

PPF Levy Survey 2014



The results of Barnett Waddingham's fourth PPF levy forum survey highlights that, while there is broad support for the aims and existence of the PPF, some concerns remain about the equity of the levy and the insolvency risk rating.

There is also concern about the transition from Dunn & Bradstreet ("D&B") to Experian as the PPF insolvency risk provider and whether the timetable will allow for correction of errors in Experian's data before the score begins to count for levy purposes.

The survey respondents are divided into two groups, "Trustees and Employers" (37% trustee and 63% company representatives) and "Independent Trustees and Advisors" (33% independent trustees, 15% lawyers and 52% other advisors).

The 2014 survey focused on three key issues which were the introduction of an increased benefit cap for longer serving members, D&B failure scores and the transition from D&B to Experian. A breakdown of answers not depicted in the following pages is appended to this note.

"I would be very wary of a wholesale switch from one provider to another. There needs to be a period of transition so that problems can be sorted out. e.g. three years when the best score of either D&B or Experian is taken into account.

“”

This is to guard against the risk to the employer of a switch from one basis of logic to another, so that the employer has a chance to change their priorities, if needed." - **Trustee/Employer representative**

Benefits cap for longer serving members

- Respondents were split on support for the increase in benefits cap for longer serving members. About 50% of respondents support the increase while about 30% do not.
- 55% of respondents disagreed with the concept of an increase in the benefits cap being subsidised by lower benefits for other members whilst only 25% agreed.

D&B failure scores

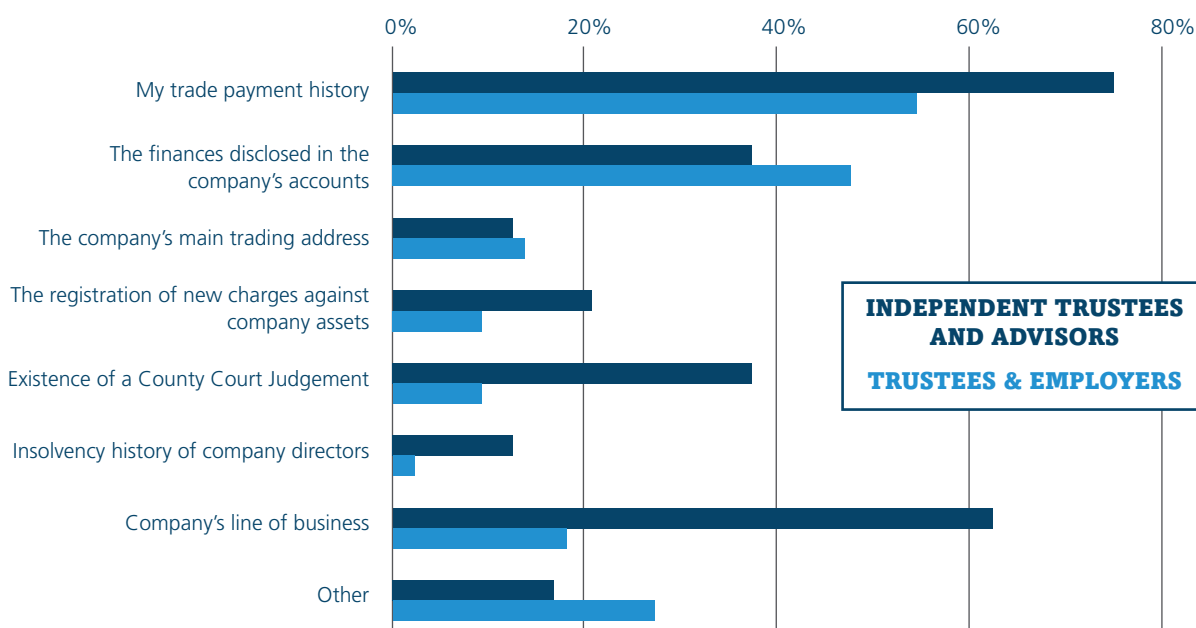
- Only 40% of trustees and company representatives agreed that their company's D&B score accurately reflects the risk of it becoming insolvent in the next 12 months.
- Over 60% of respondents complained that the trade payment data information held by D&B incorrectly influenced their company's failure score. More than 40% of respondents also complained about the finances disclosed in the company's accounts being used incorrectly by D&B.

"Payment experiences as reported by D&B's partners (our suppliers) are continually wrong, and there is no practical way for us to correct the data. Our purchase ledger may be completely 'clean' (i.e. all suppliers paid on terms), yet a late payment experience is recorded by an unidentifiable supplier."

- **Trustee/Employer representative**

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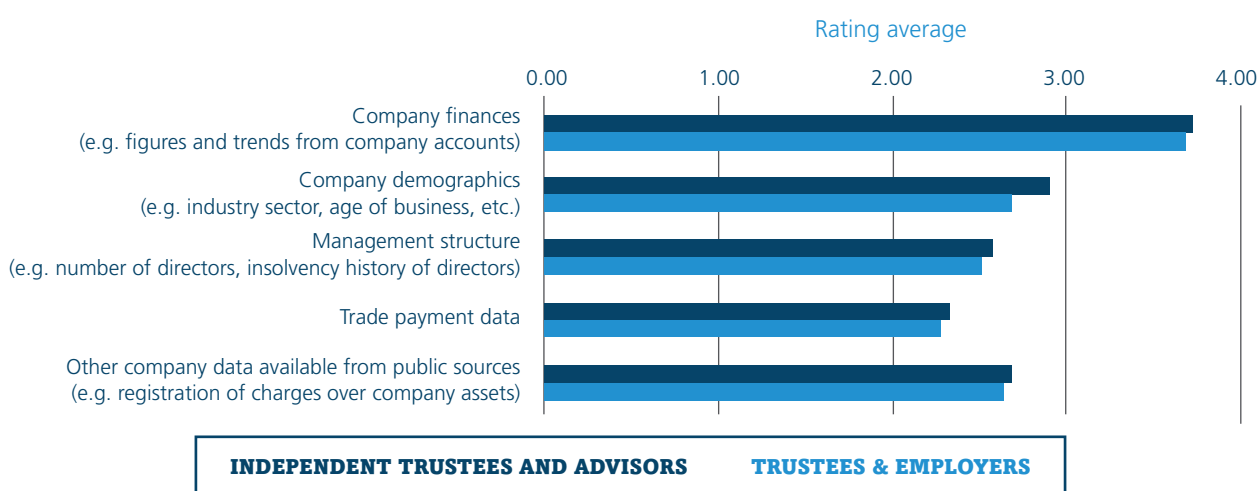
Have any of these factors used by D&B incorrectly influenced the company's failure score for your Scheme or a Scheme you are involved with?



D&B switch to Experian

- Despite the trade payment history complaints, almost 50% agreed or strongly agreed with Experian using the company's trade payment history as part of the insolvency risk calculation; provided the information held was correct (only about 20% disagreed with this).
- Respondents believed company finances should be the most influential factor in the insolvency risk calculation, whereas trade payment data should be the least. The graph below depicts the average scores where respondents were asked to rate the level of importance on a scale of 1-5, where 1 is the least important (more than one factor could be assigned the same level of importance).

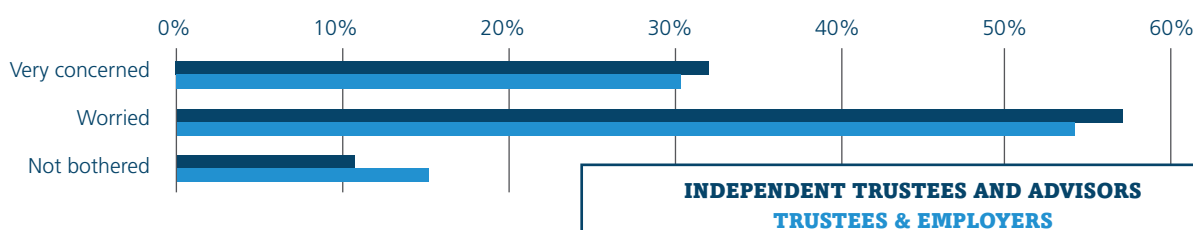
What level of importance should be placed on the following factors in determining the bespoke PPF Experian "failure score"?



- Almost 65% of respondents would be happy for Experian to apply greater levels of judgement in adjusting the failure score calculated using the standard model, provided there was a transparent process for agreeing these bespoke changes.
- However, almost 90% of respondents were either worried or very concerned with the likelihood of companies successfully correcting any errors or omissions in Experian's data by the end of April 2014.

“There needs to be clarity on what data is being used and assessed so schemes have time to review this and ensure it is correct. Also any changes in factors and levy calculations can have a significant impact on a company/scheme so as much notice and transparency is essential.” - **Independent Trustees and Advisors**

Given Experian scores are expected to be used for PPF levy purposes from the end of April 2014, how concerned are you about the likelihood of you or your clients successfully correcting any errors or omissions in Experian's data by this time?



This is a selection of the comments made by respondents to the survey:

Trustees and Employer representatives

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"I would be very wary of a wholesale switch from one provider to another. There needs to be a period of transition so that problems can be sorted out. e.g. three years when the best score of either D&B or Experian is taken into account. This is to guard against the risk to the employer of a switch from one basis of logic to another, so that the employer has a chance to change their priorities, if needed."

"If the PPF are going to use information from Experian as a means of calculating the PPF levy then there must be a mechanism whereby schemes affected by the scores can obtain the information held without incurring a significant cost. When I tried to obtain the information held by D&B affecting our schemes I found it difficult and expensive. We therefore employed consultants to improve our failure scores at the sponsoring employers cost."

"Payment experiences as reported by D&B's partners (our suppliers) are continually wrong, and there is no practical way for us to correct the data. Our purchase ledger may be completely 'clean' (i.e. all suppliers paid on terms), yet a late payment experience is recorded by an unidentifiable supplier." - Trustee/Employer representative

"Trade payment data is used too broadly. The current system does not seem to allow for varying settlement dates and it seems almost impossible to get from D&B information as to what transactions make up the data used. There might be a late settling account say for £100 when monthly settlements exceed £5m! The current system does not seem to distinguish between late payments and payments in query."

Independent Trustees and Advisors

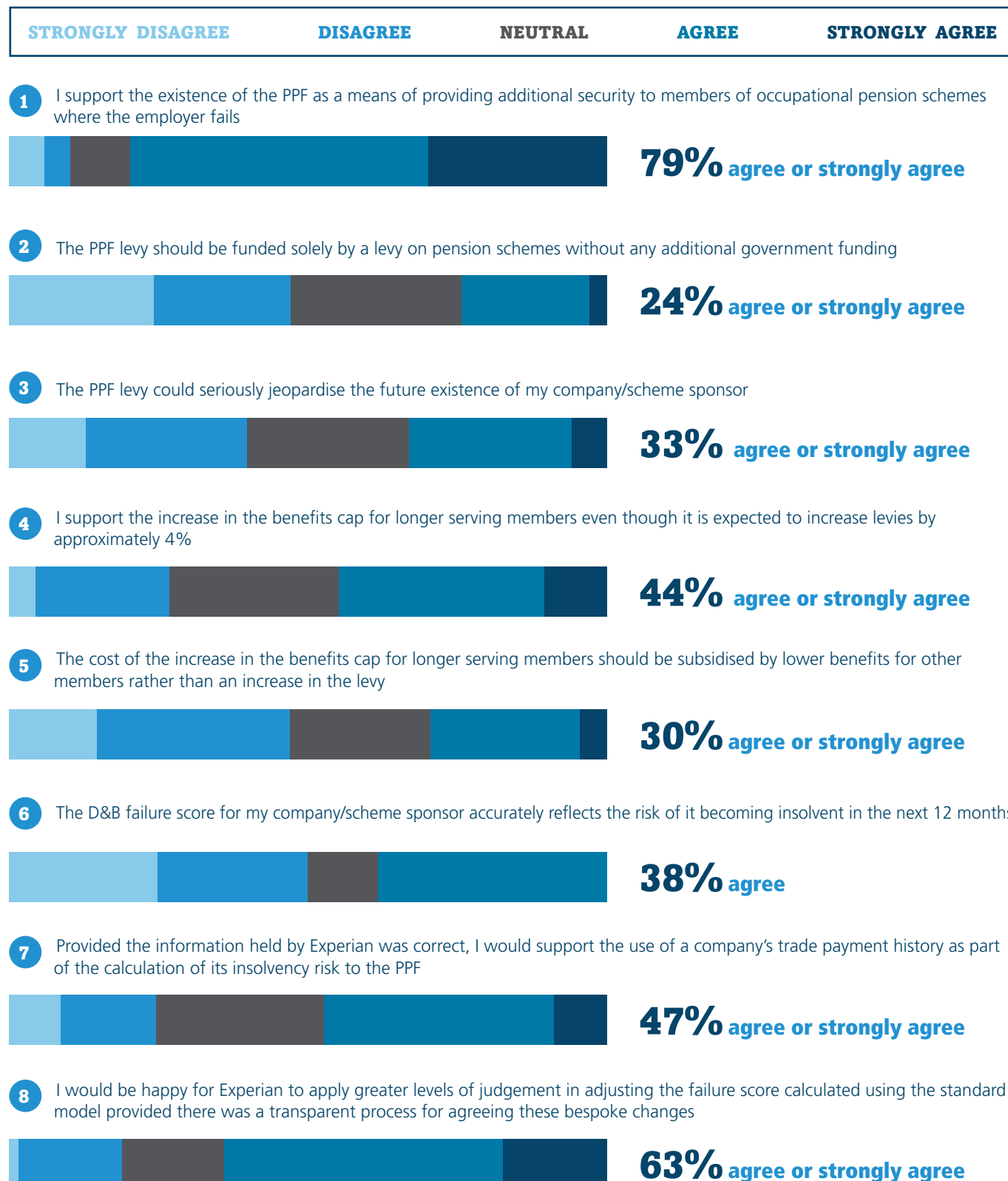
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"The most critical failure factor (and I am an insolvency practitioner) is the availability of cash flow – and there are no really accurate indicators of this contained within standard statutory accounts (even the cash flow statement is pointless in this regard). If Experian (or D&B) want to be serious about trying to provide a really meaningful score, then they should be requesting additional cash flow and banking facility / headroom information from companies."

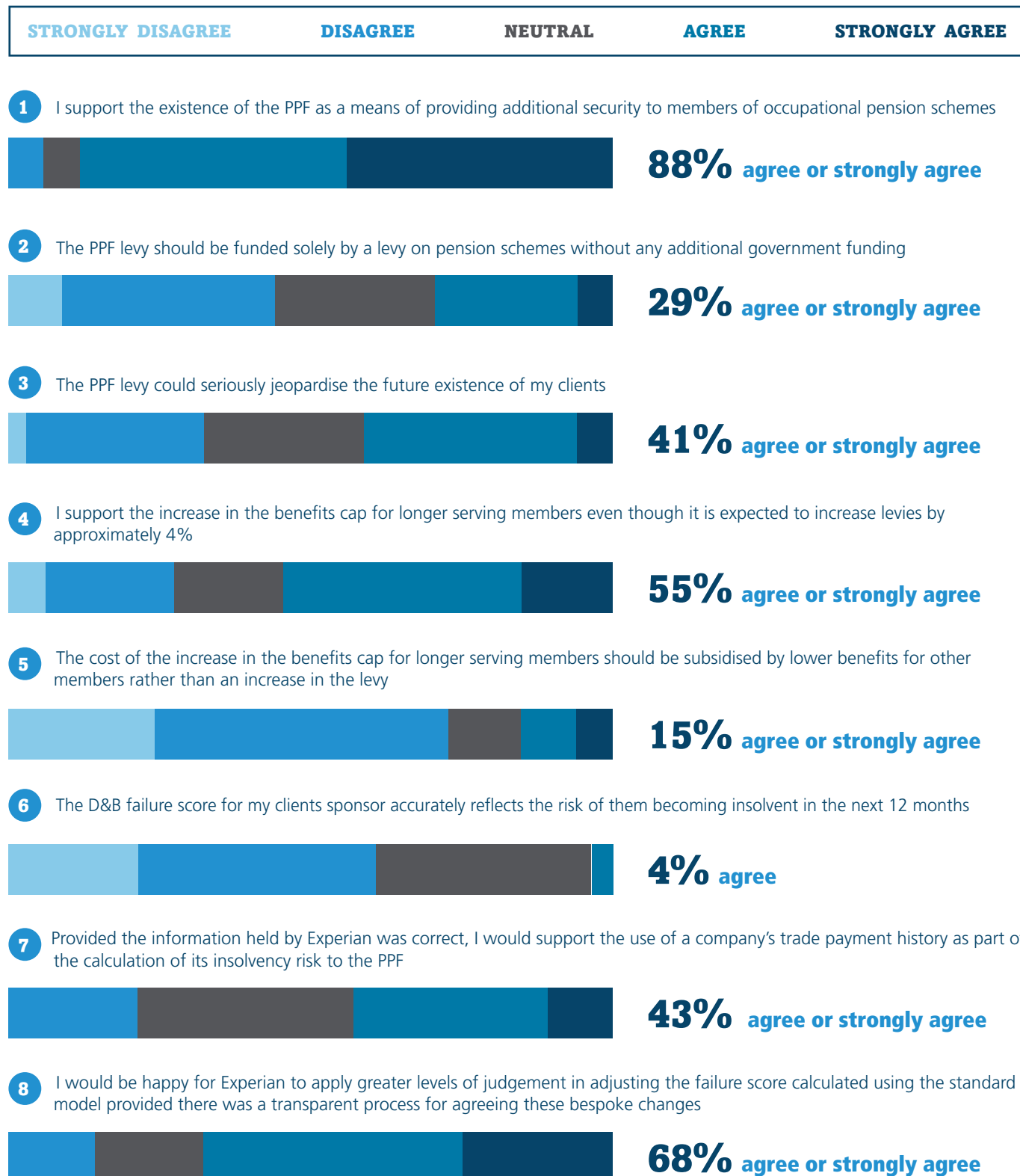
"There needs to be clarity on what data is being used and assessed so schemes have time to review this and ensure it is correct. Also any changes in factors and levy calculations can have a significant impact on a company/scheme so as much notice and transparency is essential."

The views and opinions obtained during our research are not necessarily the view and opinions of Barnett Waddingham LLP.

Appendix 1 - Survey results Trustee and Employer representatives



Appendix 2 - Survey results Independent Trustees and Advisors



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a true partnership approach

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