



ASSOCIATION OF CONSULTING ACTUARIES

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11 February 2020

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Chris Collins  
Chief Policy Adviser  
Pension Protection Fund  
Renaissance  
12 Dingwall Road  
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Dear Sirs

### **Introduction of insolvency risk services with Dun & Bradstreet**

I am writing on behalf of the Association of Consulting Actuaries in response to the above-named consultation issued by the Pension Protection Fund.

We agree with most of the PPF's proposals and justification for changes to the way insolvency scores are calculated. However, we note that there will be a significant impact on schemes and employers in levy terms as well as in actions that may need to be taken, for what are essentially administrative changes to the insolvency risk methodology.

As these changes will not be immediately apparent to a number of levy payers, particularly those that were in Band 1 and would be in a lower Band going forwards, it would be helpful if the PPF could monitor and report on the level of use of the D&B portal, and if necessary continue to encourage schemes to check and update their data. It may also be appropriate to extend the 30 April 2020 deadline for schemes/employers to update their data.

Our comments on specific questions raised in the consultation are set out in the Appendix. [We have only included those questions on which we had comments.]

We hope that you find the contents of this letter of assistance. We would be happy to discuss them further if that is helpful. In that event, please contact me on 01372 733763 or at [peter.williams@aon.com](mailto:peter.williams@aon.com).

Yours sincerely

**Peter Williams**

Chair, Pension Schemes Committee

On behalf of the Association of Consulting Actuaries Limited

Association of Consulting Actuaries Limited

Registered Office: 10 St James Road · Wokingham · RG40 4RT

Registered in England No. 10184138

Registered under the Data Protection Act ZA114526

### Introduction of insolvency risk services with Dun & Bradstreet

#### Chapter 2 – our new insolvency risk services

##### **Question 1: Are there any specific improvements you can think of that would help make our new portal more user friendly or helpful?**

The “Total Net Assets” input for logging on via the Corporate side can be difficult, particularly where the company accounts in a foreign currency. Given this information is publicly available it seems to add little in terms of security but quite a lot in terms of inconvenience.

##### **Question 2: If you have used our customer support services, do you have any feedback?**

In our experience, the Experian and PPF customer support services have always been helpful.

##### **Question 3: Are there improvements you can think of that would help make our support services more user friendly or helpful?**

No comments.

#### Chapter 4 – Insolvency risk modelling

##### **Question 4: Do you have any comments in relation to the data changes made?**

The changes all seem sensible and justified in practical terms, but levy payers will be concerned about the significant number of employers who will change levy band, effectively due to an administrative change, with no change to the risk posed to the PPF.

##### **Question 5: Do you agree with the approach we proposed to filing full/small accounts?**

Please can the PPF provide some clarification as to how this proposed approach (which appears to be prescriptive in allocating companies to full or small accounts scorecards) compares with the change introduced for the 2020/21 levy year (which gives the PPF some discretion to categorise companies)? In theory, at least, this appears to allow the possibility that a company could be moved from one scorecard to another and then back again without anything actually changing.

##### **Question 6: Do you have any comments on the analysis we have done?**

No.

##### **Question 7: Do you have any comments on the recalibration carried out?**

No.

##### **Question 8: Do you agree with the proposed change to replace the mortgage age variable with cash by liabilities?**

This seems to be a sensible change.

**Question 9: Do you agree with the proposed change to cap creditor days at 60?**

This seems to be a sensible change.

**Question 10: Do you agree with the scope of the changes we have investigated?**

Paragraph 4.7.11 attempts to justify not re-estimating coefficients for individual variables in some cases, but paragraph 4.6.5 explains why re-estimating coefficients for each variable is a superior approach, which is inconsistent. Please can the PPF clarify why the different approaches have been proposed – the new levy triennium and change of insolvency risk provider would seem to provide an opportunity to re-calibrate all the scorecards using a consistent methodology.

**Question 11: Do you consider other changes should be investigated?**

We are not aware of any other changes that should be investigated.

**Question 12: Do you agree that we should move companies currently scored on the S&P Credit Model to a PPF-specific model scorecard?**

This seems to be a sensible change.

**Question 13: Do you agree that we should not adjust the mapping of credit ratings to levy bands, to reflect the lower proportion of defaults seen to result in an insolvency?**

It seems strange that the credit rating scorecard is the only calculation scorecard not being recalibrated, particularly as there appears to be an argument that the experience on that scorecard was furthest away from that expected. If the confidence interval range of insolvency for 28 defaults was 5 to 15 insolvencies, then presumably the average number of insolvencies was around 10. So 6 insolvencies is around 60% of that expected (although we appreciate there has been no indication of whether there were more or less defaults than expected). The table in section 4.6.3 shows the experiences of the other scorecards were closer to 100% than 60%. So whilst it might be argued that the credit rating deviation is not statistically significant, the other deviations do not appear to be materially more statistically significant.

It is also not clear whether the 'statistically significant' justification used here has been used in consideration of the other changes proposed.

**Chapter 6 – our new insolvency risk services**

**Question 14: Are there any areas you think we should review in the levy framework for 2021/22?**

On the whole, we think the levy framework is working well and no significant changes are needed.

**Question 15: Do you agree with our approach to start live monthly scoring with D&B in April 2020?**

We agree that it is desirable to have a full 12 months of D&B scores for the 2021/22 levy year, but the PPF should continue communicating with schemes and employers to ensure they have reviewed the data held by D&B and taken any necessary action by 30 April. It may be appropriate to extend this deadline and allow some leeway to backdate scores if relevant updated information is provided within a reasonable timescale.

## About the Association of Consulting Actuaries (ACA)

Members of the ACA provide advice to thousands of pension schemes, including most of the country's largest schemes. Members of the Association are all qualified actuaries and all actuarial advice given is subject to the Actuaries' Code. Advice given to clients is independent and impartial. ACA members include the scheme actuaries to schemes covering the majority of members of private sector defined benefit pension schemes.

The ACA is the representative body for UK consulting actuaries, whilst the Institute and Faculty of Actuaries is the professional body.

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