Pension Protection Fund

An update on developments at the Pension Protection Fund

Martin Clarke, Executive Director of Financial Risk

The PPF remains in a robust financial position despite experiencing a historically high year of claims.

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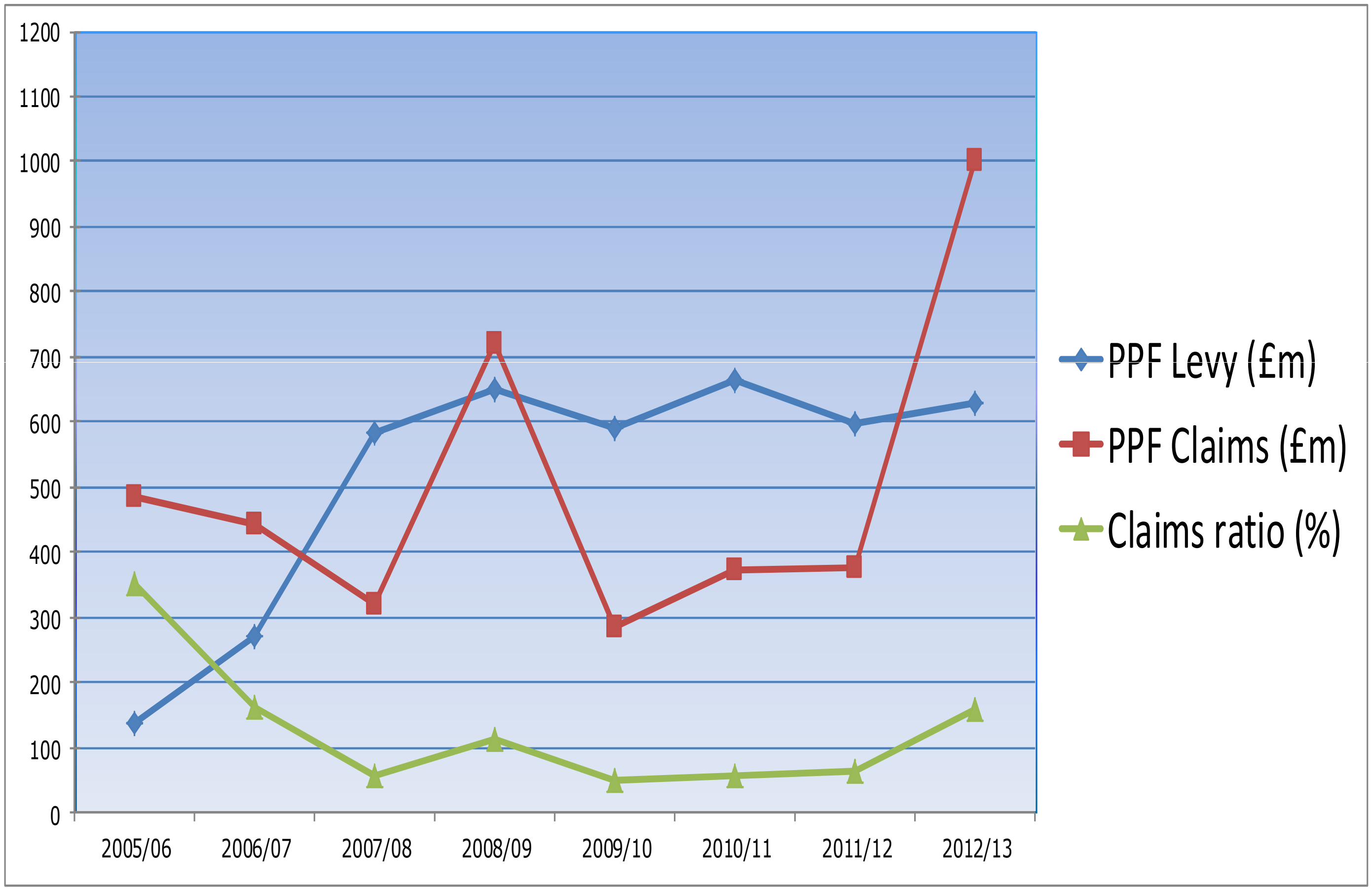

2012/13 saw:

- Over £1bn worth of inherited deficits;
- A collected levy of around £640m;
- Excess investment returns of over £450m.

A re-cap on the New Levy Framework

Pension Protection Fund

A bottom-up approach:

- Has a fixed scaling factor for three years, which is only adjusted in limited circumstances;
- The total levy is free to change;
- More predictable levy bills at ‘consumer’ level.

A new approach to risk measurement:

- Changes smoothed by using average values, so more levy bills are more stable;
- In place from 2012/13;
- 2014/15 is the last year of the first triennium.

New Levy Framework: the 2014/15 levy is the final year in our current three year cycle

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- The parameters were left unchanged, as per our commitment.
- As a result, the 2014/15 levy estimate is £695m – an increase of 10% on the 2013/14 levy (as signalled in September 2012).

- Minor changes in other rules – responding to stakeholders

Experian was appointed following a competitive and open tender process

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- The Invitation for Tender for an insolvency risk service provider was launched in May 2012.
- We announced the contract award to Experian on 31 July 2013.
- The applications received were evaluated against the following criteria:

1) Alignment with PPF
2) Quality and rigour
3) Coverage of PPF universe
4) Quality of service
5) Procedures for challenging scores
6) Score monitoring capability
7) Transparency and accessibility
8) Value for money
9) Compliance with T’s and C’s

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Over the next few months, we will be working with Experian and stakeholders to effect the transition

Autumn 2013

- Industry Steering group to formally support our thinking
- Informal consultation on issues and themes
- Evaluation of Experian bespoke model

Early 2014

- Formal consultation on proposals for second Levy Triennium (2015/16 – 2017/18)
- Expect scores to be available from February 2014

April 2014

We anticipate that scores from April 2014 will be used to calculate 2015/16 levy invoices

September 2014

2015/16 Levy Determination to follow existing consultation route, including on the scaling factor for 3 years

We have established an Industry Stakeholder Reference Group

- This Group forms part of our broad consultation on the second levy triennium.
- The Group will meet over the Autumn / Winter to assist us on our thinking on the New Levy Framework and our work with Experian.
- The Group has a range of industry representatives, including:
  - NAPF - Institute and Faculty of Actuaries
  - ACA - CBI
- We would encourage engagement via your representative Groups but would be happy to engage directly on specific issues.

Our work at present is guided by a number of principles:

- We will be able to justify and explain why we have confidence in Experian’s methodology;
- We will reach that position with the support of our Industry Stakeholder Group;
- We will work to avoid repeating our learning curve issues that accompanied the D&B implementation;
- We will minimise the levy impacts of the change to those that are justifiable on the basis of evidence.

It is important to realise that the scores from Experian will not be the same as the scores from D&B

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- Work is on-going with Experian and our current focus is the work on the bespoke model.

- However, we can reassure you that we are working with Experian to develop the following processes:
  - Monitoring of failure scores for our customers;
  - Where appropriate, transfer of additional information directly from our customers;
  - A suitable appeals process.

- We would welcome your input in shaping these into 2014 as the exact details are finalised.

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