Department for Work & Pensions

Guy Opperman MP
Minister for Pensions

Rt Hon Stephen Timms MP
Chair, Work and Pensions Select Committee

12 May 2021

Compensation (London Capital & Finance plc and Fraud Compensation Fund) Bill

Dear Stephen,

I am writing in relation to the Compensation (London Capital & Finance and Fraud Compensation Fund) Bill, introduced in the House of Commons on the 12 May 2021. The Bill includes a DWP measure which seeks to enable the provision of government funding to the Fraud Compensation Fund (FCF).

The FCF was established under the Pensions Act 2004 to support occupational pension schemes whose assets reduced due to an offence involving dishonesty, and where the employer becomes insolvent.

It was not the original policy intent for pension liberation schemes to be eligible for the FCF as this type of pension fraud did not exist at the time. Following receipt of an unprecedented number of applications from pensions liberation schemes, the Pensions Protection Fund (PPF) sought guidance from the High Court as to which schemes could be eligible for FCF compensation, using a representative overseen by Dalriada, a pension Trustee company. The Court ruled that the representative scheme satisfied the eligibility requirement for an employer insolvency. The Court's decision means that liberation schemes, similar to the representative scheme, are now eligible to apply for FCF compensation, provided they meet other FCF eligibility criteria.

Under current FCF levy rates, it could take 30 years for the FCF to collect sufficient income to meet the estimated total claim amount. DWP intend to consult on changes to the levy rates and amend secondary legislation appropriately. These necessary changes cannot be implemented until 2022/23 at the earliest.

The proposed Government loan will therefore ensure that the FCF complies with the judgment. The FCF is currently significantly underfunded with assets of £26.2m compared to liabilities of £350m. The £323.8m of unfunded liabilities would leave eligible scheme members uncompensated for their losses undermining industry and consumer confidence in the PPF. The loan will be repaid by a levy on eligible occupational pension schemes.

I welcome your participation in debates throughout the passage of the Bill.

Guy Opperman MP
Minister for Pensions and Financial inclusion