

06

Insolvency risk

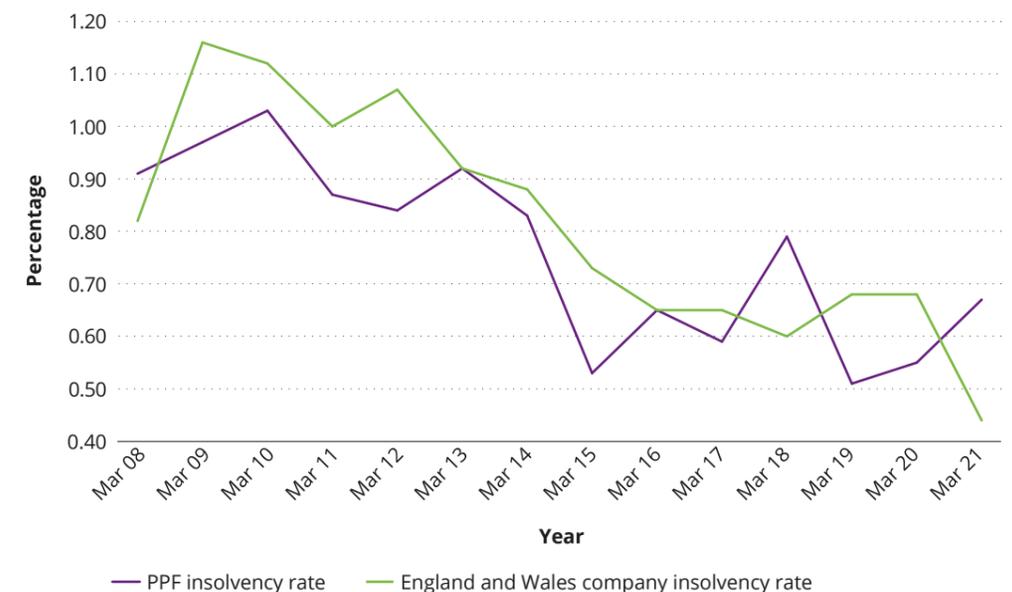
This chapter looks at the rate of insolvencies in DB scheme sponsors, compared to the overall company insolvency rate in England and Wales, and insolvencies by scheme size.

Summary

- This chapter shows the annual insolvency rate for employers in the PPF universe and companies in England and Wales. It also shows the number of England and Wales company insolvencies compared with the rate of UK real GDP growth. Finally, it shows a proxy for insolvency risk over the next year, for different scheme sizes.
- The average insolvency rate in the PPF universe has increased by 0.12 percentage points to 0.67 per cent at 31 March 2021.
- Conversely, the average annual insolvency rate of companies in England and Wales decreased by 0.24 percentage points to 0.44 per cent at 31 March 2021. This was caused by a decrease of around 34 per cent in the number of annual England and Wales company insolvencies.
- UK real GDP growth was -6.1 per cent in Q1 2021, down from -2.2 per cent in Q1 2020.
- In aggregate, larger schemes tend to have a lower insolvency risk than those with fewer members.

Figure 6.1 | Annual insolvency rates*

Despite the challenges brought on by COVID-19, the insolvency rate in England and Wales fell to its lowest point since 31 March 2008, falling from 0.68 per cent at 31 March 2020 to 0.44 per cent at 31 March 2021. However, the rate of insolvencies for the PPF universe did increase marginally over the year.



* The England and Wales company insolvency rate has been calculated based on the 2.5 million companies in England and Wales that are VAT/PAYE registered with HMRC. Insolvencies in England and Wales account for around 95 per cent of UK insolvencies. In comparison, there are around 14,000 companies in the PPF universe, or around 12,500 if companies that participate in multiple schemes are only counted once.

Source: PPF, Office for National Statistics (ONS)

Insolvency risk continued

Figure 6.2 | England and Wales underlying company insolvencies (seasonally adjusted)

The number of insolvencies in England and Wales decreased by around 34 per cent in the year to 31 March 2021 compared with the year to 31 March 2020. UK real GDP growth fell by 3.9 percentage points over the same period.

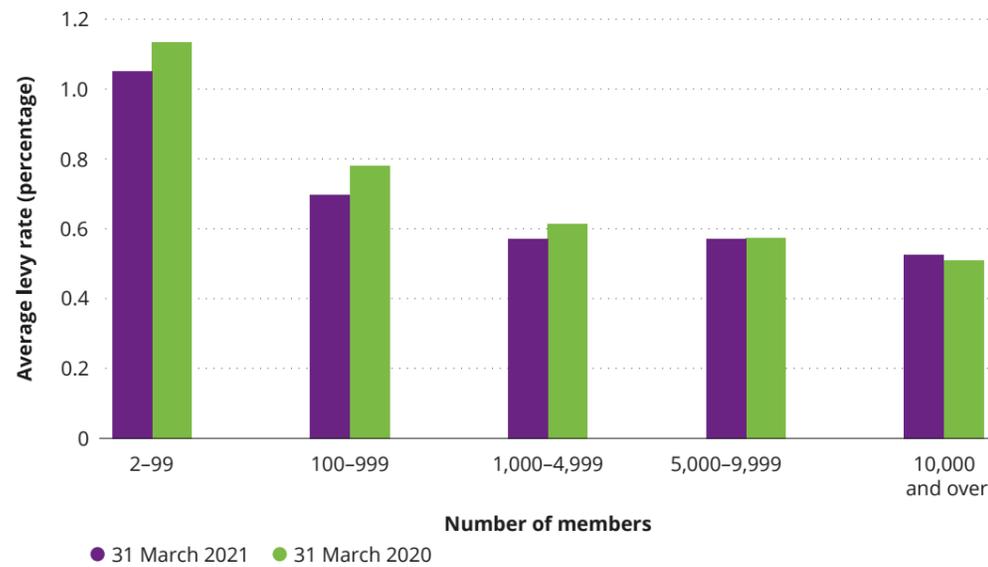


Note: as the ONS and UK Insolvency Service revise their methodology and receive new data, the figures for previous time periods may be updated.

Source: ONS and the UK Insolvency Service

Figure 6.3 | Average levy rates of sponsoring companies by scheme membership size*

Insolvency probabilities were similar between 31 March 2020 and 31 March 2021 in spite of the challenges brought on by COVID-19, with decreases observed for schemes with fewer than 5,000 members.



* Schemes' risk-based levy rates, as used in calculating the PPF levy, have been used as a proxy for the insolvency probabilities.

Source: PPF