

# Sixty second summary

## PPF insolvency risk from 2021/2022

### January 2020

The PPF has published a consultation on changes to the insolvency risk scoring methodology and the move from Experian to Dun & Bradstreet (D&B) for insolvency risk services. It is proposed that D&B scores will be used from April 2020 to March 2021 for the 2021/22 levy year. The consultation is expected to be finalised before April 2020, when the new scores commence.

#### Insolvency risk services from D&B

The PPF has proposed that the same scorecard methodology and key variables, subject to some minor changes, will be used to determine Pension Protection Scores. The PPF has also launched a new online portal, which has a new look and feel, so stakeholders can access indicative D&B scores in the lead up to April. Users who are currently registered for the Experian portal will receive an automated email invitation to access the new D&B portal.

The [new portal](#) will show indicative “baseline” recalibrated scores and proposed “consultation” D&B scores whilst the [old Experian portal](#) will continue to display actual Experian scores that are being used in the current levy year.

A number of data gaps exist in D&B’s data so the key action for stakeholders is to check the indicative scores that D&B are producing and review the data being used. In some cases, self-submission of further data will be necessary.

#### Updating the PPF insolvency risk model for D&B data

D&B’s model produces the same outputs when the same data is input but there are a number of differences between Experian and D&B’s data, relating to differences in the approaches to data collection, data matching and data on corporate linkages.

Additionally, the PPF will look to recalibrate the model to actual insolvency experience (a process they go through at each triennium, irrespective of the insolvency risk provider). The PPF’s analysis shows that scorecards are under- or over-predicting insolvencies. In particular, scorecard 1, which is used for many of the largest employers, has been under-predicting insolvencies, with actual experience being higher than assumed. This means an adjustment will be made which increases levies for larger employers on scorecard 1 with a corresponding decrease for smaller entities and not-for-profits.

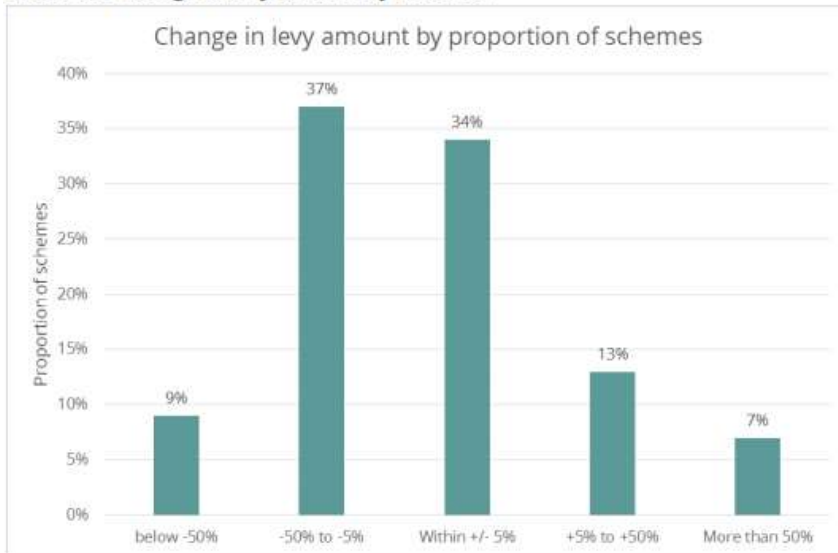
The following changes are also being made:

- Mortgage age of the most recent charge is being replaced by a variable comparing the level of cash to current liabilities;
- Creditor days (trade creditors expressed as days’ worth of company turnover) are being capped at 60 days, removing the risk of outliers or extreme values. A neutral value meaning it has no impact on the score will be used for regulated financial institutions where it is clear this variable has no relevance.
- The use of a bespoke S&P credit model for non-credit-rated regulated financial services entities is being retired. Only 70 companies were being scored using this approach and the cost did not justify the benefit.

## Impact assessment

It is important to note that there are substantial gaps in D&B's data which will need to be filled in, but the PPF has provided some analysis on the possible impact.

**Chart 5.5: Change in levy amount by schemes**



Source: PPF

- 38% of employers are expected to remain in the same levy band; however around 60% of the largest employers on scorecard 1 see their levy band worsen;
- 95% of not-for-profit entities see their band staying the same or improving;
- Around 80% of schemes can expect their levy invoice to be broadly the same (within 5% or reduce);
- 13% of schemes will see an increase of between 5% and 50% in their levy; and
- 7% of schemes could see an increase of 50% (noting this may be due at this stage to data issues).

Responses to the consultation should be submitted by 11 February 2020. Most schemes see a reduction in their levy, but the headline is the redistribution of levy, with the largest employers paying more and smaller entities and not-for profits paying less. Stakeholders will have until 30 April 2020 to submit any missing data before the D&B scores will start to be used in the levy calculation.

Please contact your regular Hymans Robertson consultant or [PPFteam@hymans.co.uk](mailto:PPFteam@hymans.co.uk) if you would like to discuss what this might mean for your scheme.