Crisis of the Equitable Life Assurance Society

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The committee of inquiry into the crisis at the Equitable Life Assurance Society adopted, by 13 votes to 0 with 4 abstentions, its final report drafted by Diana WALLIS (ALDE , UK). The inquiry was set up in January 2006 in response to two petitions received by Parliament from policyholders who were among the victims of the debacle at the Equitable Life Assurance Society that inflicted major financial losses on over a million people, mainly in Britain but also in other countries, including Ireland and Germany . The problems arose because the company did not set aside adequate reserves to cover its liabilities and then ran into financial difficulties when interest rates began to fall in the 1990s.

The committee looked into the role of the UK government and regulators in implementing EU insurance law and that of the European Commission in monitoring the implementation of such law. The spotlight was on two key issues: the plight of the policyholders and the implications for the European single market in financial services.

Poor implementation of EU law and weakness of financial regulators

The committee concluded that EU life insurance legislation was transposed into British law in an unsatisfactory fashion (this raises the general question of how well EU law is transposed in all the different Member States and how far this process is monitored by the Commission). In addition, the UK 's financial regulators were severely criticised, notably for their “excessive leniency” towards Equitable Life’ s solvency margin (its inadequate reserves).

Difficulty in obtaining redress, both inside and outside the UK

When Equitable policyholders (most based in the UK) sought to defend their rights, they "had great difficulty in knowing what route to take or who to apply to in trying to obtain information, make a complaint and obtain redress", whether through the courts, through alternative dispute schemes or through ombudsman services. Non-UK policyholders, such as the 8 000 in Ireland and 4 000 in Germany , suffered from a further problem: which regulatory bodies were responsible? Was it those in the “home state” (the company’s country of origin) or the “host state” (the country where it sold its policies)? The EP inquiry concluded that this was not clear.

Recommendations of the inquiry

Following up on its conclusions, the inquiry made a number of proposals. Regarding the victims of the crisis, MEPs believed that "the UK Government is under an obligation to assume responsibility" and should therefore devise an appropriate scheme "with a view to compensating Equitable Life policyholders within the UK , Ireland , Germany and elsewhere".

Turning to the "lessons for the future", the report stressed as a general point "the need to foster consumer confidence in pension products" (especially given the ageing population and the growing importance of pensions). It requested that "any financial services legislation duly recognises the priority of consumer and investor protection issues", while still minimising red tape and not stifling innovation in the financial services industry.

More specifically, it called for stricter rules on insurance supervision and regulation throughout the EU, for Member States and the Commission to improve the transposition and monitoring of EU legislation and for national regulatory authorities to cooperate better.

The report said that the Commission did not monitor the application of the EU insurance legislation effectively, and should in future be “more proactive” on this front "to ensure that the legislation is producing the required effects".

The inquiry also suggested that the European Parliament's standing committees should play a more active role in following up the implementation of legislation in their own policy areas.