



CORPORATE CREDIT RATING LESSONS FROM SAVVY CREDIT CARD HOLDERS

Dear Sid

I recently surfed into a blog of 50 ways to improve credit scores for credit card holders. Although the blog was Canadian its simple advice easily spans the Atlantic to provide sound guidance for UK companies managing their corporate credit ratings. Pension Capital Strategies Limited (PCS) have saved **over £7 million** for corporate clients through advice on improving Dun & Bradstreet (D&B) credit ratings and subsequent reductions in PPF levies. The brightest buoys from the blog are quoted below with translations into advice for UK corporate credit rating management.

PCS Credit Code

1. Know your credit score
2. Pay down debts
3. Pay bills on time
4. Correct inaccuracies
5. Get credit advice

Know Your Credit Score

Check your report frequently and know your credit score.

D&B's Failure Score ranks UK companies into 100 bands. A company with a Failure Score of 100 is, in D&B's view, one of UK's strongest companies and least likely to fall insolvent over the next 12 months. The PPF are proposing simplifying the failure score structure in 2011 moving to six bands, however D&B will retain for their own internal purposes the 100 bands. The proposed changes would apply for levy years 2012/13 and onwards. The principles underlying the management of a failure score are unaffected by the change in structure. Reaching and maintaining a Failure Score of 100 is the ultimate goal when managing D&B credit ratings.

For many companies their Failure Scores change frequently. Given the ranking system, some will rise into higher bands whilst others fall into lower bands. Failure Scores also change through technical errors. PCS records that around 5% of changes in Failure Scores occur through technical errors or recalibrations, one worst case was a drop of 74 points due to technical error. Companies need to continuously monitor their Failure Scores.

Lower Overall Debt Ratio

Endeavour to lower your overall debt balances. This includes instalment loans, student loans, automobile loans, etc.

Lists of different types of debt should never be exhaustive for credit card holders nor corporates. Credit rating agencies consider all debts. Common debts for companies to consider include County Court Judgements, secured loans, mortgages, parent company loans, and outstanding invoices.

On many occasions, PCS has found that paying down balances impacts Failure Scores more than targeting an overall debt ratio. It's as though there is a stigma amongst rating agencies against each class of debt held. One PCS client achieved an increase of 58 points in their Failure Score after settling their last outstanding County Court Judgement, another client benefited from a 27 point jump after paying off a registered charge against the company.

Pay Bills on Time

In the UK, companies can participate in D&B's Dun-trade programme. Through this programme, D&B receives millions of receipts experience and draws samples of trade payment experience for every UK company. From these samples of a company's payment experience, D&B awards a Payment Score to the company. A Payment Score of 100 is the best score and indicates that a company is paying its bills 30 days sooner than the agreed terms of payment. A Payment Score of 80 means payments are made on terms, and 50 indicates payments made 30 days beyond terms. Given that a score of 80 is faultless, 80 is the score that should provide maximum points for the trade payment experience credit factor.

Fluctuating payment habits account for well over 50% of all movements in Failure Scores. Bad payment experience is banded by the number of days beyond agreed payment terms into 0 to 30 days, 31 to 60 days, 61 to 90 days and 91 plus days. Again it seems that there is a stigma against each of these bandings (types of debt) and in particular, companies are severely penalised for any payments more than 30 days beyond agreed terms. D&B measure payment experience over a rolling 12 month period and big jumps in Failure Scores occur when overdue payments are cleared or new bad experiences occur. PCS have seen swings of up to 60 points caused by payment experience. One PCS client successfully managed a 54 point increase in its Failure Score after improving its payment habits.

Focus Payments where it makes a Difference

In the past, companies only reported delinquent accounts. However, more and more companies have started reporting good accounts.

The wider advice to credit card holders here is to prioritise which bills they pay most promptly. If companies knew which of their creditors subscribed to the Dun-trade programme then perhaps they could do the same, but the list of participants is obviously secret. Some companies do try to identify subscribers to the Dun-trade programme by canvassing their suppliers.

It's worth remembering that D&B can only analyse the sample that they collect for each company. This sample can be extremely small compared to the company's annual turnover. The Failure Score for a company with hundreds of millions of turnover can easily be scuppered by a £1,000 invoice which is 60 days overdue. Another point to reiterate here is to consider all types of debt and all payments due. Sure the company's finance department may be well drilled, but have the secretaries on the 5th floor paid the bespoke stationary bills? All departments must pay all their bills on time.

Dispute Delinquent Credit Accounts

There may be a reasonable explanation why an invoice has not been paid on terms, goods not yet received or possibly a dispute. In any such circumstances it is always possible for the company to ask the creditor to exclude the invoice from any credit reports it may provide to rating agencies such as in the Dun-trade programme.

Companies often instantly dispute the findings in D&B's payment experience table. If a company wishes to contend a particular portion of the payment experience, say payments more than 90 days overdue, then D&B provide an excellent investigation service. On request D&B will approach the creditors who have provided the disputed payment experience and ask the creditors to validate the experience. The investigation typically runs much less than the 10 working days that D&B advise. The disputed payment experience will be cleared if the creditors invalidate the experience themselves or if the creditors do not reply to D&B's investigation team.

Correct Credit Report Inaccuracies

Check your credit report frequently, and work diligently to get errors corrected.

A lot of companies leave credit rating agencies to their own devices. The rating agencies are very efficient in gathering information from Companies House, registered debt, national press, published accounts and trade payment experiences. They will also approach the company possibly once a year to review their records.

A large portion of remedial actions that PCS recommend to clients stem from credit report inaccuracies. Common corrections include changing the registered industry, updating the number of workforce, updating directors' details, removing resolved charges and challenging payment experiences. One PCS client improved their score by 95 points by changing their registered industry.

Get Credit Advice

There are many agencies that can provide credit rating advice to companies. PCS specialises in advising on D&B credit ratings since it is the D&B Failure Score that influences the PPF levies charged on companies' defined benefit pension schemes. Other agencies outside the pensions industry will solely target the company's overall credit ratings which, to many companies, may seem like an artificial target. Within the PPF environment, PCS can quantify the savings that a company will make through its pension scheme's PPF levy and where savings in PPF levies can be made they can dwarf the costs of obtaining the credit rating advice.

In conclusion, PCS recommends that companies do not delay in considering their D&B Failure Scores. PCS are well placed to help companies improve their D&B Failure Scores as well as being able to advise on all other aspects of the PPF levy.

Yours sincerely,



Mark Leahy

Consultant and Actuary
Pension Capital Strategies

Email: mark_leahy@pensionstrategies.co.uk

Direct: 0161 957 8074



For more information on how PCS might help please contact Yvonne Wan on 0161 242 5355 or John Breedon on 0161 253 1110.

Whilst all reasonable care has been taken in the preparation of this publication no liability is accepted under any circumstances by Jardine Lloyd Thompson for any loss or damage occurring as a result of reliance on any statement, opinion, or any error or omission contained herein. Any statement or opinion unless otherwise stated should not be construed as independent research and reflects our understanding of current or proposed legislation and regulation, which may change without notice. The content of this document should not be regarded as specific advice in relation to the matters addressed.

Pension Capital Strategies Ltd. Authorised and regulated by the Financial Services Authority.
A member of the Jardine Lloyd Thompson Group. Registered Office: 6 Crutched Friars, London EC3N 2PH.
Registered in England No 5651461. VAT No. 244 2321 96.


A JLT Group Company