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UK Financial Services and Not-for-Profit Firms Should Consider New PPF Proposals on Insolvency Risk Scorecards

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The ***UK***'s ***Pension Protection Fund (PPF)*** is reviewing its insolvency risk model with ***Experian***. The proposals being considered are particularly relevant to the financial services and charity sectors. It is proposed they be introduced from 2018/2019 (and will not be part of the draft levy rules and levy estimate for 2017/18, which we expect will contain few changes).

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In summary, the PPF is considering:

- **Using credit ratings and industry-specific scoring for regulated financial services providers**. In the PPF's experience, the current model is less reliable for financial services providers, as there is limited correlation between the PPF's scoring and ratings agency data.
- **Using information from the Charity Commission to adjust the not-for-profit scorecard**. The model has worked less well for not-for-profit companies and makes use of data on companies which are not actually sponsoring employers.
- **Changes to how companies who submit small accounts are reflected in the scoring**. Again, the model has worked less well for smaller companies.
- **How to integrate scores on ultimate parent companies, which are based on ratings, with scores on unrated subsidiaries**. These changes are expected to impact only a small proportion of employers.
- **Changes to reflect the new FRS102 accounting standard**. The PPF will analyse the effects on the first 500 DB sponsors which file on an FRS102 basis for the first time in 2016 and consider alterations to the scorecards in light of this analysis.

Other areas which the PPF expects to consider include investment risk and certifying deficit reductions, contingent assets and asset-backed funding structures. The PPF also suggests – briefly – that it is considering simplification for smaller pension plans.

A formal consultation is expected at the end of 2016/early 2017. However, any firm or pension plan that has encountered problems with the current PPF model can contact the PPF to ask if their issue is going to be considered as part of the forthcoming consultation. The PPF welcomes comments on its approach by email to information@ppf.gsi.gov.uk.

Firms in the financial services and charity sectors should pay particular attention to the scope of the changes outlined by the PPF. As any "substantial" changes would likely be with us for at least three years (until the PPF's next triennial review of its framework), we suggest all firms and pension plans with an interest should be poised to react to the consultation when it arrives. Be warned, however, that the PPF's consultations are rarely short – parity with "War and Peace" springs to mind!