# Keeping afloat

**Following several high-profile cases, such as BHS and Bernard Matthews, the Pension Protection Fund has been thrust centre stage, with questions arising of how it would cope if more schemes were to end up in the lifeboat fund. Natalie Tuck speaks to its chief risk officer Hans den Boer on how he keeps track of, and manages, the risks the fund faces**

**You've been at the Pension Protection Fund (PPF) for over two and a half years now, can you tell me what your role includes?**

My role covers risk management, I'm the chief risk officer. Like other businesses we work to get all the risks on the table through our risk registers, to make sure everyone is aware what those risks are, which controls we have in place, that those controls are indeed working, that we have good management information to see them working, and when it doesn't go well, we have a good incident process that works and that we can learn lessons from.

My team works together with the business to make sure that the risks they take are within the boundaries we set, or that our board sets, and that the parameters of our investment strategy are adhered to. It is about continuing to develop our risk framework to make sure it is working all the way across the PPF.

**Why is risk management so important?**

It is so important because if you don't do it well you are either unaware of the risks you are running, which in the end will come back to bite, or you underestimate or overestimate certain risks. For example, we need to be aware of whether the funding strategy is on track to deliver what we want to deliver, which is making sure that the compensation is paid now and into the future for all our members. The PPF is subject to a wide range of risks and some of them are significant.

**In recent years the PPF has insourced its member services admin, some parts of its investment management and over the next three years intends to bring in house the Financial Assistance Scheme. What is the rationale behind this? In terms of risk management, how has this helped?**

The rationale first is to be more flexible and to provide a better service to our members and have better control over our investments. There is also a benefit on the cost side so it should lead to reductions in cost, for example fund managers' fees, but that is not the prime motive. A greater amount of control also gives the ability to do a better job at risk management, both in the control that we have by providing member services in house, so we can better tailor the experience for our members when they call us, and on our investment side we are in better control of our risks.

The prime example of that is LDI, which we brought in house last year, that's an important part of what we do. We really try to make sure we hedge the risks of our liabilities by doing it ourselves with the experienced people we have. We think we can do a better job, as for example, we can act more quickly to changes in that risk profile.

**What is the PPF's current funding strategy?**

We want to be self-sufficient by our funding horizon. To be self-sufficient we feel we need to be somewhat overfunded on a pure actuarial basis for the future risks that we run. That means somewhere in the future, hopefully the amount of risk in all the schemes that we insure should come down.

However, we still need some buffer because there could be claims that are higher than the level that we set. We feel that we have a certain margin, which is set by the board at 10 per cent, so by being 110 per cent funded, we should be confident that we can meet all of our compensation to our members in the future.

The funding horizon, which we look at every year, is currently 2030, and has been so for several years. To track the progress towards that we do quite a lot of modelling, especially in my team; we model all sorts of possible economic and claims scenarios as to whether we are on track to reach that objective. At the moment, we run a million scenarios and in 93 per cent of those scenarios, we would reach the objective.

**In the PPF's latest annual report and accounts you expressed your concern over the length of DB recovery plans, which you said provides a "significant risk" to the PPF. How concerned are you about this?**

If you look at the scheme universe that we insure, there are deficits which, of course, go up and down and we track that through our PPF 7800 Index. What you see is that most schemes in the universe have struggled in the low interest rate environment, which has caused their liabilities to go up, sometimes significantly. So even though the assets that they are investing have also performed pretty well, the result is that there are still large deficits out there and have been so for the past couple of years. The way most schemes deal with that is through deficit reduction contributions (DRC) based on a recovery plan. Over time these deficits should be at least reduced, or there should no longer be a deficit.

However, what we have seen over the past decade is that the average length of these plans is not changing very much; it's always around eight to eight and half years. That is a slight worry of course because, if eight years ago, there was an agreement of a deficit reduction plan for eight years, then by now it should be completed, but the deficits remain and the plans remain into the future. In our modelling we have to make assumptions on the size of the DRCs in future, and we regularly review these to make sure they reflect what is happening in practice.

In regards to the schemes being a concern for the PPF, it is something that we monitor. We do take it into account in our modelling, these deficit reduction plans are incorporated into our modelling and indeed we show a 93 per cent probability of success. So despite this we are still healthy and on track to meet our objectives.

**Do you think the PPF is in a strong position to be able to withstand a number of large schemes falling into the fund?**

We are in a strong position for a wide range of scenarios and our modelling expects large claims to come to us from time to time. However, there are some scenarios in which we don't meet our objectives and one way that that can happen is through a number of large schemes with large deficits coming to us all at the same time. What you could see then is that the surplus that we have could be reduced or even turn into a deficit. However we are currently more than 121 per cent funded with a £6.1 billion surplus.

**At the Pensions Age Northern Conference you said you are uncomfortable with the phrase 'dumping' a scheme into the PPF. It is a term that Work and Pensions Committee chair Frank Field has used. Why are you so uncomfortable with the phrase?**

Well there are two somewhat separate aspects around this. One is scheme dumping, which is where we have actually quite strong procedures to make sure that doesn't happen. When a sponsor would like to get rid of its scheme and continue trading, in order for that scheme to end up in the PPF there are some very strong criteria that need to be met.

In order for an RAA to be successful it needs to meet very strict standards. One of the standards is that insolvency needs to be inevitable, and even if insolvency is inevitable, the RAA also needs to be clearly a better deal that what we could recover from insolvency proceedings. So from that side, pensions dumping, we think we are protected.

There are of course instance where the system is being tested, such as the BHS case and potentially through certain pre-pack administrations, so we are on the lookout for these cases and we apply very stringent criteria for RAAs, thereby preventing dumping.

I think at the conference, my concern was more around the negative perception in some quarters of a member 'falling into' the PPF, that the option that we present to people may not be a good option.

If a member of a pension scheme comes to us as a pensioner they get 100 per cent of their benefit. Members who are not pensioners get 90 per cent and we do apply a cap. However, overall in most cases, the situation is much better than if we were not there, so describing us as some sort of a bad outcome is what I object to. Entering the PPF is a good outcome because if we were not there the situation for the members would be a lot worse.

**Written by Natalie Tuck**