do you have who respond to your literature or—

Paul Weir: Active members. We have a membership of around 15,000.

Q3 Chair: Fifteen thousand?

Paul Weir: Yes. It was 40,000 at the election. But I think we speak for a wider audience.

Q4 Chair: Mr Braithwaite and Mr Scawen?

Peter Scawen: We cover about 2,500. Equitable Life Trapped Annuitants has about 2,500 members now.

Q5 Chair: So you are really, in a sense, representing the more vocal and committed people in this area, it is probably fair to say?

Paul Braithwaite: And to a certain extent the people who are no longer well enough or young enough to speak for themselves.

Q6 Chair: Right. How do you know that you are representing them, just out of interest? How do you make sure?

Paul Braithwaite: Their children and grandchildren.

Q7 Chair: Are members of your—

Paul Braithwaite: They act as ciphers for their grandparents.

Chair: But they are within those thousands that you talked about.

Q8 Justin Tomlinson: What proportion of the people who have been in contact with you are now at the stage where they are not well enough to actively engage? One of the big lessons that we are going to have to learn is about the speed of this whole process.

Paul Weir: An increasing number, and I keep hearing from people saying, "My partner has died. They didn't get their money." Or, "My partner's died. They are not eligible."

Peter Scawen: If I might add to that, being among the oldest people in this room. As you get older you are less able to cope anyway, so there are people who are maybe with us physically, but are beginning to lose it mentally. Sometimes their children act for them, as Paul said. Sometimes they just begin to give up. Part of my remit is to help those people get paid.

Q9 Chair: Okay. This part of the session is to help us understand the issues from the perspective of those most affected, of whom your members are clearly a key part. I should like to hear from you. This is about the running of the scheme, not the policy of scheme, right? That has been settled. I really need to hear from you as to what you think are the main issues that have concerned your members in the way the scheme has been administered since its inception, getting on for two years ago.
Peter Scawen: May I talk first? Then you will have a wider remit to talk over. From a with-profit annuitant's point of view, I would say that the scheme has worked reasonably well, with 90-odd per cent. having been paid. The number of errors is no worse than I suffer with the Department for Work and Pensions, Santander or Visa; it is the way they deal with the problems. I have to say that the ELPS does a very poor job of that. They seem, frankly, to have very poor-quality people. If they have access to records—

Q10 Chair: When you say "they," are you talking about Atos?
Peter Scawen: No, I have no idea who they are. They are the people who we talk to or write to.

Q11 Chair: You talk to them on the phone or e-mail?
Peter Scawen: As far as I am concerned, they are ELPS. I do not know who they are. I inquired, and I was given the answer, "A bit of a mixture of both." I don't know what that means. The fact is that these people have apparently been recruited. They are very poorly trained, and they are unable to deal with quite trivial issues, let alone complex ones.
I will give you an example to give you a flavour. Love it, this one: "January 6: 'Thank you for sending your pensions letter and bank statement. We need documents to confirm your identity and address. You sent us only one that confirms your address.' 31 January: 'Thank you for sending me a certified copy of your driving licence. We need to see documents that confirm your identity and address. You have only sent us ones that confirm your identity.'" They already had that information, so someone clearly did not look. That went on, and some time later an e-mail came to me and said, "Yes, I can confirm a burst of activity has taken place. After a month of silence, we sent in fresh evidence of our current address and we then received five letters regarding a single policy"—this is mystifying, what this is—"all of which were unnecessary, and the fifth asked for yet another identity check, which we duly provided." That is the quality of the work people have to deal with. I know Mr J, and he is as feisty and difficult as I am, so he is not having a problem, but other people cannot cope with it.
A Mr and Mrs D—this is an important point—were having a major problem. ELPS apparently would not recognise that Mrs D had a policy. We batted this back and forth, and we almost got the police involved because we thought there had been fraud—this is me working with the Treasury. They finally got it sorted, and they wrote to me and said, "We wouldn't have got this without you." I do not say that for my glorification, which is not the point; the fact is that I fear that, without someone like me, they might never have got paid at all, which is very wrong. You have to go through this battling, and, again, I have to say that as you get older you feel less willing to confront the evils of this sort of environment. I will say no more. That is the problem.

Q12 Chair: And the two of you?
Paul Weir: What we are hearing from people is that they are not being told how their payments have been calculated, which is a big issue. They are not being told when they will be paid. When they get correspondence they cannot understand it. If they put their head above the parapet and say, "Here I am, this is my address and this is my policy number," the telephone handling and the correspondence do not seem to talk to each other, so they tend to say, "Oh well, write in." They then treat the inquiry as a complaint. So people are saying, "Here I am, and here is my policy number. You can tie it up with your records and you can pay me." Nothing happens, and then a few months later maybe they get paid, or maybe they are one of the people who are claimed to be untraced, yet they have clearly already made themselves known.

Q13 Chair: Is that happening today?
Paul Weir: Oh, yes. I've got three from last week.

Q14 Chair: It's not something that has got better? Has it improved over the last six or nine months?
Paul Weir: We met with Sajid Javid last October, and there has definitely been an improvement of sorts in the tone of customer handling. We have seen some slightly more intelligent letters coming out of Glasgow, so there is an improvement, but it is still very frustrating for people.
Peter Scawen: I left France on Friday. Friday morning, an e-mail came in from someone I had never spoken to or e-mailed before, saying, "We've heard nothing since 2012." I said, "Give me your policy details." They gave them, and I sent them off to people I deal with in the Treasury. I have just seen him this afternoon: yes, they have now been processed. He could think of no reason why they could not have been processed a year ago. There was absolutely no logic there—a perfectly bog standard set of annuities, nothing curious about them.

Q15 Chair: None of you has any idea whether this is Atos or NS&I?
Paul Weir: I do.
Chair: Go on.
Paul Weir: NS&I were the prime contractor. They then subcontracted the work to Atos, who took over Siemens, who had originally had the contract, so yes, at the end of the day, Atos—I can see from your faces that you may share my views—are being paid a lot of money to do this, as subcontractors to NS&I. I do not know if everybody is getting a mark-up, but in the chain of command, there are an awful lot of people involved in the delivery. Our problem, perhaps, is not just what I would call the incompetence of the people doing the delivery, but the brief because, at the end of the day, they are ticking most of the boxes in terms of

performance indicators, in which case one suspects that the brief is inadequate.

Are Atos being paid per letter, in which case they must be making a fortune? One person gets 23 letters, and all they wanted to know is, "When am I going to get paid, and how much?" Then people are involving their MPs, and there is further correspondence. I did give the National Audit Office some correspondence trails on a few case studies, and it runs to dozens of pages for each person—

Chair: Unnecessary.

Paul Braithwaite: May I build on that point? In the full Report—page 23, figure 11—there is a paradigm of a chap who feels that he is being fobbed off, and Paul Weir alluded to people getting 23 letters. These are essentially Gestetner-type letters that tell them nothing.

It is quite revealing that the contract with Atos provides for £32 million for operational costs, which include responding to policyholders. I share my colleague's suspicion that every time a letter goes out, saying, "Send us a certified copy of your passport," or whatever, that generates a small incremental bill. Therefore, I think that the way the contract with Atos has been prepared—to remunerate those operational costs—would appear to be very loosely drawn. This has caused enormous frustration to the recipients, who essentially thought that they were going to get their first payment by June 2012, and they did not.

It is extraordinary to find that, even of the trapped annuitants, at the end of March, 3,000—9%—still had not had a first payment. We are talking about maladministration in the '90s and a parliamentary report that was published in July 2008, which was endorsed and ratified by the Chancellor in October 2010, and here we are. These people, the annuitants, are on average aged nearly 80 and—

Q16 Chair: Average age of nearly 80?

Paul Braithwaite: Yes.

Paul Weir: Possibly higher.

Q17 Chair: And they have not had a penny?

Paul Braithwaite: Three thousand of them is the figure in the NAO Report.

Q18 Chair: What is your worst case on the amount of correspondence that you have heard of?

Paul Weir: I think I have said that I have seen one with 23 letters. That may not be the worst case, but it is the worst I have seen.

Q19 Chair: What else?

Peter Scawen: As a suggestion, I proposed several times to go up there and train them about with-profit annuities. I was not prepared to charge; I wanted my expenses paid, because I was going to live in a hotel. That offer was not accepted, or it was ignored—I had better put it that way. All of us have a wealth of expertise and knowledge that these people could have used and should have used. The scheme would have been better had they been more willing to involve the user groups and the user community in issues that we thought they might confront.

Q20 Chair: What could you have helped with?

Paul Braithwaite: For example, EMAG, which is funded by subscription and has over the years probably had of the order of £3 million or £4 million by way of subscriptions, was able to clean up the policyholder member database back in 2010, so we had an up-to-date record of policyholders and their addresses by the beginning of 2011. We checked this with our legal advisers, who are heavy hitters and very well respected, and they advised us that there should be no data protection issues in our handing that database of 353,000 correct and up-to-date addresses to the Treasury in April 2011. I personally hand delivered the disc to the Treasury, and subsequently we were told that it had had to be destroyed because of data protection issues.

It was only after that that the Treasury began to sort out how they were going to clean their database. They even went to the same outfit that we had paid, Experian, to do the database cleansing, so Peter Scawen is completely right that the Treasury, who are the villains here, have held off the expertise from the society, from Peter and from EMAG. They have consistently turned their back on the help that we were willing and wishing to give them, and their response has been, "We know best and we do it our way."

Paul Weir: We were told, in fact, by Mark Hoban that we could only supply a list if we had got the individual written consent of every person on that list. A year later we actually did, but it was only 10,000 people who responded. The Treasury reluctantly accepted our list.

Chair: Out of 350,000?

Paul Weir: Yes.

Peter Scawen: When I go through the process, what happens is that WPAs write to me and say that there is a problem. They send me details of exchanges, and I then forward them to the Treasury, but I always get a specific consent that I can do so. I am dealing with a relatively small number of people in the overall scheme of things, but, yes, that is what you have to go through.

Q21 Chair: One final question: why do you blame the Treasury?

Paul Braithwaite: Both the members of the Government signed up to this in their manifestos, and, therefore, one of the earliest pieces of legislation brought forward was a commitment to introduce a compensation scheme that was fair, transparent and swift. Here we are, three years later, and I am sad to say that the scheme that the Treasury were instructed to build has not been any of those things.

How can it be fair that 10% of annuitants still have not had a penny? Twenty five per cent. of what the Report calls investors and we would call pension savers have still had nothing, and 99.8% of the half-million people in group schemes have nothing. That is not fair, and it is profoundly complacent to accept that we will not find 20%. As far as I am concerned, no stone should be left unturned to try to track down the people who are fairly entitled to that compensation.

Swift? It is hardly swift when we are now in May 2013 and there is still £400 million of the original billion yet to pay out. Our members are telling us that it certainly is not being swift. And transparent? Frankly, I think it is a little complacent of the Report to have accepted the Treasury's saying "Ah, the calculation is a black box done by Towers Watson. It is all a bit complicated and you wouldn't understand it, so we refer you to appendix A." Quite a lot of our members have popped along to MPs and said, "I wonder whether you could take me through appendix A to explain how this has been calculated." Believe me, even an actuary would have trouble understanding appendix A, so we maintain that this is really not transparent.

At the very least, in good faith, we should have been given worked examples of how the calculation was done. Unfortunately, a lot of people conceive of their losses as being, "I was getting £10,000 a year in 2006. I am now seven years older and I am only getting £5,500 now, so my losses are the difference between those multiplied up." That is not the concept that the parliamentary ombudsman endorsed, which was to compare you with what you would have got elsewhere. It is not an easy concept to understand, but the Treasury has gone no way to explaining to people how the relative loss calculation has been achieved.

Even when people have asked for the explanation, all they are getting is what is called a core data report. That is just the numbers of their payments in and when they were made. We are finding that some of those are inaccurate. It is hardly checks and balances. The Treasury have put in place the veneer of a complaints procedure, but it is only concerned with the data that was handed over to Towers Watson. Bear in mind, these calculations were done by Towers Watson in August 2010. The excuses for delay—they have known the numbers. They have known the £4.3 billion since August 2010.

Peter Scawen: I did a lot of early computer modelling for the with-profit annuitants and I support what Paul says—

Chair: Could you speak up a little, because the acoustics in this room are really hopeless?

Peter Scawen: I am sorry. I have just had some new hearing aids put in, so I sound enormously loud to myself. I apologise.

I did a lot of the early computer modelling for the with-profit annuitants, so I understand how it works. I have to support what Paul says. You look at the document and I can barely understand it, and I know what it is trying to do.

Q22 Chair: Yes. I don't believe in any document that you can't understand. It is not acceptable to have a document that isn't understandable.

Peter Scawen: A couple of other points in here concern me. I am looking at "annuitant" and it refers to people who live at a foreign address. Yes, I live at a foreign address. I get paid. NS&I is the only organisation in the UK that will allow me as a foreigner, because I don't live in the UK, to invest in a UK organisation, so they are used to dealing with foreigners. They are used to sending out cheques to people who live in foreign-bank countries. What is the problem? What is the problem with people who want annuities in foreign currencies? We have an international banking system. We all have international bank codes. They are called IBAN codes. You can transfer money anywhere in the world in 10 seconds flat. I do it. What is the problem? I know you can't answer the question, but it is bizarre.

Q23 Guto Bebb: I think I have had some of the answer I was looking for. You have already commented that both the execution of the scheme and the scheme are not up to scratch. Where do you think most of the blame lies? Is it because the scheme was not acceptable for the purposes in question, or is it that the administration has been extremely bad and very lax? We have had both those comments from you so far.

Paul Weir: We sounded the alarm very early on in the scheme.

Guto Bebb: Before the execution came into play.

Paul Weir: The Treasury is the client; Atos/NS&I are the deliverers. They are being paid to do a job. If somebody was doing that bad a job for me, I think I would have got a grip on it a bit earlier, got them to sort it out and given them instruction to improve their performance.

Q24 Guto Bebb: I accept the point you are making there entirely because my constituency has the highest average age of any constituency in Wales, so I am aware of the issue. The point I am trying to get at is whether the scheme in itself was appropriate but the execution has been extremely poor, because the brief from the Treasury was poor, or if you think there were significant problems with the scheme in the first instance as well.

Paul Weir: The theory of the brief was fine: swift payments delivered over three years, prioritising the oldest first. That went by the board very quickly. One of the things I found very frustrating was that the Treasury did what you would call serial processing rather than parallel processing. In other words, the Act went through Parliament and in the meantime not very much was happening to build the scheme. So, for example, in April 2011, they were advertising for actuaries to work on the scheme, with the first payment due in June. Now with the best will in the world—six weeks' recruitment—the guy who got the job must have had three days to process the first payment. They had done 330 by August of that year and they started to ramp up after that, but for Mark Hoban to be able to stand up in the House and say, "We have made the first payment," I think he meant the first payment; I don't think he meant the first three payments.

Q25 Guto Bebb: That brings us to the issue of whether it was a big mistake that the need to make a payment overrode the importance of doing a pilot study in the first instance. I am currently working on an issue relating to interest rate swap derivatives and compensation for people who were mis-sold that product. One of the frustrations for people involved in that scandal is that they are waiting for a pilot to be implemented. If that pilot had been implemented first, rather than a rush to make a payment, would that have been better in the long run?

Paul Weir: That was covered in the NAO Report. I think there was some window dressing. There was a political need to be seen to be taking action, which possibly swept pragmatism before it. It seemed to be more about making a statement than about actually delivering. That has been our frustration, and we have repeatedly pushed the Treasury on it. The press releases that come out each time there is a progress report are very rosy. For instance, they would say something like, "X% of individual policyholders have now received a payment," carefully omitting the half a million people in group schemes, none of whom had received anything. You can make the stats look very good by how you construct them.

Peter Scawen: To pick up on the point Mr Bebb was asking about, one of the things that I ran was the litigation group that sued the society. We had an actuary who had to do the loss calculation for that. It was a different way of doing it, by the way. We had only 400 people. It took him nearly a year to get the actuarial model in such a way that it was acceptable to him to process payments, and that was just 400 people in a relatively simple situation. That really emphasises what these guys are saying. The time frame was just—

Q26 Chair: Is it your view that they will meet the 2014 deadline?

Paul Braithwaite: I am glad you asked that, because I think we have a mismatch here. I think the cynicism you yourself expressed about this—it looks naive—is well founded. What we seem to have is less money, accelerating towards, "We've got to close this next year," and still £400 million to pay out to over half a million people. I think we need to take off that false horizon of, "It's got to be closed by April next year." I don't think it can be done. I think you also implied that the overrun at £1.5 million for the operation cost is probably going to be exceeded, because the average cost of processing is unlikely to go down to the figure that the NAO calculates. It needs to go radically down in this year. So I think we need to take the blinkers off about completing the scheme by 2014.

I just want to go back to your point about whether it is the scheme or the admin. The paradigm that was set up by the politicians was, "Okay, £1 billion to distribute. This has gone on too long. We've got to get £1 billion out there in the next three years. We've got to prioritise the oldest first, because they really are old. It's straightforward: £220 million for the annuitants and divvy up the other £770 million, which works out at 22.4%." I am not happy with 22.4%, but that was a very clear instruction to the Treasury and, as far as I am concerned, the Treasury is there to execute the will. To turn round and say, "Oh, well, prioritising the elderly—we couldn't do it, so that went out the window. We can't find 20% of the people and it's all a bit slower than we expected"—I expect civil servants to do the will of the Government, and it is the scheme that was designed.

I think you are absolutely right, and Paul Weir is correct, that this was arse about front: "We've got to get the first payment out there by 30 June," and a handful went out; instead of creating a robust and tested and piloted scheme, which is what the NAO suggests that precedence called for in this situation. As it is, the Treasury contracted it to NS&I which contracted it to Siemens which outsourced it to Atos, which is perhaps the most vilified of administrators. But on the memorandum of understanding that was put in place, I was told six or seven months ago, "Oh, Atos are meeting their memorandum of understanding." If that is the case, the memorandum of understanding was not satisfactory—it was not fit for purpose—because we are on the sharp end and we are getting the complaints and the frustrations. The scheme that Atos is still running is still not performing satisfactorily. It is all very well saying, "Well, we think you've got to pull your socks up a bit." I think we need the Treasury to come back to you with that plan, not to say, "We'll do a plan."

Q27 Chair: Can I just ask a final question of each of you? What are the two or three things you would do now, were you in charge, to improve the scheme?

Paul Weir: I've definitely got a wish list. They have said that, before the closure of the scheme, which seems to be more of a political expedient than a real necessity, there should be some advertising to get the 20% of people who have been untraced to flag themselves up. We have been told in the same breath that all the tracing through Experian has been done, and they have hit a brick wall and cannot trace the remainder. In that case, why run the ads in November or December, just before the scheme closes, instead of today when people have time to respond and when they will be able to spread the processing of those people over a few months instead of a few weeks? It seems to me that they should be compelled to do that advertising for people to make themselves known now, not at the end of the year. They have a budget set aside for it, so why not spend it now?

The second thing is that, with the rump of the WPAs—the 2,500 who still haven't received a payment—I am not sure it is about tracing, because I personally have heard from three this week who sent their policy number and their details to the scheme last year. They have been in correspondence but haven't received the cheque. I can give you any amount of detail on those.

The other thing is transparency about calculations. We have repeatedly asked the Treasury for worked examples. People have been to their MPs and their MPs have looked at the annex—they can't understand it; it's full of algebra. At the turn of the year, the independent review panel instructed the scheme to give various individuals an explanation of how their payment had been calculated. That is a firm instruction. I have seen the correspondence in some of those cases, and the scheme has not given them an explanation of the calculation. We initiated a pre-action protocol against the Treasury on transparency, on the calculations, and received an inadequate response, which just repeated the normal thing of, "Here's your core data. Here's what went into the sausage machine and here's what came out, but we're not going to tell you about what went on inside the machine." So we are still pursuing legal avenues on that, and individuals who don't have the benefit of our legal assistance are going through the same process. We just want to break that wall.

The Treasury's best offer to our lawyers was, "We will come up with some worked examples," which they haven't done yet, "by June." Wonderful. I have received money and I cannot begin to understand how the payment was arrived at. It might be correct, but I cannot understand it and I am reasonably numerate. I simply want to know for my own peace of mind how the numbers were crunched and what comparisons were used, in what ratios and on what dates. It is not difficult. I have been working with an actuary on some of the with-profits annuitants. We have modelled some of them, and have found that while some of the calculations are correct, we have also identified some that are incorrect, yet there is no right of redress for the individual. If you say, "It's wrong," they just say, "No, it isn't." They don't actually explain how they came up with the different figure.

Peter Scawen: If I may talk about the with-profits annuitants, in the way I see it now, what is left is probably people with some rather complex situations—we are down to what I will call the difficult cases. The easy cases have been done and my experience so far is that you are going to have to go through those, take some truly quality people, do them one by one and get them processed. There is no longer a simple solution. We can't go back and redesign the scheme; we are stuck with it—it is too far down. We have to work the scheme as it is. My feeling is that they have too many poor-quality people and not enough good-quality people, and whoever is responsible for those people should really look at getting that put right. That is where their biggest weakness is in my experience.

Paul Braithwaite: We should impress upon the Treasury that the deadline of 2014 is a false and unworkable one that will leave people outside, that accepting that 20% will not be found is unacceptable, and that the NAO should revisit this. If Atos and the operation of the scheme are going to try to work within the existing budget, it is doomed to fail, and people will not be getting the compensation they deserve, so I urge the Committee to continue to take an interest. I am sure that the MPs on this Committee have, rather like EMAG, been on the receiving end of large numbers of people saying, "I am not sure what is going on, and I am not happy," and at the same time have been getting Treasury missives saying, "Everything is hunky-dory; it's on course, the scheme is working and we've solved that one."

Q28 Chair: There is a ministerial statement.

Paul Braithwaite: Yes, we've had that. It is very cleverly couched.

Chair: It says "the scheme remains on track to close as planned in 2014."

Paul Braithwaite: I would hope that the Committee might express some concern and say that that is less important than tracing people and improving the quality of the interface.

Q29 Guto Bebb: A final question: the experiences that you have indicated are very similar to what I have seen in some constituency cases, and there is clearly frustration in the way people feel the scheme has worked. However, we have heard from some sources that the number of complaints that have been received within the scheme is comparatively low. Can you explain why that would be the case?

Paul Braithwaite: There have been 8,600.

Chair: Is that 8,600?

Paul Braithwaite: Yes, 8,600, but only in 11 months. That is not the cumulative total figure. People aren't going to complain until they have actually had their calculation. It is disingenuous to say, as the Minister did a year ago, "We've only had 0.2% of people complaining." They aren't going to complain until they know what they are going to get. The complaints will continue.

Peter Scawen: None of my people have complained; they are extremely—there is a phrase for it, which I will pass over. They are very cross and angry. "Complaint" doesn't mean what you think it means.

Guto Bebb: They complain to the MPs' offices, I can tell you that.

Chair: We have all had a lot of constituency cases. Thank you. That was very clear and very helpful, and we will now challenge the accounting officer and his colleagues to account for themselves. Thank you very much indeed.

Examination of Witnesses

Witnesses: **Sir Nicholas Macpherson**, Permanent Secretary, HM Treasury, **Mike Williams**, Equitable Life Payment Scheme, Senior Responsible Officer, HM Treasury, and **Jane Platt**, Chief Executive, National Savings and Investments, gave evidence.

Fiona Mactaggart: Before this session starts, as I was late joining the Committee this afternoon I should report that I have an interest, in that I had additional voluntary contributions in my parliamentary pension from Equitable Life.

Q30 Chair: I have declared an interest as well.
All of you: did you all read the reports on the similar compensation schemes for former miners and Icelandic trawlermen? Have you read them? Jane Platt?
Jane Platt: I haven't read them, but I have read the Chadwick report.
Chair: You are going to have to speak up, because the acoustics are awful in this room.
Jane Platt: I haven't read the report in detail, but I have read the Chadwick report.
Sir Nicholas Macpherson: I have not read the report, but I have had some of the lessons summarised for me.
Mike Williams: I speak regularly to the director of the coal miners compensation scheme, who is a non-executive on the board that oversees the Equitable Life payments scheme.

Q31 Chair: The reason I raise that is that there are recommendations in all those reports by our predecessors—the only ones who were here were Austin and Richard, who are not here at the moment—which, had you looked, might have led to fewer complaints about the current scheme.
In page 6, paragraph 7, the National Audit Office sets out the characteristics of a scheme, to make it a scheme that works well. It says it has to "be carefully planned", it has to have "the correct governance", it has to have "strong contractual arrangements" and it has to have "appropriate systems". Mr Williams, you are the senior responsible officer.
Mike Williams: Yes.
Chair: It seems to me that we have none of those.
Mike Williams: I think that we do have those in place, and, indeed—

Q32 Chair: What makes you think we do?
Mike Williams: We have, for example, the programme board, which I chair, which Mrs Platt sits on, with non-executive directors. We have the memorandum of understanding with NS&I and we have systems for checking, for example, management information. Inevitably there have been occasions where the systems have not worked as perfectly as we would have liked. In those circumstances we have then taken action to improve the governance and to improve the systems.

Q33 Chair: And you carefully planned the scheme, did you?
Mike Williams: I think the scheme was carefully planned, but the piece of background that has to be taken into account—

Q34 Chair: Were you there when it was carefully planned, or was somebody else around then?
Mike Williams: I was asked to take responsibility for this in May 2009. I have kept the responsibility as I have changed responsibilities within the Treasury.

Q35 Chair: Good. Well, I don't think it is carefully planned, but I am interested to hear that you do. If it had been carefully planned you might be on target now.
Let us take it one at a time. Let us take correct governance. You said you had got a programme board. Let me just challenge you: NAO will help me on this, but you had to bring in a consultant—goodness knows why—to look at the governance arrangements. I am correct on that?
Mike Williams: We have had four reviews of the way the scheme is progressing, and those reviews have been conducted by people outside of the scheme.

Q36 Chair: Well, you brought in a consultant. Who was the consultant? There is a reference in the Report to bringing in a consultant to review governance arrangements.
Mike Williams: Three of the reviews were led by a guy called Ron Skelley.

Q37 Chair: Who is he? A sort of private consultant?
Mike Williams: He is someone who was engaged by the Cabinet Office and does things like gateway reviews as part of the Cabinet Office reviewing of major spend.

Q38 Chair: This is in an era when we are not using external consultants.
Mike Williams: We did engage consultants, Madam Chair—Deloitte—early on in the scheme.

Q39 Chair: We will come to Deloitte. They got a lot of money out of this one.
Mike Williams: We engaged Deloitte because they have a lot of experience of running compensation schemes, and that was one of the key criteria that we used in choosing Deloitte—the fact that they had that experience, which did prove very useful—

Q40 Chair: We will come back to Deloitte. I don't want to take you off it. Absolutely, there are areas where I do understand that we have to use external consultants. I wouldn't be as tough as the Government is on the use of external consultants, but it is Government policy. I might have used more of them to do the west coast main line than the Government chose to use, but in an era of hard governance mechanism, it seems to me so ruddy basic to how we run things; but you nevertheless did, and you have told me it is this guy. You then changed all your governance arrangements; so you can't then tell me that you had the correct governance in place when you embarked on the scheme.

Mike Williams: We improved the governance arrangements of the scheme following this report from Ron Skelley—

Q41 Chair: You had such great governance that the Report also says that there was tension between you, Ms Platt, and you, Mr Williams.
Mike Williams: The scheme is a large-scale scheme that involves making payments of hundreds of millions of pounds to hundreds of thousands of people. I think in any scheme of that size you would on occasion get some tensions between the supplier of the service and the people overseeing it.

Q42 Chair: I can tell you that we see a lot of reports here. To see in a report a couple of mentions of a bad relationship between two bits of the Government as being one of the reasons the scheme did not perform as, in my view, it should have done, is pretty surprising. So in this great governance arrangement that you think you had and the correct governance that the NAO says should be in place for running a scheme such as this, what were the tensions? What did you row about?
Mike Williams: The key point there is that we became aware that there were these tensions. We had this guy, Ron Skelley, who was previously the information technology director for the Inland Revenue do a review, and we acted on his recommendations.

Q43 Chair: What did you row about?
Mike Williams: The difficulties with the scheme: for example, where there were difficulties in the handling of data. The most difficult point of the scheme was when we turned on the computer which was able to make large numbers of payments at a time. There was a period early on where we were working to develop the computer; where we did do piloting, as has just been touched on.
Chair: So the row was over whether or not you should pilot?
Mike Williams: No, I don't think I would characterise at all the relationship as involving rows.

Q44 Chair: I just interpret NAO language, which I know gets agreed, and I think that if the NAO says there were tensions, there were rows going on. I am trying to get you to be honest about where your conflicts or your tensions—I would call them rows—existed.
Mike Williams: Madam Chair, you are asking about the relationship between me and Ms Platt, the head of NS&I. I can assure you that we did not have rows about the running of the payment scheme.

Q45 Chair: Why did you agree in the Report that there were tensions?
Mike Williams: There were occasions when there were issues about what should best be prioritised at a particular time. When, as inevitably was the case, there were difficulties with the scheme—it was not possible to predict in advance precisely what would happen going forward because of the nature of the scheme—there were occasions where there were differences of view as to what best to do in response to that. At one point that did lead to tensions.
Chair: Say that again.
Mike Williams: Let us take, for example, the issue of tracing and how best to deal with it. Inevitably, that raised issues for the scheme, and it was recognised that they would have to be resolved on the way through the scheme.

Q46 Chair: Ms Platt, where were the rows, the tensions?
Jane Platt: I think it was more creative tension than rows. To be frank, in any very large, complex project—remember, we were dealing with, 21 different policies overall. People could be paying in amounts of money in dribs and drabs, or they could have made one-off payments. We had a huge amount of complexity and we had a group of people within Treasury who were working their socks off to deliver a policy that could get the payments done as fast as possible, and in NS&I and Atos, a group of people were working their socks off to try to deliver it.

Q47 Chair: Or working their socks off getting lots of money, but anyway, we will come to that in a minute. I have to say to you that the reason for this lot of questioning has been to do with both planning and governance, which were two criteria that the NAO says should have been features of the scheme as it was set up. It seems that you did not plan it properly. I accept it was complex, but you didn't plan it properly; you were driven by the first payment date, and that led to a failure to plan it properly. You had to get in an external consultant—honestly, it is mad—to determine governance arrangements and then change your governance arrangements. It strikes me that you didn't have correct governance. Come back at me if you like on that. My view is that on the first two features—we will come on to the other two features—you simply didn't have them in place, and you were driven, probably, in a non-target-led Government, to doing a few payments in June 2011. That was what drove you. Driven by that, you ended up not planning properly and having poor governance. Do you want to come back on me on that? That is my reading of it.
Jane Platt: May I just say that we were obviously working to some very tight time scales? Everyone did want to get the payments out as fast as possible.

Q48 Chair: How many in June 2011?
Jane Platt: A relatively small number.
Chair: How many?
Jane Platt: I haven't got the number in front of me.
Chair: Can the NAO tell us? How many payments were actually paid out in June 2011?
Steven Corbishley: 224.

Q49 Chair: Out of a million? Big deal. Wouldn't it have been better to have done proper planning and proper governance? We will come to the other two: proper contractual arrangements and proper systems. Would that not have been better?
Jane Platt: I think the learning we got from the first payments was important to this scheme, and we had a

ministerial commitment to start making payments as soon as possible. All payments helped us to refine and improve the scheme that had been put together in March, so we did have a plan in March and we did refine that with the learning that we got in June.
Chair: I have to say, Sir Nick, on those two issues, this is not the greatest example of how to manage public money.

Q50 Guto Bebb: On those specific issues, didn't the Treasury request a pilot to be run in March 2011? Is it a regret that that didn't happen?
Jane Platt: There was a request that there should be a pilot in March but we didn't have a plan in March, so as part of the discussions with the Treasury, we agreed there should be a plan before we started to make any payments. It would have been unwise to start making payments before we had a plan of any sort. We had a plan in March and we started making payments in June to meet the ministerial commitment. We started to learn from those payments to build into the pilot and then into the fully automated process that came along slightly later in the year.

Q51 Chair: You have just said that in effect you were driven by the June date. You didn't have a plan in March so you couldn't do a pilot, and you were driven by the June date. If you had done it sensibly, you would have developed your plan. I don't know why you couldn't have had it before March. You would have then piloted and you might have paid a few more people properly later and got the scheme off the ground better. Do you regret that?
Jane Platt: We were appointed, and the legislation that allowed NS&I to start working on this happened in November 2010. We worked on the plan and delivered the plan in March. That is, by all accounts, for a plan of this size and complexity, a remarkably short time in which to deliver the plan.

Q52 Stephen Barclay: Could I just clarify? You said the legislation that allowed you to start was in December.
Jane Platt: No, November.

Q53 Stephen Barclay: November. As we have seen with the FSA when it moved to the FCA, organisations are able to start operating as shadow organisations prior to legislation being in place. That is correct, isn't it?
Jane Platt: That is correct, but it does not apply to NS&I because NS&I's powers are given directly by Parliament. We have no powers to do anything until that legislation is put in place.

Q54 Stephen Barclay: The Financial Conduct Authority's powers are given by Parliament. The point I am seeking to clarify is whether you could have put working groups in place ahead of November. They may not have the executive authority to start making payments or to deal with certain functions, but you could get the working groups up and running before November, as organisations such as the FSA have done; or was it that you couldn't start that work before November?
Jane Platt: We were in a position to start the work from November, which is when we had the power to do so. The specifications for the scheme were available in February.

Q55 Stephen Barclay: With respect, you are not answering my question. If we take the FSA being split in two, it started work prior to the legislation being complete. Sir Nicholas will be very familiar with the example. That is the case with the FSA and the split. Shadow teams started taking on some of their functions, albeit the FSA board were then ratifying the decisions. That was the arrangement.
Sir Nicholas Macpherson: That was the arrangement and there was a long lead time of several years up to the split.
Stephen Barclay: Sure. It was a long time.
Sir Nicholas Macpherson: It was a different situation. The Government accepted the recommendations of the ombudsman only in the summer of 2010. The Treasury, from then onwards, was planning actively. There were a whole lot of issues—for example, who was going to deliver the scheme. My recollection is that there was not some substantive period between the decision to engage National Savings, and National Savings beginning to plan the scheme.

Q56 Stephen Barclay: It depends on the word "substantive", doesn't it? It is a very nuanced civil service phrase. I am driving at the fact that the Government accepted that this would happen in the summer. The legislation wasn't in place until the November, and the plan wasn't in place until the March. Are those the correct time scales?
Sir Nicholas Macpherson: Mike, do you want to take us through?
Mike Williams: That is broadly right.

Q57 Chair: But you were in post from—
Mike Williams: I was in post from the previous year, May/June 2009, when Sir John Chadwick had been commissioned by the previous Government to do his report. He had it under way, and we therefore began work in parallel with it to start fleshing out how to administer a scheme. But, of course, we didn't at that stage know precisely what the scheme would be.

Q58 Stephen Barclay: I'm just trying to understand if, in layman's language—Ministers accepted a recommendation and said payments would start in 12 months' time; but then it took nine months before the plan was put in place. That's correct, is it?
Mike Williams: Before there was what I would call a complete plan—but that's not to say no work was being done.

Q59 Stephen Barclay: But the work didn't start until November.
Mike Williams: Discussions with NS&I had started, if I recall correctly, in August 2010. That is clear from the NAO Report. Discussions started in August; that is in the Report. We were beginning to work through how the plan would be delivered. At that point, between August and later, we must bear in mind as well that the Independent Commission had been set

up by the Government to advise on how the payment should be distributed between the policyholders, and obviously, what they had to report had an impact as well. I think they reported in November/December 2010. *[Interruption.]* Sorry, January 2011. Again, that had impact. This independent body had been asked to advise; the scheme couldn't be finalised until it had advised.

Q60 Chair: Our view is that you had plenty of time. You just didn't use the time, either informally or formally, to plan.

This question is for you, Ms Platt. It says on page 16, paragraph 2.3 that the "Treasury received assurances from NS&I that systems were suitable for making payments." That was clearly not true. Why did you mislead the Treasury?

Jane Platt: NS&I has a tried-and-tested system for making payments. We make 1 million premium bond payments every month, on top of all the other payments coming in and out of NS&I due to our other products. We therefore know we have a robust and modernised platform from which to make payments, so that was not a misrepresentation.

Q61 Chair: But you couldn't make payments because you couldn't do the rest of it. If you decide you're going to give somebody a hundred quid, you can get the cash out; I understand that, but that is not my interpretation. Making payments means that you do all the work, up to determining the amount, to make the payment. This sounds like a googlism to me. It doesn't mean just the transaction itself. It's all the work going up to the final transaction.

Jane Platt: I can exactly see what you mean, but of course, the calculations and all of that data were not going to be done by NS&I, so it was not necessary for us to be able to do those calculations.

Q62 Chair: Who was going to do it?

Jane Platt: The calculations were going to done by the actuaries who would supply—

Q63 Chair: But you were responsible and accountable for delivering the whole shooting match, weren't you?

Jane Platt: We were responsible for making the payments based on the data that we got in.

Q64 Chair: Who had the contract? Who was accountable? You can't have this; otherwise, we should have the actuaries in front of us. Mr Williams, when you gave NS&I that contract, did you say to them, "All we want you to do is administer the actual cash payments"; or did you say, "We want you to make sure you do all the work", so that Equitable Life, whether or not they were annuitants, did all the work leading up to their getting an accurate payment reflecting the terms of the schemes that had been agreed by Parliament? What was their job?

Mike Williams: Their job was, and is, to administer the scheme.

Q65 Chair: What does that mean?

Mike Williams: Let me explain. There were two key elements. One was getting information on the policyholders and where they are. The bulk of that data came from the Equitable Life Assurance Society. Two, it was never the intention that NS&I would do complex actuarial calculations of the amount of ex gratia compensation to be paid.

Q66 Chair: Who was accountable for making sure those calculations were made? If I am an applicant, who is accountable?

Mike Williams: Let me explain, Madam Chair. The contract for doing the actuarial computations, of which, of course, there is a large number, was between the Treasury and the actuarial firm Towers Perrin—now Towers Watson—who did a great deal of work.

Chair: Sorry, the Treasury and who?

Mike Williams: Towers Watson, the actuaries, who are responsible for computing the amount of compensation due, policyholder by policyholder, in accordance with the scheme rules which were approved by Parliament.

Q67 Chair: So you had a separate contract with NS&I and a separate contract with Towers Watson—you?

Mike Williams: The Treasury, yes.

Q68 Chair: So you are accountable, really.

Sir Nicholas Macpherson: Mike and I are accountable for that.

Q69 Fiona Mactaggart: Who is accountable for the fact that nobody who receives any of the money can understand the number the actuarial calculations produce or even have any transparency about it? Who said it was fine for this to be a kind of secret sausage machine you get a number out of the end of? Presumably, when you had a contract with Towers Watson, you said, "You're actuaries. You can do the maths on this, but you don't need to tell anyone the maths," so people don't know whether it is right. That is what we heard from the previous witnesses.

Mike Williams: The broad basis on which Towers Watson does its actuarial work is set out in the scheme rules. Those scheme rules then have to be applied to a circumstance where you have, altogether, 21 different policy types. One of the difficulties with this is that there is not a single policy into which people were paying money.

Q70 Fiona Mactaggart: I completely understand that, and it is true of other things, such as taxes: you say, "I am taking into account this, that and the other"—it is difficult to understand. If you look, for example, at one of my constituents' tax credit calculations, they can be difficult to understand, and constituents sometimes come to ask me about them. But at least there is a piece of paper that says, "We started with the fact that you are this age. We carried on to the fact that you have made these contributions. We went on to estimate when you will die"—or whatever the relevant factors are—"and we came up with this number." People can actually read what went into the sausage machine. In this case, nobody has any idea whether the calculations are right, because

Towers Watson are God, as far as I can see: they simply produce a number, and you get it or you suck it, frankly.
Mike Williams: A, as you recognise, it is a very complex scheme, which is why we have had to have the actuarial input. B, Towers Watson were in accordance with the scheme rules, and their work was peer reviewed because of the sheer actuarial complexity of going back, in about 2010 or 2011, to payments that started in the early 1990s. All the payments had stopped—

Q71 Fiona Mactaggart: Why do you tolerate it being secret? What goes in?
Mike Williams: The core data which go into the sausage machine are when people made payments—on what dates—
Chair: You are not answering the question, Mr Williams. Why is there no transparency? Why do you tolerate things being secret? That seems to us wrong.

Q72 Justin Tomlinson: How can you know what you said is the case? If individual people are not able to check back and to contact you to say, "Do you know what? They've got my age wrong. They've got the amount of money I paid in wrong"—mistakes happen in systems—how do you know someone has not just pressed a button on a computer and come up with a load of random figures? As was said, you either take that figure or you suck it.
Jackie Doyle-Price: On that note, what is your response to the case set out in figure 12, where the annuitant has gone back and challenged, and then found out that NS&I has not included all the payments he made? Clearly that was an incorrect calculation. If there is no transparency, how can any policyholder or annuity holder have any confidence that what they are getting is the correct amount?
Mike Williams: There are three points. First, the scheme rules are the scheme rules that were approved by Parliament, and Towers Watson devised their actuarial calculating machine, if you like, in accordance with those rules. Secondly, people are given a core data report that shows the raw data—the key data that go into the sausage machine—which is when they make payments and what sort of policies they have. That data determine how they are processed. In the small number of cases where people have asked for more information than that, we are trying to explain the basis of the actuarial computations to those people.
Fiona Mactaggart: There is a reason why I am persisting in this—
Jackie Doyle-Price: They are laughing behind you, by the way. They are not very impressed with it.

Q73 Fiona Mactaggart: The point I thought was compelling is that you are getting to the harder to deal with cases. I am not saying it was necessarily a bad thing, although it broke a promise, to do the old ones—the relatively straightforward cases—earlier in the scheme. I am not saying that was a bad thing. But we have been given evidence that the cases that remain are the more complex, difficult ones. It was suggested that, instead of having a batch processing system, those cases are so complicated that they will need individual processing. Is that going to happen?
Mike Williams: Let me divide that up into two categories, Ms Mactaggart, because it seems to me that there are two. There are the individual policyholders, most of whom have now been paid. That is a small number in very complex circumstances. Then there are the group payment schemes—the ones who contributed to AVC schemes—which are being paid now. They have more straightforward policies, on the whole, and they are not the ones that are giving rise to the difficulties that have been described. It is right that we reflect the fact that the way of dealing with a large number of relatively straightforward ones should be different from that of dealing with the more complex ones. Indeed, we have altered and hired different people to cope with that. You need the skills to deal with it.

Q74 Chair: Mr Williams, you are just not getting what we are saying. Unanimously round this table we think individuals have the right to understand how their calculation was made. We will come to the timing. We think they have that right, and we are pretty cross with you that you are not administering a scheme that gives them that right. We think you should go and sort that out and just make sure that from here onwards people can get some understanding of why a particular sum was reached. It is not very difficult. I just don't believe there is anything in the world that has to be so complex that people don't understand how you got there. I just don't buy that—I don't think any of us buy that. You can take that as a comment. It will be a recommendation, and you will be back here if you don't implement a scheme that allows that to happen.
Amyas Morse: I just want to summarise a couple of points, if I may, to be clear in my mind. My impression is that deciding to have the first payment day, which was a fixed public commitment, was pretty fatal to getting your scheme off the ground satisfactorily. I would like you to reflect on that. Secondly, have you found some independent way of satisfying yourself about Towers Perrin's calculations? In other words, if you have got a class action or something against you for the way you have calculated this, how would you defend it?
On the first point, you were stuck with a date, but was it ever realistic that you could have things prepared properly, get the thing really well set up, do the trialling that I know you wanted to do and have everything in place? Was it ever on to get that done when you had to start payments so early?
Mike Williams: I think we have to recognise that the start payment date was set by Ministers, bearing in mind that Equitable Life had gone into insolvency in 2010, so people had been waiting a long time. Do I think that having that fixed date materially made things worse? No. I think it was useful that we started a pilot, which, I accept, we couldn't have industrialised. It was a relatively small pilot, but it was useful in terms of the tracing issue, which we had always known would cause us difficulties because it is difficult to estimate in advance, and also in being able to get at least some feel of how some people

would respond to the contract from the scheme when they first got payments. We did not know what that response would be and having that initial pilot helped tune things up.

I agree that it also required time to run the pilot, but if the date had been later, people might then have said that it was taking too long. The core methodology of Towers Watson was peer reviewed and we have had some involvement of the Government Actuary to ensure that payments are done on the correct basis, because you are right that that is a key point in the scheme. One point we were concerned about was whether we could be sure that we could defend the Towers Watson calculations if the scheme was challenged on judicial review or otherwise. We were conscious of that.

Amyas Morse: Were you saying that you were comfortable about that, based on where you are now? I am sorry, but I am not sure.

Mike Williams: I think we have taken reasonable steps to get as comfortable as we can be with that, yes. There are a relatively small number of instances where the core data are deficient and estimates have had to be made. They have had to take material that is not a full record of the policyholder's interfacing with Equitable Life and we construct that. They have done that on the best basis that they can. Obviously, if a policyholder can show in those circumstances that payments were made on different dates, we would have to go back and look at that.

Q75 Chair: Are you an actuary, Mr Williams?

Mike Williams: No.

Q76 Chair: Do you understand the payments? Would you understand my payment, were I ever to get one?

Mike Williams: I understand the broad basis on which the payments are made and the sort of things—

Q77 Chair: That was not the question I asked. If Mr or Mrs Jones gets a payment, would you be able, as the designer and accounting officer for the scheme, to say, "I understand how that calculation was made and why we got to that figure"?

Mike Williams: I think it would depend on the level of detail that you wanted me to go into. Could I explain the scheme rules and how they apply to their circumstances? Yes.

Q78 Chair: Could you explain to me how that figure was reached? Could you explain why I am getting x pounds a week?

Mike Williams: In broad terms, yes.

Q79 Chair: No. I do not know what "broad terms" means. If I sat down with you, would you be able to explain to me how the figure was reached?

Mike Williams: I could give you an explanation. Whether I could go into the detail that you would like would depend.

Q80 Chair: Could you explain, Ms Platt?

Jane Platt: I could explain the principles and the assumptions behind the calculation, yes. I am a non-executive director of a life insurance company.

Q81 Jackie Doyle-Price: Sir Nicholas, this really should have been easier, should it not? There is a clear policy objective and everyone knows what the outcome is. There was a political imperative behind the delivery of it. It seems to me, from what we have heard, that there has been a confused chain of accountability on who is responsible for what. You have given the job to NS&I to execute the policy objective. We have got Atos involved in the engagement with policyholders. For the straightforward, things have gone okay, but we have evidence that people are caught up going round and round in circles in the sausage machine. From your perspective as the accounting officer, who is responsible for what in the delivery of this policy objective?

Sir Nicholas Macpherson: The Treasury is unambiguously responsible and accountable for this policy. We have contracted National Savings and Investments, which is a Chancellor's department, so it is part of the wider Treasury family. National Savings has experience in making payments, so we contracted it to do that. It has a business model that means that quite a lot of its delivery is done through Atos. I don't think that this is complicated—we chose National Savings because of their experience and the urgency. We could have gone out and developed a very complicated arrangement with a private sector agent. We did look at that. We looked at other Departments—DWP and so on—and concluded that National Savings were the best people for the job.

To pick up on your earlier point, you said that this should all have been very simple. This was never going to be simple. Equitable Life policies are notoriously complicated. It was an organisation that was, to quote Judge Penrose, principally the "author of its own misfortune." We inherited a whole lot of records, which are very old and, as Mike indicated, not all complete. Tracking down the people who have policies has been very difficult.

Chair: You did get a load of help from the groups, and I gather that you burned the disc—it's completely mad! I cannot bear it when this happens.

Q82 Jackie Doyle-Price: To an extent, that is a bit of a cop-out really, because ultimately, if I am a policyholder and I want my share of the action from this compensation package, I have a responsibility to go out and find it. The people who I am bothered about are those we heard about earlier, who are not satisfied with where they are in the process. I was trying to bring out the chain of accountability because, if we look at the performance standards against which Atos are judged—I cannot remember which page it is; perhaps someone can help me.

Amyas Morse: Page 23.

Q83 Jackie Doyle-Price: What we see on page 23 is all very processy. When I say that this should all have been very simple, I do not mean that the calculations and finding people were simple, but that the objective was simple and the number of players was simple. We are finding that the indicators are very processy—"respond within a given period"—but we heard from the witnesses earlier that where the complaint wasn't particularly straightforward, they were just going round and round in circles with template letters being generated in response. It seems that you have got a real breakdown in executing the policy. I completely agree and it is absolutely right to give it to a contractor, but in doing so, you must nail down exactly what they are doing. They cannot be allowed to get away with just ticking boxes and fulfilling a process.

Sir Nicholas Macpherson: I totally agree with you—I do not think that anybody should be allowed to get away with ticking boxes. The fact is that a huge number of payments have been made. You have referred to complaints; the correspondence is actually relatively small considering how many people have been paid out. Inevitably, people who have complaints will be irritated. I would recognise that—

Justin Tomlinson: Just on that point—

Sir Nicholas Macpherson: Let me finish the point. We do acknowledge that the way that correspondence was dealt with needed to be improved and we acted on that. As you say, template letters were not the right response in many cases. I think that the service has improved. I do not think that it is a fair characterisation to say that the whole system broke down—it did not: 500,000 people have received payments and £600 million has been paid out.

Q84 Justin Tomlinson: But the problem is that you are justifying it by saying that not that many people have complained. From the evidence that we heard earlier, the reality is that not everybody is in a position to complain.

Sir Nicholas Macpherson: Of course, but the fact is—

Q85 Chair: People will not complain until they have a figure against which to complain, and they have not had a figure.

Justin Tomlinson: They are simply too old to complain.

Sir Nicholas Macpherson: I don't think that that is right. People may well complain if they think that they were due to get a payment and have not yet got it.

Q86 Jackie Doyle-Price: But not if they do not know about the 2014 deadline, and I suspect that a lot of people do not. This is the biggest problem we have: we are hurtling towards a deadline and there will be lots of people sitting at home thinking, "Oh, I wonder when I'm going to get my cheque."

Sir Nicholas Macpherson: I think that the challenge is to raise the profile of the deadline. There is a plan—

Q87 Fiona Mactaggart: Is it true that the advertising is not going to happen until November and December?

Sir Nicholas Macpherson: No, I think it will be in September. We are going to have a number of waves.

Q88 Chair: Why not earlier?

Jane Platt: We could bring it forward, but we are well on track to make the payments to the people to whom we have written. Remember that all the people we traced received a letter saying that they would be paid in 2013, and we are on track to do that. Therefore, the plan is to pay in 2013 the people we have traced, with the residual running into 2014. I will be very happy to talk about our plans for the closure of the scheme later, because that was one of the points raised in the Report.

Q89 Chair: We have received representations from the action groups saying that they think there is no reason why, because there are so many people still to trace, you should not start the advertising earlier. I cannot see a reason why you cannot do that.

Jane Platt: Again, that is a policy decision to be discussed with the Treasury. At the moment, the plan is to do that in September.

Q90 Chair: Why can you not do that?

Mike Williams: We can look into whether there is scope to—

Q91 Chair: No. Can you do it?

Mike Williams: I will look into the scope for doing it.

Q92 Chair: Will you write to us within two weeks to tell us whether you can? Yes?

Mike Williams: We will look and see how it fits with the plan.

Q93 Chair: Will you write to us within two weeks to tell us whether—

Mike Williams: Yes. Since you raised it, can we go back to the about the discs? Can I clarify that for the Committee?

Q94 Chair: I know why you did it. It was due to data protection. I just think it is a completely mad interpretation of data protection.

Mike Williams: May I briefly explain what happened? We received an unsolicited disc from EMAG in April 2011. We could not be assured that the 388,000 individuals had given explicit consent for their details to be shared with the scheme. We immediately took legal advice on what to do with the disc, and the advice was that we could not, because of the difficulty of consent, take that data. They were also supplied to us in an unsecured format, and the legal advice was very clear that we had no option but to destroy the disc. Following further discussions with EMAG in March this year, we have accepted a disc containing 10,000 policyholders' details. The key distinction is that those 10,000 policyholders have explicitly consented to their details being given to the scheme, which means that it is fine under the Data Protection Act for us to handle that information. That is why we had to destroy the earlier disc, which we had simply received through the post.

Q95 Justin Tomlinson: This is the bit I was coming on to. We know that we have the 2014 deadline and the Report shows that 17% to 20% of policyholders have not been traced. It seems eminently obvious that EMAG is the most likely organisation to help you find them. I understand the complications over data protection, but I am sure that a lot more could have been done with a lot more urgency about being

proactive and about giving them a letter to send on to their members. You could have paid for the cost of that mailing. You in effect said, "We cannot take this because of legal advice."—which would have added yet further delay—"Go and try to find something else." It seems to me that you could have helped to guide that and used them as free consultants to help you get to the people. We will be coming back to you again to talk about the people who you have not been able to trace. That is what they have been dedicating their lives to; you should be snapping their hands off.
Mike Williams: That is why we took receipt of the disc with the details of the 10,000 people who had consented.

Q96 Justin Tomlinson: Do you not think that, because it is a limited organisation, had you been more proactive and helped and supported them, you would have had a greater return than 10,000? Out of 384,000—whatever it is—10,000 is a trifling amount. What will that do? Knock half a percentage point off your 17% to 20%? You have this big, big problem, they are a resource that you can use, they have a vested interest, but you have the resources and manpower behind you better to utilise the detective work that they have been doing, for free, to help you get to these people.
Mike Williams: That is why we took the disc with the data of 10,000 policyholders.

Q97 Chair: They had 350,000 on the first disc.
Mike Williams: EMAG do not have 350,000 members. We had no—

Q98 Chair: No, they had the names and addresses of 350,000 policyholders on that disc.
Mike Williams: They had those, but the very clear advice—

Q99 Chair: And you only took 10,000.
Mike Williams: The very clear legal advice was that we could not take data from people in circumstances where they had not given consent to the transfer of data to us. We have taken data—

Q100 Justin Tomlinson: I understand that you could not just take that disc and then you, as an organisation, write to those people directly. Those are the data protection rules—whether they are good rules or not is another argument—but you could have given them the resources for them to write to that list and say, "This is your opportunity to do this. This is the direct telephone number to contact, and these are the direct people to come and contact." You could have paid for that postage. You could have organised the direct mailing. You could have done all that. If people then, because the list was not accurate, chose to throw that in the bin, that's fine. That's their problem. They will get the complaints because it is their mailing list, but you could have provided the resources and the expertise to utilise that mailing list of 384,000, and you would surely have got a better return than just 10,000.
Mike Williams: But in many of the cases—the statistics of the individual people who have either been paid or contacted show this—we would have been writing to people who would already have been contacted by the scheme. That could well have—

Q101 Chair: How did you know? You didn't look at the list. You hadn't a clue.
Mike Williams: Because we know what the complete set of people is.

Q102 Chair: Well, then you did look at the list and use the names and addresses.
Mike Williams: Madam Chair, we most certainly did not look at the disc.

Q103 Chair: Well, how do you know there were people on that list who—
Mike Williams: We know how many people Equitable Life sold policies to. We know those numbers. I think those numbers are quite accurately reflected.

Q104 Chair: But you don't know if those 350,000 were new or old. You hadn't a clue.
Mike Williams: We know that, of the individual policyholders, we have been in contact with 85%, which, in total, from memory, is over 400,000. There aren't another 300,000 people out there who have not been contacted, so inevitably, if we had written to all 388,000 on the disc, many of them would have already been in contact with the scheme. They would then have wondered, in some cases, why they had been in contact with the scheme and got a second letter. There is not an ideal way of tracing the ones who have not been traced.

Q105 Chair: Going back to what the NAO says, you have to have careful planning—you didn't have it—and correct governance. Let us now come to strong contractual arrangements. You intended to have a fixed-price contract. You ended up with a time-and-materials contract, so it is in everybody's interest, or in Atos's interest, in particular—I don't know who is responsible. Is it Mike, Jane or Sir Nicholas? Choose who wants to answer this one. You inevitably end up with the incentives in the system to spend more time and use more materials, because Atos gets paid more money. We heard from the witnesses before that they had come across one case where there were 23 unnecessary letters sent to one particular applicant. Why on earth did you end up with such a silly contract?
Mike Williams: Why did we end up with a contract for time and materials, Madam Chair? I think it is fair to say that we considered very carefully what contractual arrangement there should be, and that our initial hope was that we would arrive at a fixed-price contract. Why did we not do so? Because there were very considerable risks in terms of unknown factors—a key one being the tracing, given that whoever was contracted for the scheme was faced with taking in data from Equitable Life that dated back at least 10 years.
Also, the other thing that we did not know at that stage was what the response of policyholders would be to being contacted by the scheme. Obviously, the greater the percentage of them that responded to the

scheme, the more additional work there inevitably was for the scheme in dealing with that. If we had let a fixed-price contract, the big danger was that there were risks—risks that tracing would be more costly and risks around how much contact there would be with policyholders that would be unquantifiable. Therefore, anybody bidding on a fixed-price contract would have to price that contract in a way that took account of those risks and would therefore—

Q106 Chair: Did you let the contract or did you? Who let the contract to Atos?
Jane Platt: The contract with Atos is the NS&I contract. There is no separate contract to cover the Equitable Life scheme with Atos. The contract for the Equitable Life scheme is between the Treasury and NS&I.

Q107 Chair: So you get the advantage of time and materials?
Jane Platt: The way that the contract is split is that NS&I does indeed have a fixed fee for this work and the rest of the work is on a time-and-materials basis, because when the contract and the memorandum of understanding were drawn up, there were so many unknowns that we would not have given the option of a fixed-price contract, so we would not have undertaken the work on that basis.

Q108 Chair: Okay. I understand how you got there—not a very good place to get to—but if you end up with a time-and-materials contract and you are protecting public money, which in the end this is, it then becomes hugely important that you monitor properly what they are doing. The Report says somewhere that you have failed to do that. Can you direct me to that, Steve?
Steven Corbishley: At 2.6, Chair.
Chair: On page?
Steven Corbishley: Page 18.
Chair: That's right. I have put NB all over it. The Report says, "NS&I were unable to demonstrate that they performed effective quality assurance checks to verify the data being reported to them as being correct". We have experience of Atos elsewhere; we do not have a particularly good view of them. What on earth were you doing not assuring yourself that the moneys that they are receiving accurately reflect the work that they were doing?
Jane Platt: This was about checking and proving that we checked the management information that we had from Atos. This arose from an internal audit report, which was done on behalf of the Treasury. It recommended that we needed to be able to prove that the quality assurance checks were being done. That has now been closed down. The checks were being done, but they were not being fully documented—I completely accept that and they are now being fully documented—but that does not mean that they were not taking place. It has been closed down now to the satisfaction of the Treasury—

Q109 Chair: So you are now checking their invoices?
Jane Platt: We now have documentation to show that we are checking. It was not just their invoices, but more to do with the KPI information that we discussed when we were looking at—

Q110 Chair: But we had the example from the witnesses before of somebody writing 23 letters, most of which were unnecessary. There are examples in the Report of silly letters being written. Those letters are time and material, right? The taxpayer gets charged for that. Is your system of checking able to suss out whether Atos are actually doing the minimum amount of work required on each claim to give us economic value for money out of the service the taxpayer gets from them?
Jane Platt: We are able to monitor what they are spending very closely indeed. In terms of the number of complaints and the iterations of service—

Q111 Chair: I am sorry, but you are not answering the question. How much have Atos received so far out of this? What is their payment?
Jane Platt: We are in the middle of a retender of the Atos contract.

Q112 Chair: How much have they received to date?
Jane Platt: At the moment, we are in the middle of the Atos contract. I am very happy to write to you in confidence after this meeting to give you exactly that detail, but I will not jeopardise the retender of the overall Atos contract before it is signed.

Q113 Chair: No, I am asking not about the tender for the future, but what they have received to date.
Jane Platt: Because our accounts have not been published for this year, that information would be material to the retender and to the other people who are involved in the retender activity. I am very happy to provide you with the figure, but where we are in the retender process means that I cannot commercially do it in an open forum, although I am more than happy to supply it for the Committee.

Q114 Chair: Okay. We would like that in the next week. Before I bring in Stephen, the Comptroller and Auditor General and Guto, I want to hear from you that you are satisfied that Atos is not charging the taxpayer for unnecessary work, under a contract based on time and materials.
Jane Platt: Atos have been carrying out the work that they have been asked to do and I am satisfied that they have been doing it properly.

Q115 Chair: So we are not spending taxpayers' money on unnecessary time and materials in this contract?
Jane Platt: We are not spending money on Atos that has not been driven by the policy decisions as properly documented in the scheme.

Q116 Chair: So, which policy decisions waste money?
Jane Platt: There are not policy decisions that waste money, but—

Q117 Chair: You're being so weaselly. I am trying to understand what you really mean.
Jane Platt: I'm sorry. I am really not trying to be weaselly. If I can just direct you to page 20 and explain a bit about how those issues about the letters arose. We completely recognise that there has been a relatively small number. That does not minimise the impact on the individuals who have received them. I completely accept the frustration and annoyance of individual people who have received those letters. I completely understand that.
Please look at page 20, figure 7. In June 2012, we wrote to 85,000 people telling them that they would be eligible for a payment, and some of them that they would not be eligible for payment. You can see the knock-on effect of that in July, where the number and volume of complaints that came in went up very dramatically. That meant that, although we had staffed up in anticipation of a rise in complaints, because we recognised that people would have issues with those letters and would properly want to understand more about them, we had not anticipated quite that increase, so we had a small number of people trying to deal with a large number of responses.
The second thing is that those responses were being tackled with a series of letters that had been put together on the basis that people would have one complaint at a time. Whereas, if you look at some of the letters that have caused the iterative problems, they are very often ones where more than one issue has come about. The standardised approach that we had in place just did not work. It took us a while to bring people in, to train them and to relax the policy, because Atos was implementing a policy decision of using standardised paragraphs. That was not its choice; that was a policy decision.

Q118 Chair: By Mr Williams.
Jane Platt: That was taken by the ELPS board, of which I am a member. We were taking policy decisions. Atos was asked to carry those things out. It took a while for us to train and staff all the people.

Q119 Chris Heaton-Harris: Shouldn't that have been known, though? A number of us—probably every single member of this Committee—would have had Equitable Life members write to us and we would have passed all those letters on, as parliamentarians do, to the Treasury and other Departments where requested. I am trying to think of one of my constituents who had a very simple open-and-shut case when it came to Equitable Life payments. Almost all of them had different complicating factors. For you to make a decision that standardised everything was never going to work, was it?
Jane Platt: At the beginning we thought that people would deal with their policies one by one, but they didn't; they aggregated them.

Q120 Chris Heaton-Harris: I should declare an interest. I am an Equitable Life policyholder, as are my parents.
Jane Platt: This chart shows the total number of complaints received. That includes all the ones that came in from MPs. Again, there were 6,800 of those in total. That is a very small percentage of complaints.

Q121 Chair: I don't think we were talking about that. I wasn't talking about complaints, although I am grateful for the explanation, but what we heard before is people getting five or 10 letters saying, "Prove your identity." That is not a complaint. That is an unnecessary bit of time and material, because somehow in the system you do not pick up the first response.
Jane Platt: In a lot of cases we need people to prove evidence of identity. I can only—

Q122 Chair: Of course you do, but not five or 10 times.
Amyas Morse: Another way of describing this contract could be a cost-plus contract, couldn't it? I assume they are making money on it. They must be—they are in business to make money—so this is a cost-plus contract. There are quite a lot of those in the public sector, aren't there? They raise particular challenges because there is no incentive to control the amount of input. So the question you are being asked, not to interfere with the contract process or anything like that, is that if you let a cost-plus contract run without quite strong interference, the amount of activity will maximise because the more you do, the more you get paid. You gave a very good answer about it being according to policy, which is another way of saying that every time they did something, they got paid for it. That is true, isn't it? So the question is, how do you know that they did what they ought to have done in the most logical, brief and to-the-point way to save public money? Did you transfer any of the risk on to them on doing things in a direct and efficient fashion? How did you achieve that? I am trying to be helpful to this line of questioning.
Jane Platt: The way that we monitored this was the plan, which said how we were going to tackle each of these various things: evidence of identity, tracing, the payments and the infrastructure that we had to put together. We had the plan. That was transparent to the Treasury and we discussed it all at the ELPS programme board.
The plan evolved over time as we learnt more, because as we learnt more about the number of people who could be traced, we had to change the way of doing things, but that plan was transparent and they were held accountable to that plan.
Amyas Morse: But to be pedantic for one second longer—sorry—on the example of the eight or 10 duplicated letters, it would be right to interpret all of what you said as saying that they would have got paid for every single one of those and made a profit on every single one because it was in accordance with the plan. Is that right?
Jane Platt: No, because in many areas we have key performance indicators, which mean that there is a service adjustment where the amount of money that they are paid is reduced, so if in any cases they have not performed to the plan, or it is their inefficiency rather than a policy decision that has caused a problem, there is a service deduction for that. It is not a one-way contract at all.

Amyas Morse: Forgive me, just for a second. So now, just to keep on this for one second more, you started by saying at the beginning of this that they had not amended the policy, so the policy was not that efficient and you might have had duplication because that is a standard occurrence. So, at the time before the policy was amended, if that led to lots of different letters being sent out, in fact you would pay for all of them. That is right?
Jane Platt: Yes.
Mike Williams: Could I just add there that we did not lightly let a contract that was time and materials, and we recognised that there were risks, but there would have also been risks in letting a fixed-price contract to people who will have had to price very highly the risk that we would then have transferred to them, which is why we did not do that at that stage.
We have, nevertheless, more recently started negotiating with NS&I over moving to a fixed-price contract. Why? Because the uncertainties and risks are now reduced because we know now, broadly, what proportion of people will be easy to trace, what proportion will be traced but only after quite a lot of effort, and what proportion will be traced only with great difficulty. We also—you can see this from the statistics that Ms Platt mentioned just now about the complaints spike—have a much better feel for what happens operationally when there is bulk contact from the scheme to policyholders. That has reduced the risk and, therefore, made it easier to transfer that risk.

Q123 Stephen Barclay: Could I ask a quick clarifying point about the relationship that you have with Atos? What do you mean by "reversal of fraud losses" in your annual accounts?
Jane Platt: I will write to you on that technical term. I am not quite sure what you are referring to as I have not got the accounts in front of me.

Q124 Stephen Barclay: Okay, well it is a payment that Atos makes to you, which has gone up 100% in the annual accounts you sign off.
Chair: Say that again, Steve.
Stephen Barclay: It is a payment from Atos to you. It is fairly modest sums, but is it not part of the real fraud losses that NS&I suffer? You would combine reversal of fraud losses—the payment that you get from Atos—with your fraud loss. Would that not be a correct interpretation?
Jane Platt: Within the contract that we have with Atos, we have an arrangement that fraud losses over a certain amount are paid for by Atos, so they pay us if there has been a fraud.

Q125 Stephen Barclay: Yes, so it would be pretty odd for the payment to change so much in one year.
Jane Platt: I think that if you look at the environment in financial services across the board at the moment, and where we are in the economic cycle, unfortunately, the numbers of attempted frauds and frauds taking place are an industry-wide issue, so it is not unusual, unfortunately, for the amount of fraud being perpetrated to increase.

Q126 Stephen Barclay: That is the exact point I am driving at. What you report in your annual accounts is fraud loss coming down from £456,000 to £404,000 for the two last sets of accounts. That is the exact opposite point to what you just argued.
Jane Platt: I will have to—

Q127 Stephen Barclay: What I am driving at is the accuracy. I have a particular interest in fraud, and as you were coming today, I looked at where you are on fraud in terms of your relationship with Atos. What your accounts appear to say, when people look at them on first reading, is that fraud loss is coming down, which is great, but actually, the true picture of fraud, if you combine it with the reversal of fraud losses, is that the real fraud loss has actually gone up from £466,000 to £541,000, on my calculation.
In other words, my concern is that your accounts are potentially misleading, because they imply that fraud losses are coming down when the true cost of fraud, in terms of your relationship with Atos, has gone up. As the person who signs them off—as somebody who was the chief executive of a financial services company—I was keen to clarify that, because it goes to the wider relationship between you and Atos, an organisation whose data you were not quality assuring. I was wondering if you could clarify whether the real cost of fraud has actually gone up or gone down.
Jane Platt: I will come back to you in writing on that.

Q128 Stephen Barclay: Okay. But taking a step back from the detail of my question, has the full cost of fraud to your organisation gone up or down between the 2010–11 accounts and the 2011–12 accounts? That is the big picture. Has fraud gone up or down?
Jane Platt: I will come back to you on that picture, with a clarification on that. The figures overall are extremely low against £100 billion stock.

Q129 Stephen Barclay: Indeed they are, but the wider point in terms of today's hearing is that the annual accounts were filed six months late, six months after other Departments, weren't they?
Jane Platt: Yes.

Q130 Stephen Barclay: The data from Atos was not being checked. We have established that already; quality assurance was not going on.
Jane Platt: On the data for ELPS, the assurance was going on. We did not have all documentary evidence of the quality assurance checks. That did not apply to NS&I's retail business. An internal audit on NS&I's retail business showed no such issue.

Q131 Stephen Barclay: Sir Nicholas, would you expect a Member of Parliament—particularly one who has both been a financial regulator and worked in financial services—to look at a set of annual accounts from a body under the Treasury family and be able to work out whether fraud was going up or down?
Sir Nicholas Macpherson: Of course I would expect you to be able to do that, yes.

Q132 Stephen Barclay: So, bringing it back to today's hearing, the concern I have is that policyholders are getting a calculation and they cannot see how it is worked out. Atos is an organisation that has been before the Committee and about which Members across the political parties have expressed concern. We have a hearing where the annual accounts of the organisation are filed late, the body on which the data are provided is not quality assured and even some obvious points have been presented in such a format that we as Members of Parliament looking at it last night, as I did, cannot work out what the answers are. How does that fit with the Government's commitment to transparency?
Sir Nicholas Macpherson: I come back to the calculations. We are committed to publishing some examples of calculations in the coming weeks. I recognise that there is a trade-off. Mike has agreed to consider the Chairman's suggestion. On the question of whether you set out the detailed calculations for each individual, my recollection is that the algorithm is of a nature that it would not be a simple, one-page answer. It would be page after page after page, so a decision was made not to circulate the detailed calculation with each payment. We can look at that again, but it will be expensive and complex, and I am not even certain that it would add to the sum of transparency, but clearly your Committee will suggest that we do that, so we will need to do so in that context.

Q133 Stephen Barclay: It is for us to make recommendations, and I am not sure that we have made that one yet.
Sir Nicholas Macpherson: The Chairman was proposing that recommendation, and the Committee will no doubt take a view in due course.

Q134 Chair: Let me ask about Towers Watson. Page 20, paragraph 2.10 of the National Audit Office Report states that there were issues with Towers Watson. What were they?
Mike Williams: The data issues arose in relation to some of the calculations.

Q135 Chair: They got the calculations wrong. They got the calculations that none of us can understand wrong.
Mike Williams: There were two main circumstances, the main one being when the computer system did not cope properly because there were two payments on the same day and it did not anticipate that there would be—

Q136 Chair: Okay, so they double-paid in some instances. Were there other issues when they got it wrong?
Mike Williams: There were some circumstances where the calculations were inaccurate, yes.

Q137 Chair: Did you find them?
Mike Williams: They came to light, yes.

Q138 Chair: Have they been fined?
Mike Williams: We are in negotiation with Towers Watson. We have asked them to accept some liability for the delays, and we are in ongoing commercial negotiations with them about that, yes.

Q139 Chair: Did you have in your contract the capability of fining them if they get calculations wrong.
Mike Williams: There is the possibility of some liability in circumstances—

Q140 Chair: Oh God, I can't bear this. What is "the possibility of some liability"? Did you have a clause in the contract—it is not that complicated—stating that if they make a mistake and get it wrong they will be fined?
Mike Williams: Yes, Madam Chair, and that is why we are in these ongoing commercial negotiations over the amount.

Q141 Chair: Thank you for that. When will that negotiation be completed?
Mike Williams: Hopefully in the next few weeks, and we will be happy to report on the outcome of that.

Q142 Chair: Going back to who gets paid what, figure 2 on page 13 refers to the actuarial provider. Who is that?
Mike Williams: That's Towers Watson.

Q143 Chair: So Towers Watson gets £1.8 million, and underneath it says that the actuarial provider gets £5.4 million.
Steven Corbishley: Chairman, figure 17 on page 30 shows the original budget and the out-turn plus forecast.

Q144 Chair: Let's have a look at that one. What does it tell me?
Mike Williams: In substance, the payments to Towers Watson—

Q145 Chair: Who is the actuarial provider?
Mike Williams: That is Towers Watson as well.

Q146 Chair: So why have we got two separate entries for them? Why have we got "Towers Watson £1.8 million" followed on the next line down by "Actuarial provider £5.4 million" and you have paid them £3.38 million. Why?
Mike Williams: As I understand it, that reflects the fact that there is more than one contract with Towers Watson, and I think the two rows show one contract, and then the other contract.
Steve Corbishley: That is what we understand. The £1.8 million was for the original set-up.

Q147 Chair: So they have made a lot of money out of the scheme?
Stephen Barclay: What was the financial penalty they incurred for their errors? *[Interruption.]* Sorry.

Q148 Guto Bebb: In terms of the errors that you found with Towers Watson and the fact that you have not taken any steps to fine them—

Mike Williams: We are in negotiations over the penalty clause in the contract.

Q149 Guto Bebb: My question is: were those errors before they were reappointed, or after? It would be very odd if they were reappointed after making such errors. Paragraph 2.10 says quite clearly that the errors were quite early in the system, and yet they were reappointed in October 2011, after the initial payments were made. If the initial payments were inaccurate, they were then reappointed.
Mike Williams: I am pretty sure—but let me get back to you if this is wrong—that this would have been a payment under the second contract, which is the current contract. It would be under that contract.

Q150 Guto Bebb: Have any other errors been found in the original contract?
Mike Williams: No.
Chair: No errors?
Mike Williams: We have not found errors.

Q151 Chair: Out of interest, why have you closed down the helpline for the Equitable Life pension scheme? Why has that been closed down? The NAO has received a number of e-mails from policyholders who say that the helpline has been closed down.
Mike Williams: As far as we are aware, there is still a helpline. The contact centre is in Glasgow.

Q152 Guto Bebb: I want to move on to questions regarding the run-off costs. We have a target to finish this in 2014. Concerns have been raised in the Report, which I share. The Treasury is already predicting a £4 million overrun.
First, do you think that that £4 million overrun is sufficient, or will that become worse? When you look at the number of payments made in relation to the money already paid to NS&I, it looks optimistic. Are we likely to come in with a £4 million overspend, or will it be more than that?
Mike Williams: We are looking at areas where we can make savings. NS&I has already identified the areas where we can reduce costs by £500,000. I do not think there is anything at the moment that suggests that we will be over that figure.

Q153 Guto Bebb: What suggests a problem to me is the fact that something like 72% of the original budget has already been spent, and yet 62% of the payments still have to be made. If you look at the monthly payments that have been made so far in the scheme, you need a threefold uplift in the payment structure to deliver this by 2014. That indicates to me that there is an issue with cost control.
Mike Williams: I can see why you arrived at that view, but I do not think that it is correct, for two reasons. First, the costs were front-loaded. Inevitably, the bulk of the set-up costs occurred early on and therefore have largely finished. Secondly, the people who have been paid so far—individual policyholders—have policies that are generally more complex than the policies for people in the group schemes. There are 21 different policy types all together. Of those, only one is relevant to group schemes. In contrast to the individuals, where you could have them in 20 different policy types, in the group schemes, they are generally in a single policy type.

Q154 Stephen Barclay: Mr Williams, am I missing something? I thought that the earlier evidence suggested that the easier—*[Interruption.]*
Guto Bebb: That was exactly my point.
Mike Williams: You have to distinguish the individual policyholders from the group policyholders. For individual policyholders, the great bulk of the ones with simple affairs have been paid. The ones where there were complaints outstanding that have been resolved generally tend to be the more complex ones; that is the issue. They had direct contact with Equitable Life or agents acting for Equitable Life. Many of the people in the group schemes may or may not know that their AVC provider through their employer was Equitable Life. They are far less likely to.
The numbers also show that the average amount likely to be paid by an investor in a group scheme is considerably smaller. That is because it was not their first pension pot, but a supplement.

Q155 Chair: Can we just get some clarity? If you need more money to administer the scheme because of the issues raised in the Report and by Guto Bebb, are you going to make that money available?
Sir Nicholas Macpherson: That will be an issue to discuss with the Chief Secretary to the Treasury.

Q156 Chair: What is the priority? To get the money out to the people or to stay within the budget?
Sir Nicholas Macpherson: We have been going into great detail about the budget and it is important—it is £50 million—but relative to the sums being paid out, it is actually quite small. If you look at the Coal Health scheme, the admin costs were 50% of the money which went out the door.
Stephen Barclay: It is hardly success.
Sir Nicholas Macpherson: Indeed. But even an organisation which sometimes has been praised—the Financial Services Compensation Scheme—has had 10% costs, relative to the money going out. At present, this is something like 5%. So I think this is something where I would want to have a grown-up conversation with Ministers. Clearly, the priority is to pay the money out. I think it is sensible to have a deadline, otherwise you could just end up carrying on indefinitely, but obviously Ministers will want to take a decision on the trade-offs there, in due course. We have got off to a good start in this financial year. Some 60,000 group scheme members have been paid out in the last six weeks or so. We will have to take a view later in the year. That ties in with the advertising campaign. We are going to have to think through a number of techniques to try and reach the parts other—

Q157 Chair: You may be doing a bit better—I accept that—but it is a tripling. You would have to go from 19,000 payments per month to 55,348, according to the NAO. That is a tripling—*[Interruption.]* Well, it

is massive and you have got, as Guto Bebb said, much less money.
Mike Williams: This is not in the Report, Madam Chair, because this is subsequent to the Report, but last month we issued around 65,000 payments to group—

Q158 Chair: It is always miraculous that, just before you appear before the Select Committee, it suddenly gets brilliantly much better.
Sir Nicholas Macpherson: No, this was always going to happen.
Mike Williams: I think we will find that in this month, just before this hearing, we have not had the input of additional data that will enable us to pay many policyholders this month. I freely admit that. But we are getting in more information.

Q159 Chair: According to the Report—just another thing—Sir Nicholas said at the beginning, "We're doing brilliantly well." I am pretty shocked by figure 3, page 14: these are the people you know about, and 22% have not received a second payment—these are the annuitants—and one in four of the investors have not received anything. That is the people you know about, not the people you do not know about. I do not think that is good at all.
Sir Nicholas Macpherson: Well, I think we have made a lot of progress. Clearly, there is more to do.

Q160 Guto Bebb: I am concerned about the costs, to be perfectly frank. You said quite clearly that there was an up-front cost involved, but the evidence from the Report indicates that, month on month from December 2011 to March 2013, we have actually seen the month-on-month cost increase, while the number of payments being made has decreased. Again, I appreciate that you are giving us assurances, but I am not sure whether they are really persuading—they are not persuading me and I am not sure whether they are persuading the Committee, to be perfectly frank.
Mike Williams: A lot of the cost is associated with getting payments out of the door, if you like—partly setting up the scheme so that it can, but also the costs associated with that. Of course, a large number of the payments have now been made. There is a sense in which the likelihood of costs overrunning diminishes the more people have been paid, and the more people who remain to be paid has therefore gone down.

Q161 Guto Bebb: But the percentage is still about 62% left to be paid, according to the Report, in figure 16.
Mike Williams: Yes, but this goes back to the distinction between the individuals, most of whom have been paid, and the group scheme people, who on the whole are due an average payout which is smaller and who are generally in policies that are rather less complex than the individuals.
To go back to the question of the complication, you can have individual cases where the policy has three elements, for example, giving different sorts of cover, and the first thing the computer has to do is split each payment between those three elements. As I understand it, you do not get that level of complexity generally with the group payments, where it is sort of payments into a top-up pension scheme.

Q162 Chair: Why did Deloitte earn £1.6 million out of this?
Steven Corbishley: It's in figure 17.
Mike Williams: Because they have a great deal of experience in running and setting up this sort of compensation scheme. We had a tender for people to provide advice. The Treasury, not surprisingly, did not have great experience in the setting up of compensation schemes, and we needed to get advice. Hiring people we would then have had on our books when this scheme had finished would not have been a good way of getting the expertise.

Q163 Chris Heaton-Harris: This is a question for Sir Nicholas. Your political masters essentially instructed you to do something in the Treasury that the Treasury probably did not like to do, which is to give out a load of money that it wasn't expecting to give out. I was slightly annoyed by your answer to the previous question, in which you sounded like Steve McClaren when he was England manager, saying, "We could have done a bit better" or whatever it was—"The boys done good."
I know that some £1.5 billion in payments is in many ways a pain to administer, given the hassle that goes with it. What the people sitting behind you would like to see is a general understanding. They have actually suffered dramatically from all sorts of failings. I am not sure whether they will be too impressed, either, not so much with the Committee or the panel but with the whole session today, because they are not getting half, a quarter, a third of what they wanted. Some of the answers seem to be Sir Humphrey at his best. I just wonder.
Going forward, hopefully this will all eventually get sorted and all the payments will go, but something else will come this way. Are we actually going to learn any lessons from this about how we construct the contract, how we issue the contract and how we deal with the humble punter who is genuinely affected and hard done by? If we are not going to learn from this, and I just don't get the impression that we are—I get the impression we are just going through a function here—it is not good enough.
Sir Nicholas Macpherson: I recognise a lot of what you say. The whole Equitable Life story, going back 20 years, is a catalogue of disasters. Policyholders, I think, can feel very aggrieved, starting with Equitable Life's management and their guaranteed annuities, and all that. It is really important that we pay out this money and that we try to improve our service where we can. I am not complacent about that. This is one of the most important things the Treasury is doing.
As you say, paying out compensation schemes is not the Treasury's core competence. There may be a lesson there about whether we could have imposed this on somebody else, but, going back in time, the basic regulatory errors on which the ombudsman reported were largely down to the DTI, which was responsible at the time and The Government Actuary's Department, which with the greatest will in the world, is not big enough to deliver a scheme like this, so it

came back to the Treasury. One of the reasons why we employed NS&I was that they actually have a lot of experience in making payments to members of the public. NS&I is an organisation highly rated by premium bond holders and people who hold national savings certificates—I should declare an interest, because I hold some.

Coming back to lessons—I think this is really important—as and when the scheme finally closes down, and I am sure we will have several National Audit Office Reports by then, the Treasury will produce the "lessons learnt" review. We will ensure that we can learn from this for if and when it happens again. Just as when the banks collapsed, I think it is fair to say that the Treasury did a less good job on Northern Rock than it did on Bradford & Bingley, and so on. You do learn.

Going back to Mike's point at the beginning, we recognised our relative lack of expertise. Mike has serious operational delivery experience; he is a long-standing Revenue and Customs official. In setting up the governance, we did get some really good non-executive support, and we also employed Alexis Cleveland briefly, whom you may remember from the Benefits Agency. So we do learn lessons from other people, and we have not set this up in isolation. We were acutely aware from the beginning that if you really screw up the administration of a scheme, your costs escalate, your budget gets out of control and so on. Our current assumption is that we will end up being 3% over budget. It would be far better to be within budget but, given the orders of magnitude, I don't think that, compared to the Treasury's budget generally, 3% on this is a catastrophe. We will learn the lessons, however.

Q164 Chris Heaton-Harris: There are elements, aren't there? There is the customer service element, which is well brought out in the NAO's Report. So many other arms of Government deal with humble punters, and the NS&I deal with people on a regular basis and have a very good track record, on which I congratulate you, for dealing with people. However, that did not seem to feed across to this subset of people—again, I am one of them—who are very cross with decisions that have been made and just want to get something back. You are dealing with a very personal thing for many individuals. When you had your board meetings—which you briefly talked about, Ms Platt—and made those policy decisions at the outset, I would have thought that you could have accounted for or expected that in some way, rather than just going down a typical, standardised civil service approach.

Mike Williams: On that, Mr Scawen earlier highlighted that the cases we have found most difficult are the most complex ones at the end of the chain of individual ones, but we did plan very carefully about what the response rate would be to contact from the payments scheme. On the whole, we have been surprised how little contact there has been. There is a danger that we could have built in too much of that. If I recall correctly, we assumed that there would be some contact from 50% of the people—I think that is right; it may have been that there would be contact from 25%—but actual contact has been much, much less than that. Most of the people have, in fact, not contacted the scheme following receipt of a letter telling them that they would get a payment, nor have they made contact with the scheme when they have actually received a payment. So we could have gone the other way and built in a very great infrastructure for people, the bulk of whom have shown that they did not want that, or at least that they never wished to make further contact.

Q165 Chris Heaton-Harris: Just one more question, if I may. The way you are rolling out contacts suggests that there is a set amount of money set aside for each individual. In other words, you have already apportioned how you are going to spend your £1.5 billion at the start of this scheme. If you cannot contact between 17% and 20% of people, that suggests to me that a sum of money will be left in that centralised pot. What will happen to that?

Sir Nicholas Macpherson: This will be a matter for Ministers to decide. We will be engaging on this issue later in the year once it is clear where we are heading. The Chancellor announced in the Budget further payments to pre-1992 with-profit annuitants, which is one example of Ministers going further than originally envisaged because there is room within that £1.5 billion ceiling. So this is something that Ministers will have to decide on.

Chair: Okay. Thank you very much. We look forward to hearing from you on the advertising, on the transparency and on the fraud. Thank you very much indeed.

Written evidence from Equitable Members' Action Group

Thank you for inviting us as witnesses to the PAC meeting on Equitable Life yesterday.

We were grateful for the opportunity to appear as witnesses before the committee and were encouraged by the questions asked by the committee of the Treasury witnesses. Some issues did arise during the second session which I should welcome the opportunity to comment on.

Throughout the past three years the Treasury has been very resistant to sharing any information with us on how the scheme is being implemented or its progress. This has meant that we have had to attempt to second guess what they are doing by detective work. The NAO's report, and the evidence session yesterday, have confirmed a number of things that we suspected but were previously unable to prove.

Calculations

We are not asking (at this late stage) for everyone (a million people) to be posted a full calculation of their compensation—this would be an expensive exercise.

What we would like to see is a proper explanation of how compensation has been calculated by Towers Watson. Specifically we seek greater transparency on the calculation comparators, with worked examples to give confidence in the way the calculations have been applied. It would also be reasonable for the Treasury to provide detailed explanations to those people who DO request it—probably a few thousand at most.

The Treasury is focusing on telling people their own (already known) Equitable policy details as opposed to the *comparator funds* used to calculate their relative losses. The Towers Watson comparator fund data is a basket of one, two or five selected equivalent life insurance companies, depending on the policy type. We want to know in what ratios they have been applied and what weightings, “assumptions” and “adjustments” may have been used. A cynic would fear that the assumptions may have been used to trim the costs, but without knowledge of them, we too will remain suspicious that the Treasury has something to hide.

I am enclosing a letter from the Independent Review Panel in the case of Mr Ray Bittan. We engaged our lawyers Bindmans to pursue possible legal action to force compliance, and the matter is still unresolved. I would be happy to make available the full correspondence between Mr Bittan, Bindmans, ELPS and the Treasury if it would be helpful. I have permission from Mr Bittan to share this information.

Customer Complaints and Enquiries

We have found that the correspondence team at ELPS have frequently turned a straightforward enquiry into a “complaint”, in many cases turning simple queries into difficult ones.

Delays

From the hundreds of cases I have reviewed, I see little evidence that the more complex cases are being saved until last. Some very complex cases were settled last September/October, while even now some very straightforward simple cases remain unpaid.

EMAG’s Database

We provided the Treasury with a disk containing 385,000 policyholder street addresses. This was based on the publicly available Equitable Life policyholders list, which we paid to have cleaned by Experian. The disk was delivered in person by Paul Braithwaite and we had provided prior notice that the disk would be delivered. The disk was not encrypted but, had we been asked to do so by HM Treasury, we would happily have provided a second, secure, disk. We sought legal advice on the issue of data protection and were assured by Bindmans LLP that there were no legal issues that would prevent the Treasury accepting our help. We were trying to expedite the scheme and did so at considerable expense. The Treasury’s refusal to engage in a constructive manner was, I’m afraid, indicative of our dealings with them. I am attaching the legal advice we received from Bindmans and a copy of the Treasury’s response, signed by Mike Williams.

Tracing the 200,000 Victims due a Payment

If the Treasury is sincere about wanting to trace the maximum possible number of eligible claimants there are a number of resources they could use:

- All WPAs remaining alive are in receipt of monthly payments from the Prudential who have their current address and bank details to make those payments.
- All other claimants of pensionable age should be in receipt of a state pension paid by the DWP, who will have their current address.
- Most other claimants will be paying income tax or filing a tax return to HMRC.
- Experian can provide more effective services (at a higher cost) than the ones employed so far.
- In addition to paid advertising, HMT could be using their considerable PR skills at minimal cost to promote tracing via the national newspapers: *“The Daily Mail says ‘Don’t miss out on your compensation—here’s the hotline number’”*.

Unfortunately, HMT’s “marketing” of the Scheme’s existence and activity seems to have been aimed at MPs, rather than the public, to the extent that the press have not (as far as we are aware) carried any significant publicity for either the ELPS website or the Scheme’s contact details.

Pre-1992 With-Profits Annuitants

At the end of the session Sir Nicholas Macpherson suggested—though his language was ambiguous—that the funds the Chancellor made available at Budget 2013 for ex-gratia payments to WPA policyholders who took their annuities before September 1992, may come from the unclaimed funds in the existing payments scheme. It has always been our understanding that this money was new money *in addition* to the initial compensation fund. We would be concerned if it emerged that the Treasury was already making plans to redistribute unclaimed funds when they still have more than a year to track down untraced policyholders and should be pulling out all the stops to do so.

I hope these points are helpful. We will be very pleased to supply further information or documentation if required.

Paul Weir
Communications Director

16 May 2013

Written evidence from Equitable Life Trapped Annuitants (ELTA)

In some respects the ELPS has been successful, it has paid most of the WPAs but not all and many were paid late after many issues with the administration of the system in use.

It is not for me to comment on the contract between the Treasury, NS&I and ATOS but it seems clear that whatever the intent, whilst the Treasury ultimately carries responsibility for the output from the scheme, the day to day operations and management have been delegated to ATOS, which is logical and practical, but with no apparent ability to enforce changes in their actions or lack of them, which is not.

Given that I live in France I have wide experience of two very different cultures but it would be wrong to suggest that the ELPS (ATOS) is worse then other Government Departments or commercial organisations in either country.

The problem is not that there are queries and/or communication problems and/or improper or incorrect advice given to members of the public but how organisations respond to customer queries and complaints.

In that context the performance of the ELPS (ATOS) is absolutely dire.

1. The Support Staff, the Help Desk Staff, appear to be poorly selected, inadequately trained, lacking proper supervision and are required to work without access to the policyholder file and even when they have access they seem either not permitted to tell the caller the true situation and revert to standardised replies in conversation or in correspondence often containing content which has no relevance to the issue at hand.

It is difficult to understand why the staff of the ELPS (ATOS) appear so inadequately trained and one must assume lacking in the ability and/or knowledge of Annuities that they are unable to write a proper response to an WPAs query and are forced to reply on so called “letter templates”.

I have received the same from other Government departments, so I assume this is what passes for the “norm” and I can deal with them but many WPAs are too old to cope and simply give up and lose out. That is a disgraceful consequence of poor staff selection and training.

There are many excellent “Help Desks” that one can use a benchmark in customer facing organisations, from ones as simple as MacDonald’s counter staff, to Amazon and Barclaycard but if you look at the staff in a typical A & E department, they are highly trained, well qualified with an extraordinary skill in working out from the mass of confusing symptoms what is wrong with the patient and what course of action to take and with the authority and expertise to take it and/or call on resource from other departments or specialists.

It would not be just to cast aspersions on individuals I have never met, but there is no possibility that the staff at the Help Desk at the ELPS (ATOS) would in any way meet the standards of professionalism with the requisite education, training, management, support systems and organisation that are required to meet the benchmark set by many other state and commercial enterprises in this country.

2. There seems nobody at ELPS (ATOS) who is able, is willing or has the authority to take this project and make it work. In effect with the work I am trying to do for the WPAs in close coordination with Treasury officials, I can get WPAs queries resolved often in a matter of days.

The point is of course that resolving issues is easy, it just requires focus and energy something apparently lacking at ELPS (ATOS).

3. I would estimate that over 80% of the queries that I deal with and which require some form of intervention with the ELPS (ATOS) via Treasury officials are when:

(a) Policyholders have both investment policies and With Profits Annuities or

(b) A husband and wife each hold With profits Annuities.

It is not at all clear why this should be so since as I say above, once the problem is identified payment seems to proceed but it poses the question why does this keep on happening? What is it about the administration of the scheme, its systems, processes or management that seems unable to identify policies in this situation?

4. More infrequently, but more disturbingly, ELPS (ATOS) state that some annuities cannot be found. It is not entirely clear why that should be so but since the ELPS had adopted a policy of combining annuities for

reporting g purposes when as in Figure 13 on Page 26 of the NAO report there are 3.630 WPAs still to be processed we actually have no idea if:

(i) How many annuity policies that represents. And this is important because nobody can seriously close the scheme down until we can be sure all WPAs have been processed correctly.

(ii) And since by adopting the process, there is no immediately obvious way of auditing that the ELPS has processed ALL annuities.

5. TABLE 13:

(i) Death Claims (27.5%)

What is the problem? I asked ELAS about this and was told that they do not check probate because why would anyone seek to have their income reduced unless the WPA had died! This is a good pragmatic approach and whilst I accept that different standards apply when dealing with public money, since ELAS and now the Prudential have accepted that a policyholder has died it is not immediately obvious why that status has to be slowly and very expensively re-checked by ELPS (ATOS).

(ii) Foreign address (21.8%)

The ELPS seeks verification of the policyholder's identity with a passport, utility bills, etc verified by a notary but of course in English. This creates some issues:

(i) It is illegal to live in a foreign country without your passport and since the UK seems unwilling to do what the rest of the world does and give out identity cards, that does not work.

(ii) Notaries are not permitted to write in anything other than their native language which of course is of no help to the ELPS.

(iii) At least in France, I no longer receive utility bills, as they are only available on the Internet. I can print one out but of course that is not an original!

(iv) For most people the only choice is to travel to the nearest Embassy or Consul and get them to do this for which there is a significant charge, let alone the cost of travel and maybe overnight accommodation, which given the reduced circumstances of many WPAs living in Europe these days in an unnecessary and cumbersome way of dealing with the issue.

What is needed is a pragmatic approach to deal with this community so that individuals can get paid promptly.

(iii) Blocked (14.8%)

This is what I am told by officials at the Treasury:

"A blocking is applied to someone's record to prevent the payment being made. These blockings are then released as someone passes through the gates to payment. A good example is a High Value payment. High value payments are blocked because we need a further confirmation of identity before releasing the payment. So if someone doesn't return that evidence they will remain blocked. I do not have that precise breakdown but a fair rule of thumb is that someone is waiting for a response or action before that blocking is removed."

It is surprising that after two years there are individuals who cannot provide enough evidence to pass through the gates or maybe do not know that they are blocked.

Based on my experience leading the so called "litigation group" there were some individuals who did not respond to repeated communications so we kept trying but it required a specific letter setting out the problem and not some "template".

But then in many cases that I have dealt with, the "missing information" has been supplied to ELPS (ATOS), often many times and yet it never seems to reach the right department, or be recorded on the system Certainly in my experience this matches with the problem of ex-pats.

(iv) Foreign Currency (5.4%)

I receive my annuity payments in Euros direct from my Pension provider and I have a standard monthly transfer from my UK bank account to my French bank account. I can make occasional transfers with a Foreign Currency trader by the Internet within 24 hours. We all have an IBAN account number, which means anybody can transfer money in any currency to anybody just as you can in the UK.

It is no more difficult to set up a payment to a "foreign" bank than it is to a UK bank, so what is the problem? I am told it is being considered that the way around this is to pay overseas policyholders without UK bank accounts by Warrant. I cannot speak for the rest of Europe but in France you can still sign on the back of a cheque (warrant) and pay it into another account. This proposed approach is not desirable.

(v) Untraced Policyholders (8.4%)

I recognise that individuals have a responsibility to advise, the Prudential that they have moved and/or ensure that the Post Office has a forwarding address and I am sure that many individuals fail to do that.

However I feel confident, that if I owed some income tax, or had failed to meet some debt repayment schedule that I would be "found" soon enough.

(vi) Change of Details (2.0%), No country code (1.0%)

This seems it should be a simple administrative task and thus why is it a problem.

(vii) "Others" (19.4%), TW data to be updated by NS&I (0.3%)

I have no idea what these additional sub-headings mean as they defy rational interpretation

Overall, I get no sense that ELPS (ATOS) is seemingly neither focussed nor sufficiently pro-active in taking active steps to resolve these problems.

6. Finally, it is my opinion that ELPS (ATOS) would have been much more successful had it co-opted the experience and knowledge of the various policyholder groups. I only seek to represent the interests of With Profits Annuitants but I am confident that I might have been able to provide input in the early stages of the scheme design that would have reduced many of these issues.

It would be my very strong recommendation that in any future scheme of this type that the various action groups are much more closely involved. They of course may decline to do so but then they can hardly claim any faults that emerge are entirely the responsibility of the Treasury.

Peter Scawen

16 May 2013

Written evidence from NS&I

Q.1 *Request for details of the Atos payment for administering the Equitable Life Payments Scheme*

NS&I utilise a fixed and variable payment model. This is because at the beginning of the Scheme there was a lot of unknown requirements, therefore the NS&I payment was to be fixed but the Atos element was to be variable (and directly linked to the amount of work undertaken by the Scheme) and subject to service credits where KPI/service levels are not met, with the intention of managing costs down.

The total NS&I forecast cost (fixed and variable elements) is still similar to the original forecast, despite additional remedial work required as a consequence of incomplete data and calculation data. Atos have been paid £26.67 million (as at 31 March 2013). Atos's forecasted costs are reported to be £38 million over the life of the scheme (end of March 2014).

Q.2 *Request for clarification on the fraud data reported in NS&I's Annual Report and Accounts 2011–12*

We believe that our Annual Report and Accounts clearly report the losses as a result of fraudulent activity. This sum is shown in figure 25 on page 74 of our Annual Report and Accounts for 2011–12 as below.

25 Losses and special payments

	Number of cases	31 March 2012 £000	Number of cases	31 March 2011 £000
Compensation payments (1)	2	191	4	–
Fraud loss	188	404	158	456
Fruitless payments	–	–	–	–
Special payments	–	–	–	–
Other	–	–	2	1
Total	**190**	**595**	**164**	**457**

(1) Special payment of £190,000 relates to settlement of a legal case.

"Fraud loss" refers to NS&I product fraud losses after recoveries made on those accounts during the year. "Fraud loss" for our retail business was significantly lower in 2011–12 compared to 2010–11.

There are additional entries in the accounts relating to fraud as explained below.

The first £300,000 of "fraud losses" in any financial year are paid in full by Atos which incentivises them to ensure fraud prevention is taken seriously. Any loss above £300,000 is then absorbed by NS&I and Atos equally. Any fraud cases where the loss is as a consequence of operational error is treated as an operational loss and is paid by Atos in full. Recoveries from Atos are reported in note 10 of our accounts and are called "contracted loss recovery from Atos". In 2011–12 and 2010–11 these amounts were £337,000 and £478,000 respectively.

We also provide for fraud losses in cases where a fraud has been identified and it is probable that a liability for NS&I will result. The losses that are included in the provision are periodically reviewed and in some cases our view on whether a loss is expected can change. This is reflected in the Annual Report and Accounts as increases and reversals of fraud losses in note 9. For 2011–12 and 2010–11 the net increase/reversal figures were a write-back of £98,000 and a cost of £165,000 respectively (it is important to emphasise that a provision is not yet an actual payment, and is not a payment made by Atos to NS&I).

Whereas the initial fraud cost is simply the amount shown in note 25 (£404,000 in 2011–12), the net fraud "cost" recognised in the Statement of Comprehensive Net Expenditure is the sum of i) the fraud losses in note 25, ii) the recoveries from Atos in note 10 and the increases and reversals of fraud provisions in note 9. For 2011–12 and 2010–11 the net fraud effects in the Statement of Comprehensive Net Expenditure were a £31,000 net write-back and a £143,000 net cost.

21 May 2013

Written evidence from HM Treasury

EQUITABLE LIFE PAYMENT SCHEME

Following our attendance at the Public Accounts Committee hearing on the administration of the Equitable Life Payment Scheme, you asked us to write to you on two issues. The first was regarding the transparency of the payment calculation, and the second was regarding the proposed advertising campaign.

Transparency of the Calculation

It may be helpful if I set out some of the general history to the Scheme. In May 2010, as part of the Coalition agreement, the Government pledged to make payments to eligible Equitable Life policy holders. Following this announcement and the report of Sir John Chadwick, there was a consultation in the summer of 2010 on how the Government should proceed on the Equitable Life issue. Representations from Equitable Life Members Action Group (EMAG) and Equitable Life Trapped Annuitants (ELTA) were received. The Government considered these representations and announced in the 2010 Spending Review that £1.5 billion would be made available to the Scheme for distribution to around one million eligible policyholders. After the Spending Review announcement the Government passed the Equitable Life (Payments) Act at the end of 2010. The Independent Commission on Equitable Life Payments was also established to determine how the allocated funds were to be distributed. Following the report of the Independent Commission, the final detailed Scheme rules were presented to parliament in May 2011 and the first payments began in June 2011.

Central to the Scheme is the calculation of each policyholder's Relative Loss. The actual calculation of Relative Loss can be very complex but, in concept, Relative Loss can be simply defined as the difference between the amount received by a policyholder from Equitable Life and that which they would have received if they had invested elsewhere. There are effectively two parts that ultimately lead to the Relative Loss amount, the first is the establishment of the detailed calculation methodology and the second is application of this methodology to a policyholder's personal data.

Establishing the calculation methodology

As part of the Scheme design process, the Treasury contracted a firm of leading actuaries, Towers Watson, to provide advice in relation to the design of the methodology and the setting of assumptions for the purpose of the calculations. This involved using commercially sensitive data from the comparator companies to allow the comparator returns to be determined. This advice was peer reviewed by an independent expert panel of actuaries. Their findings were published in 2010 and a copy can be found at page A182 in the document available at:

> http://webarchive.nationalarchives.gov.uk/20101215172035/http://chadwick-office.org/dowloads/Towers_Watson_Advice.pdf

Following the consultation in summer 2010, a consensus emerged that the Towers Watson estimation of Relative Loss was reasonable. The Parliamentary Ombudsman also wrote to all MPs on 26 July 2010 and said that "the work done by Towers Watson to calculate the Relative Losses sustained by policyholders and annuitants is also to be welcomed. I note that the provisional figures of £4 to £4.8 billion for those losses are broadly consistent with the amounts claimed by those who complained to me and which informed the representations I received while finalising my July 2008 report".

Application of the methodology

Towers Watson have applied the calculation methodology established by the process set out above to each eligible policy. To achieve this, the Scheme secured the relevant policyholder data from Equitable Life and the Prudential where applicable. As there are over one million calculations of Relative Loss to be made, the calculation systems were automated. From the point of view of practicability and also to maintain the efficiency and cost effectiveness of this highly technical process, the detailed underlying calculation steps relating to an individual's determination of Relative Loss, which can be numerous depending upon an individual's circumstances, are not defined outputs of the Loss model. Instead, the model produces, and the Scheme stores, the Relative Loss amounts themselves together with other information necessary to enable loss payments to be made in practice.

The Scheme has had to consider the best way to present information about an individual's calculation, which is frequently highly technical, against cost, In particular, it is mindful of policyholders' needs for information about their payments to be as uncomplicated as possible, and the prohibitive costs of providing around one million policyholders with bespoke calculations. The Scheme also needed to be mindful of the commercial sensitivities of the data that the comparator companies provided.

The Scheme decided that the clearest and most proportionate means of presenting to individual policyholders information regarding payments due to them would be to provide the key information of the amount of the payment(s) and the year(s) they would be paid. Policyholders could then consult the summary of the calculation methodology, which is available in the Scheme design document and the detailed explanation which is available in the Technical Annex, if they so require. As the Scheme has received very few queries or challenges from policyholders on this particular topic, it would suggest that the Scheme has got the balance right.

As set out earlier, prior to the Scheme being established there was an extensive process of review, discussion and consultation with groups such as EMAG. As a result of this, the Scheme rules including the calculation methodology are fixed and are not open to challenge by policyholders. However, policyholders are able to challenge any errors in the base input data that the Scheme has received from Equitable Life. This data is supplied to policyholders on request in the form of a Core Data Report. If a policyholder identifies an error in their individual input data then they can request the Scheme recalculates their payment on the basis of this new data.

We are also aware that a small number of policyholders also wish to receive more detail on their individual calculation, in order to produce this data for these policyholders we would have to request a bespoke calculation from Towers Watson. As there can be a large degree of variation from policy to policy, the various parts of the calculation process can vary considerably depending upon the individual policy characteristics. This detail would then need to be articulated in a form that would be meaningful to policyholders. Such a process could cost several thousand pounds per individual calculation, depending on the case.

As an example, the NAO report sets out that 365 people have complained to the Scheme that their individual calculation is incorrect. The Scheme does not believe that these calculations are incorrect. However, if an individual calculation was provided for those people this would cost £500,000 or more depending on the complexity and commonality of these cases. We do not think this a proportionate cost. Also, policies where a small Relative Loss has been calculated could nevertheless be complex, so the costs of providing further detail could be particularly disproportionate for such cases.

HMT takes the view that as the basis of the calculation is set out in the Scheme rules, this is sufficient for the small number of policyholders who wish to gain more insight into their calculation. We are aware that this is a complex area for the layperson. We are confident that policyholders can be assured that, assuming their input data is correct as set out in their Core Data report, their calculations are accurate. This is because the calculation methodology has been available for public consultation, has been subject to external expert scrutiny in the form of peer review, and the calculations have been performed by a leading firm of actuaries (who have carried out their own internal quality assurance processes), and the process has also been subject to external review by the Government Actuary's Department.

You have raised the issue of worked examples. Each person's policy is governed by many factors, depending on the individual choices they make in relation to that policy. For investors there are 20 different policy types covering many different types of With-Profits business—such as pensions, saving for school fees plans, critical health cover and endowments. Within each plan there are also many different variables such as the policy choices a customer made, the frequency of payments, the number of withdrawals and the start and end dates. All these factors influence someone's final Relative Loss. It is therefore not practicable to produce meaningful worked examples at a proportionate cost that covers all these different scenarios.

However, we have considered the production of worked examples of With-Profits Annuity policies again and are investigating ways that some form of additional information relating to the performance of the comparator fund can be provided at an acceptable and proportionate cost. We anticipate the results of this work to be available shortly on the Scheme's website.

Advertising

You have asked us to consider the bringing forward of the advertising to earlier in the year to assist with the tracing of the remaining policyholders. This is an area that we have paid considerable thought to and it is important to see the advertising as just part of a wider programme of activity to publicise the closedown of the Scheme.

In the current plan the first phase of activity is linked to the Scheme contacting all the individual investors and annuitants it can. This was completed in April this year. To help locate those remaining policyholders the Scheme has:

— written to their last known address and asked them to make themselves known to the Scheme;
— asked Equitable Life to publicise the relevant phone numbers and contact details to policyholders;
— worked with ELTA to close down any outstanding cases they are aware of. This has proved useful in clearing up a number of the remaining annuities;
— asked EMAG to publicise the process for making a claim with their members;
— asked EMAG to send any difficult cases they are aware of to the Treasury for individual investigation. To date they have sent us no cases for further investigation;
— asked Prudential, who continue to make payments to annuitants, to publicise the Scheme; and
— issued a progress report and written ministerial statement encouraging people to come forward and contact the Scheme. This had some take up with the media and we will look to gain further media coverage of the Scheme over the next months.

Once the Scheme has completed payments to Group scheme policyholders the current plan is that there will be two phases of advertising, placed in national newspapers such as *The Times* and *The Telegraph*. The first phase will encourage those that haven't come forward to do so by a given date. The second phase will remind people of the deadline to come forward and that the scheme will close to new claims after that date. This activity will be supported by further PR activity with both the press and stakeholders.

We considered in some detail whether the Scheme should boost the current non-paid for publicity with paid for advertising. We have rejected this approach on two grounds:

— The first is efficiency. As the Scheme continues to make payments to Group scheme policyholders, if we brought the planned autumn activity forward to the summer then we would still need an autumn advertising campaign to announce the completion of payments to Groups. Bringing it forward would in effect add a third burst of advertising and require a further increase in budget.
— As mentioned above the scheme continues to make payments to Group scheme policyholders. If we were to advertise scheme closure now then there is a risk that we would create confusion amongst this segment of policyholders, which would create further spikes of correspondence with the Scheme. This would also lead to increased costs. As we did not want to risk creating confusion amongst policyholders we rejected it on these grounds.

However we share your concerns that the Payment Scheme should make all the efforts it can to trace the remaining proportion of policyholders. Depending on policyholder response we will therefore consider increasing the budget allocated to the two bursts of advertising or increasing the gap between the first and second phases of advertising. This would maximise the window for people to respond.

I hope this answers the questions you raised. If I can offer any further clarification please do not hesitate to contact me.

Sir Nicholas Macpherson
Permanent Secretary

30 May 2013

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