


Institute
and Faculty
of Actuaries

PPF Levy and Experian

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Today's presentation

- Context: the PPF today
- Recap on fundamentals of the PPF Levy
- Latest information on the move to Experian and when schemes/advisers will be able to access data on employers
- Timetable for announcement/consultation



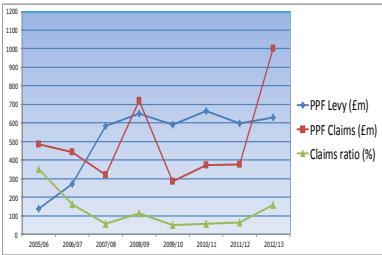
The Pension Protection Fund Today*

- We protect 6,200 eligible DB pension schemes with £1 trillion liabilities and 11.4 million members;
- 191,729 members transferred into the PPF from around 650 schemes;
- A further 132,000 members are in assessment from around 230 cases;
- Schemes that entered assessment but did not transfer:
 - Rescued – 57 schemes
 - Over-funded – 89 schemes
- Assets including schemes in assessment of c£24 billion.

*As at 31 December 2013



Annual Accounts 12/13 and Funding Strategy



2012/13 saw:

- Over £1bn worth of inherited deficits;
- A collected levy of around £640m;
- Overall investment return of 11.1%
- Funding level increased to 109.6%
- Probability of success increased to 87%



The PPF Levy Going Forward

- Last December concluded the 2014/15 levy consultation with a levy estimate of £695 million
- 2014/15 the last year in our current three year cycle
- More detailed review of the levy parameters prior to the start of the next levy 'triennium' in 2015/16 - any change evidence based
- Experian appointed as our new insolvency risk provider from the 2015/16 levy year. We intend using a PPF specific scoring system that is more tailored to our universe and considering other issues (such as customer services).



Re-cap on New Levy Framework

Bottom-up approach

- Fixed scaling factor for three years, only adjusted in limited circumstances
- Levy quantum will vary over the three years to reflect overall changes in risk
- More predictable levy bills

New approach to risk measurement

- Changes smoothed by using average values, so levy bills exhibit greater stability
- Market-consistent rates for insolvency
- Took account of investment risk for the first time



The move to Experian

- Pre Qualification Questionnaire concluded and invitation to tender issued – summer 2012
- Experian were the successful bidder, announced in July 2013
- Bid was evaluated on the basis of the 'Commercial Delphi' model but Experian offered the option of developing a PPF specific model
- We have been testing and comparing the two models – recently announced that we intend using the PPF specific model, subject to consultation
- Only propose to use data from the end of October 2014 for the 2015/16 levy (6 month average)



We have established an Industry Steering Group

- This Group forms part of our broad consultation on the second levy triennium.
- The Group is assisting us on our thinking on the New Levy Framework and our work with Experian.
- The Group has a range of industry representatives, including:


ASSOCIATION OF

(ACCOUNTING AND CAPITAL)


THE VOICE OF BUSINESS
- We have also had informal engagement with the main consultancies

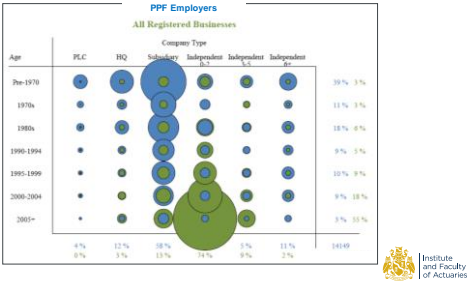


Transition / triennium review timetable

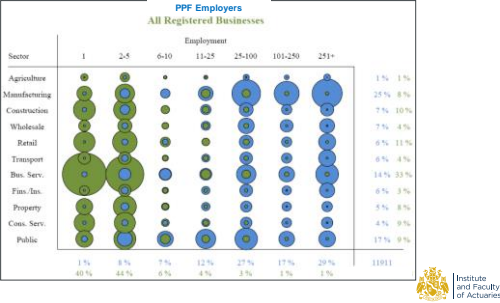
Now	Industry Steering Group considers issues and reviews PPF specific and Commercial Delphi models
March 2014	Statement announcing preferred model, timescale for consultation & introduction of scores
Spring 2014	Formal consultation on Experian model and next triennium methodology; scores to be available
September 2014	2015/16 estimate published; consultation on rules.
September 2015	2015/16 invoicing commences

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PPF Base vs. Registered Business Population
Age vs. Legal Status



PPF Base vs. Registered Business Population
Sector vs. Size



PPF specific score methodology

- Core model:** (now complete)
- 8 separate scorecards based upon filed accounts – factors also include parental strength
- Accounts sourced from:
 - Companies House
 - Non-UK registered businesses via Experian partner, DBI
 - Charities Commission
- Considering:**
- Allowing info to Experian direct (e.g. where above sources can't provide)
 - Override for large/rated businesses
 - Entities not filing accounts (sole traders, partnerships etc.)
- Institute and Faculty of Actuaries

Overview of the 8 PPF specific scorecards

1. Group Members – Consolidated Accounts

2. Group Members – Full Accounts, >£50m turnover

3. Group Members – Full Accounts, £10m-£50m turnover

4. Group Members – Full Accounts, <£10m turnover

5. Group Members – Small Company Accounts

6. Independents – Full Accounts

7. Independents – Small Company Accounts

8. Not-For-Profit organisations
- Group Members – Full Accounts, <£10m turnover

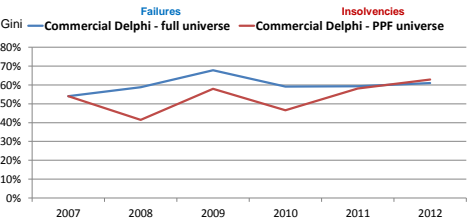
Independents – Full Accounts
- Shareholders Funds
 - Return on Capital Employed
 - Creditor Days (Sales based)
 - Change in Employee Remuneration (4 years)
 - Age of most recent secured borrowing
 - Consolidated Group Strength
 - Capital Employed
 - Return on Shareholders Funds
 - Turnover
 - Creditor Days (Sales based)
 - Age of most recent secured borrowing
 - Change in Total Assets (4 years)



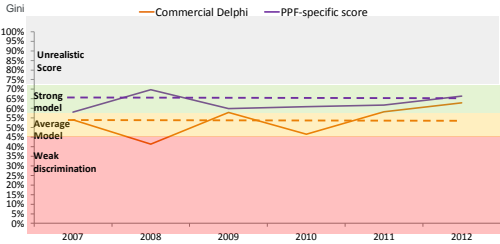
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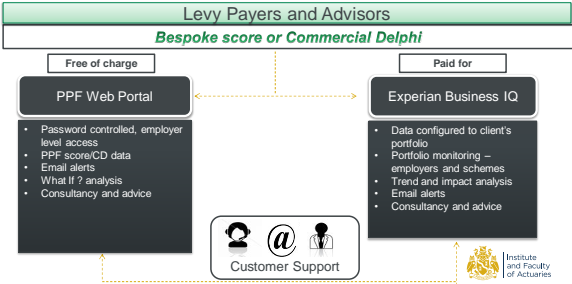
Commercial Delphi not optimised for PPF universe



The PPF-specific score more predictive and more stable in predicting insolvencies



Experian customer services



Success criteria agreed with Industry Steering Group

Models evaluated against 9 success criteria:

- Predictiveness – measured against PPFs experience
- Coverage – can they score all PPF universe
- Transparency – what can be public?
- Appropriate appeals / monitoring arrangements
- Adherence to best practice
- Transition from D&B scores
- Resilience to manipulation
- Stability over time
- Costs of new system – transitional / on-going



An independently audited solution

The PPF commissioned Price Waterhouse Coopers (PWC) to act as an independent auditor to assess the criteria requiring industry best practice to be adhered to in the development of the PPF-specific model, covering

- Population segmentation
- Scoring methodology
- Statistical tests for accuracy, robustness, stability of the score
- Overrides in line with best practice within the industry



Next Steps on Experian and Triennium

- Finalise the definition of not for profits
- Finalise view on over-rides
- Calculate appropriate levy bands & levy rates
- Carry out impact assessment
- Share with ISG then,
- Consult



Actions for schemes and advisers

- Make sure data on Exchange is up to date and accurate
- In particular scheme contact and sponsoring employer information
- Once scores available please check them and challenge data you believe is out of date or inaccurate
- Please participate in the consultation exercises, in late Spring and the Autumn



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Conclusion

- PPF is in a good position but we are aware of risks
- Move to Experian is the single biggest issue in the second triennium review
- Recent announcement on PPF specific model with scores counting from October 2014
- Consultation in late Spring when you'll be able to engage with Experian on the data they will use to score scheme employers



Expressions of individual views by members of the Institute and Faculty of Actuaries and its staff are encouraged.
The views expressed in this presentation are those of the presenter.

