creditsafe

UNDERSTANDING CREDITSAFE UK RATINGS & LIMITS

Overview

The Creditsafe (CS) Rating Model is a highly predictive analysis tool that uses the latest advanced statistical techniques. It combines commercial and other key information, including trade payment information, public information, key financial ratios, industry sector analysis and other performance indicators which provides you with view of your current and future customers.

What does the Creditsafe Rating Model predict?

The Creditsafe Rating Model predicts the likelihood of a company failing within the next 12 months. In other words, this model was built to predict:

Which UK companies are likely to fail

How was the Creditsafe Rating Module created?

The Creditsafe Rating Model was created by our Analytics team who looked at companies that failed over the last 12 months and assessed the commonalities within these failures. We compiled hundreds of variables and looked at the weighting each variable carried along with the impact each variable had on the failed businesses. We then selected a number of variables which were compiled together to create the modules.

> Over 90 million trade payment experiences help enhance the Creditsafe rating.

FINANCIALS

What is the definition of failure?

Creditsafe considers the following criteria to be the definition of failure:

- » In Receivership / Liquidation
- » Administrator Appointed
- » Appointment of Liquidator
- » Meeting of Creditors
- » In Liquidation
- » In Administration
- » In Receivership / Administration
- » Administrative Receiver Appointed
- » Administration Order
- » Company is liquidated or is wound-up

What does the Creditsafe Rating mean?

The Creditsafe Rating Model acts in a way that each one of the 1 to 100 ratings directly correlates to a relational level of risk. The high predictive power of the model can efficiently distribute the 'bad' companies to low ratings (higher risk); while in contrast, higher ratings are vastly populated by highly creditworthy companies.

What does the Creditsafe Ranking mean?

Ranking companies by their likelihood of becoming insolvent allows for further and more insightful decisions. A company does not only have a rating, but it can also be compared with other businesses in the same industry or other similar-sized entities. That gives more dimensions to the Creditsafe Rating.

What are the Creditsafe Rating Bandings?

The Creditsafe Rating Bandings is an easy-to-use segmentation tool which allows you to assess the Creditsafe Rating Model in 5 simple segments. The connection between the likelihood of becoming insolvent (fail) and the 5 rating bands is matched to real-world statistics, allowing thus for a really meaningful classification of credit risk.

●	**71–100**	Very low risk
●	**51–70**	Low risk
●	**30–50**	Moderate risk
●	**21–29**	High risk
●	**1–20**	Very high risk

When Creditsafe applies a risk score to a company, it first identifies the size of the business based on the criteria set by Companies House, this is so that all companies will be rated on a module which is used for other companies of a similar size.

Almost 70% of all insolvencies were predicted up to 12 months in advance in 2013.

CCJ INFORMATION

INDUSTRY TRENDS

CREDIT RISK DATA
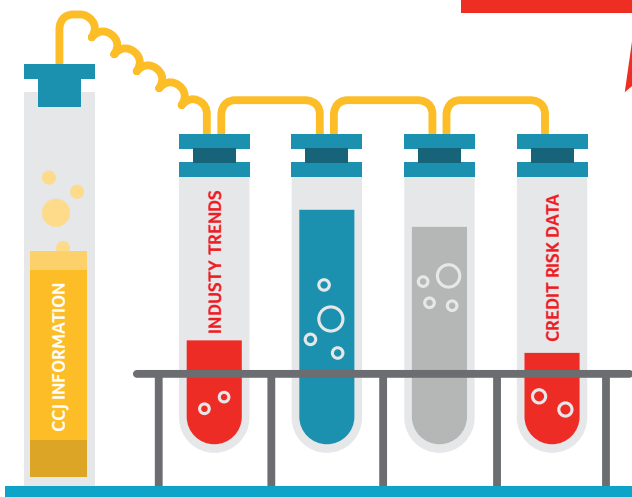
What are the different company bands?

Companies come in all shapes and sizes from the local gym to Tesco. So that we rate companies appropriately we use the company size definitions as described by Companies House.

New company
A new company is a company that has been set up within the last 21 months and has not filed their accounts

Small company
A small company is a company that satisfies 2 out of the 3 following criteria:
» An annual Turnover less than £6.5 million.
» A Balance Sheet Total of less than £3.26 million.
» An average number of employees less than 50.

Medium company
A medium company is a company that satisfies 2 out of the 3 following criteria:
» An annual Turnover less than £25.9 million.
» A Balance Sheet Total less than £12.9 million.
» An average number of employees less than 250.

Large company
A large company is a company that satisfies 2 out of the 3 following criteria:
» An annual Turnover greater than £25.9 million.
» A Balance Sheet Total of more than £12.9 million.
» An average number of employees of more 250. When Creditsafe applies a risk score to a company it first identifies the size of the business based on the criteria set by Companies House above to make sure.

What factors are considered when scoring a company?

'New companies' Model

Examples of characteristics used in the model:

» **Demographics:** Such as the age and location of the company. Certain areas have been proven to be have a higher risk of insolvency.

» **Directors:** E.g. the difference in the number of Directors today and in the past, associated Directors' failures as well as the number of other Directorships that they may have been involved in.

» **Other:** CCJ's and mortgages.

'Small companies' Model

Examples of characteristics used in the model:

» **Financial Data:** Liquidity and leverage ratios. Other key financial figures trends.

» **Payment Performance:** Describing the late (or not) payment behaviour of a company.

» **Industry Analysis:** Looking at the industry the business trades in as certain industries have a greater risk of insolvencies than others.

» **Directors:** E.g. the difference in the number of Directors today and in the past as well as any previous associated failures of a company's Directors.

» **County Court Judgments:** CCJ's are a sign of bad debt and can be an indicator of companies struggling financially.

» **Ultimate Holding Company (UHC) Performance:** We look at the performance of the UHC for example if the UHC is creditworthy or is insolvent.

'Medium companies' Model

Examples of characteristics used in the model:

» **Financial Data:** Profitability and leverage ratios. Indicators of a company's 'current position'.

» **Payment Performance:** Describing the late (or not) payment behaviour of a company.

» **Industry Analysis:** Looking at the industry the business trades in as certain industries have a greater risk of insolvencies than others.

» **Directors:** E.g. the difference in the number of Directors today and in the past as well as any previous associated failures of a company's Directors.

» **Other:** Audit Qualification and CCJ's. We look at the auditors comments as if an auditor raises concerns about the company's ability to continue to trade this in itself raises big concerns, therefore is included within the scoring module.

'Large companies' Model

Examples of characteristics used in the model:

- » **Financial Data:** Profitability and leverage ratios. Indicators of a company's ' current position'.
- » **Payment Performance:** Describing the late (or not) payment behaviour of a company.
- » **Other:** Audit Qualification and CCJ's. We look at the auditors comments as if an auditor raises concerns about the company's ability to continue to trade this in itself raises big concerns therefore is included within the scoring module.
- » **CVA (Company Voluntary Arrangement) History:**
  When a business has a CVA we do not advise credit terms but now on the completion of the CVA the fact the business has recently completed a CVA will continue to impact the company's credit score. This is simply because the company is still in a vulnerable position after completing the CVA.

This is a statistically proven robust model which uses a highly sophisticated automated rating system which assesses the "risk" of insolvency based on a wide range of factors. These include some financial elements from a company's filed accounts and other more current elements which are proven risk indicators such as CCJ's, Trade Payment Data, Director history & performance and Group influence.

'Non-Limited companies' Model

As non-limited/sole trader companies are not required to file any information with a governing body like limited companies do in the UK with Companies House this means the information we hold on these businesses is limited. For example we do not have any financial information available in order to create the risk score therefore our scoring module has to use other business factors to create the risk score.

Examples of characteristics used in the model:

Demographics:

- » Industry code (SIC03),
- » Number of employees,
- » Premises type.
- » Location of the company,
- » Age of the company,

Payment data: Describing the late (or not) payment behaviour of a company, when such data has been available

The Credit Limits

What is a credit limit?

» The credit limit is our recommendation of the total amount of credit that should be outstanding at one time.

» It is estimated using the 'Risk Weighting' and key balance sheet figures for companies that file accounts; or using other non-financial information for companies which do not.

What is a risk weighting?

» A formula converts the rating into the risk weighting, which is later used for the calculation of the credit limit. As companies with higher ratings represent lower risk, they will be given a higher risk weighting, and vice versa. The extension of credit is thus related to the level of risk.

What is a maximum credit limit?

» For limited companies rated 30 and above: £100m

» For non-limited companies rated 30 and above: £100k

» For all companies rated below 30: £0

What is a contract limit?

» A contract limit is a numerical value given as a yardstick for the maximum contract capacity on a single contract over a 12-month period. The contract limits are calculated as a percentage of Turnover. The latest disclosed Turnover reflects the level of successful contracts completed, hence gives an indication of future capacity. Where Turnover is not disclosed (Abridged Accounts), an estimated figure is used based on asset values and appropriate industry data. This measurement views the applicant as a supplier of goods and services, whereas a credit limit assesses the applicant as a purchaser.

What is the Creditsafe Probability Table?

The Creditsafe probability table below, is an analysis tool that helps set the internal acceptance criteria to assess company credit policy and risk.

Rating range	Cumulative Statistics				Rating Range Statistics		
	Rating range	Acceptance rate	Bad rate	% bads excluded	Rating range	Bad rate	% population
A	96-100	1.08%	0.02%	99.96%	96-100	0.02%	1.08%
A	91-100	1.65%	0.03%	99.92%	91-95	0.04%	0.57%
A	86-100	8.56%	0.04%	99.44%	86-90	0.04%	6.91%
A	81-100	11.12%	0.05%	99.15%	81-85	0.07%	2.57%
A	76-100	16.53%	0.07%	98.18%	76-80	0.12%	5.41%
A	71-100	22.42%	0.09%	96.77%	71-75	0.15%	5.89%
B	66-100	31.05%	0.11%	94.64%	66-70	0.16%	8.63%
B	61-100	37.09%	0.14%	92.14%	61-65	0.26%	6.04%
B	56-100	44.59%	0.17%	88.32%	56-60	0.33%	7.50%
B	51-100	50.95%	0.21%	83.37%	51-55	0.50%	6.36%
C	46-100	80.02%	0.20%	75.61%	46-50	0.17%	29.07%
C	41-100	87.81%	0.25%	66.06%	41-45	0.79%	7.80%
C	36-100	92.11%	0.29%	57.63%	36-40	1.26%	4.29%
C	31-100	93.73%	0.32%	52.84%	31-35	1.89%	1.62%
C/D	26-100	95.17%	0.35%	48.50%	26-30	1.92%	1.45%
D	21-100	96.77%	0.39%	41.79%	21-25	2.69%	1.60%
E	16-100	98.37%	0.44%	32.47%	16-20	3.74%	1.60%
E	11-100	99.43%	0.51%	21.46%	11-15	6.66%	1.06%
E	6-100	99.89%	0.59%	8.64%	6-10	17.65%	0.47%
E	1-100	100.00%	0.64%	0.00%	1-5	52.58%	0.11%

How to read the probability table

The highlighted row has cumulative score range of 41-100 and a score range of 41-45, which is used as an example below.

Cumulative Statistics

» At the Rating of 41 and above, 87.8 percent of the accounts are accepted.

» Delinquency rate is 0.25 for the entire portfolio.

Rating Range Statistics

» The rating range of 41-45 represents 7.8% of all accounts.

» The delinquency rate is 0.79% for this rating range.

In this Rating range, there are 127 good companies for every delinquent company.

Apendix – Full PoD Table

Very Low Risk

Rating range	Rating range	Acceptance rate	Bad rate	% bads excluded	Rating range	Bad rate	% population
A	100	0.05%	0.00%	100.00%	100	0.00%	0.05%
A	99-100	0.77%	0.01%	99.99%	99	0.01%	0.72%
A	98-100	0.80%	0.01%	99.99%	98	0.00%	0.03%
A	97-100	0.90%	0.01%	99.98%	97	0.09%	0.09%
A	96-100	1.08%	0.02%	99.96%	96	0.07%	0.19%
A	95-100	1.29%	0.02%	99.96%	95	0.00%	0.21%
A	94-100	1.34%	0.02%	99.95%	94	0.15%	0.05%
A	93-100	1.43%	0.03%	99.93%	93	0.14%	0.09%
A	92-100	1.57%	0.03%	99.93%	92	0.00%	0.13%
A	91-100	1.63%	0.03%	99.93%	91	0.00%	0.06%
A	90-100	1.74%	0.03%	99.92%	90	0.07%	0.11%
A	89-100	4.86%	0.03%	99.77%	89	0.03%	3.12%
A	88-100	4.88%	0.03%	99.77%	88	0.00%	0.02%
A	87-100	5.74%	0.04%	99.68%	87	0.06%	0.87%
A	86-100	8.54%	0.04%	99.45%	86	0.05%	2.79%
A	85-100	8.55%	0.04%	99.43%	85	0.65%	0.01%
A	84-100	8.56%	0.04%	99.43%	84	0.00%	0.01%
A	83-100	9.46%	0.04%	99.37%	83	0.04%	0.90%
A	82-100	9.60%	0.04%	99.35%	82	0.09%	0.14%
A	81-100	11.10%	0.05%	99.15%	81	0.09%	1.51%
A	80-100	11.49%	0.05%	99.11%	80	0.08%	0.39%
A	79-100	12.66%	0.05%	98.93%	79	0.10%	1.17%
A	78-100	13.71%	0.06%	98.78%	78	0.09%	1.06%
A	77-100	14.91%	0.07%	98.45%	77	0.17%	1.19%
A	76-100	16.50%	0.07%	98.16%	76	0.12%	1.60%
A	75-100	17.97%	0.07%	98.02%	75	0.06%	1.47%
A	74-100	18.41%	0.07%	97.94%	74	0.11%	0.44%
A	73-100	19.86%	0.08%	97.55%	73	0.17%	1.45%
A	72-100	21.27%	0.09%	97.12%	72	0.20%	1.41%
A	71-100	22.39%	0.09%	96.75%	71	0.21%	1.11%
B	70-100	24.37%	0.10%	96.34%	70	0.13%	1.99%

Low Risk

Rating range	Rating range	Acceptance rate	Bad rate	% bads excluded	Rating range	Bad rate	% population
A	71-100	22.39%	0.09%	96.75%	71	0.21%	1.11%
B	70-100	24.37%	0.10%	96.34%	70	0.13%	1.99%
B	69-100	26.01%	0.10%	95.83%	69	0.20%	1.64%
B	68-100	26.88%	0.10%	95.65%	68	0.14%	0.86%
B	67-100	28.20%	0.11%	95.26%	67	0.19%	1.32%
B	66-100	31.04%	0.11%	94.64%	66	0.14%	2.84%
B	65-100	32.12%	0.11%	94.30%	65	0.20%	1.09%
B	64-100	33.33%	0.12%	93.74%	64	0.30%	1.21%
B	63-100	34.53%	0.12%	93.32%	63	0.22%	1.20%
B	62-100	35.67%	0.13%	92.77%	62	0.31%	1.14%
B	61-100	37.08%	0.14%	92.12%	61	0.29%	1.41%
B	60-100	38.19%	0.14%	91.60%	60	0.31%	1.11%
B	59-100	39.92%	0.15%	90.55%	59	0.38%	1.74%
B	58-100	41.02%	0.16%	89.85%	58	0.41%	1.09%
B	57-100	43.37%	0.16%	89.14%	57	0.19%	2.36%
B	56-100	44.57%	0.17%	88.27%	56	0.46%	1.20%
B	55-100	46.57%	0.18%	87.18%	55	0.35%	2.00%
B	54-100	47.11%	0.18%	86.80%	54	0.45%	0.53%
B	53-100	48.68%	0.19%	85.37%	53	0.58%	1.58%
B	52-100	50.01%	0.20%	84.11%	52	0.61%	1.32%
B	51-100	50.94%	0.21%	83.34%	51	0.53%	0.94%
C	50-100	52.05%	0.22%	82.39%	50	0.55%	1.11%

Moderate Risk

Rating range	Rating range	Acceptance rate	Bad rate	% bads excluded	Rating range	Bad rate	% population
B	51-100	50.94%	0.21%	83.34%	51	0.53%	0.94%
C	50-100	52.05%	0.22%	82.39%	50	0.55%	1.11%
C	49-100	67.67%	0.18%	80.53%	49	0.08%	15.62%
C	48-100	71.23%	0.18%	79.63%	48	0.16%	3.55%
C	47-100	77.43%	0.19%	77.34%	47	0.24%	6.21%
C	46-100	80.02%	0.20%	75.53%	46	0.45%	2.59%
C	45-100	82.13%	0.20%	73.70%	45	0.56%	2.11%
C	44-100	84.03%	0.22%	71.57%	44	0.71%	1.90%
C	43-100	85.77%	0.23%	69.51%	43	0.76%	1.74%
C	42-100	86.69%	0.23%	68.18%	42	0.93%	0.92%
C	41-100	87.81%	0.25%	65.97%	41	1.26%	1.12%
C	40-100	89.08%	0.26%	64.09%	40	0.95%	1.27%
C	39-100	90.00%	0.27%	62.30%	39	1.24%	0.92%
C	38-100	91.05%	0.28%	60.22%	38	1.27%	1.05%
C	37-100	91.51%	0.29%	59.04%	37	1.64%	0.46%
C	36-100	92.11%	0.29%	57.51%	36	1.64%	0.60%
C	35-100	92.74%	0.30%	55.84%	35	1.68%	0.63%
C	34-100	92.93%	0.31%	55.37%	34	1.58%	0.19%
C	33-100	93.32%	0.31%	54.11%	33	2.09%	0.39%
C	32-100	93.54%	0.32%	53.38%	32	2.10%	0.22%
C	31-100	93.73%	0.32%	52.73%	31	2.15%	0.19%
C	30-100	93.77%	0.32%	52.63%	30	1.76%	0.04%
D	29-100	94.25%	0.33%	51.32%	29	1.71%	0.49%

High Risk

Rating range	Rating range	Acceptance rate	Bad rate	% bads excluded	Rating range	Bad rate	% population
C	30-100	93.77%	0.32%	52.63%	30	1.76%	0.04%
D	29-100	94.25%	0.33%	51.32%	29	1.71%	0.49%
D	28-100	94.51%	0.33%	50.53%	28	1.98%	0.26%
D	27-100	94.82%	0.34%	49.59%	27	1.94%	0.31%
D	26-100	95.18%	0.35%	48.34%	26	2.25%	0.35%
D	25-100	95.46%	0.35%	47.33%	25	2.25%	0.29%
D	24-100	95.81%	0.36%	45.64%	24	3.08%	0.35%
D	23-100	96.22%	0.37%	43.95%	23	2.64%	0.41%
D	22-100	96.45%	0.38%	43.16%	22	2.19%	0.23%
D	21-100	96.77%	0.39%	41.62%	21	3.09%	0.32%
E	20-100	97.13%	0.40%	39.83%	20	3.15%	0.36%

Very High Risk

Rating range	Rating range	Acceptance rate	Bad rate	% bads excluded	Rating range	Bad rate	% population
D	21-100	96.77%	0.39%	41.62%	21	3.09%	0.32%
E	20-100	97.13%	0.40%	39.83%	20	3.15%	0.36%
E	19-100	97.47%	0.41%	38.00%	19	3.45%	0.34%
E	18-100	97.75%	0.42%	36.20%	18	4.12%	0.28%
E	17-100	98.06%	0.43%	34.26%	17	4.05%	0.30%
E	16-100	98.37%	0.44%	32.27%	16	4.08%	0.31%
E	15-100	98.62%	0.45%	30.41%	15	4.87%	0.24%
E	14-100	98.85%	0.46%	28.37%	14	5.59%	0.23%
E	13-100	99.07%	0.48%	26.09%	13	6.72%	0.22%
E	12-100	99.26%	0.49%	23.78%	12	7.43%	0.20%
E	11-100	99.43%	0.51%	21.20%	11	9.90%	0.17%
E	10-100	99.56%	0.52%	19.00%	10	10.89%	0.13%
E	9-100	99.67%	0.53%	16.58%	9	14.49%	0.11%
E	8-100	99.76%	0.55%	13.94%	8	17.79%	0.09%
E	7-100	99.84%	0.57%	11.11%	7	23.99%	0.08%
E	6-100	99.89%	0.59%	8.38%	6	29.74%	0.06%
E	5-100	99.94%	0.60%	5.66%	5	37.53%	0.05%
E	4-100	99.96%	0.61%	4.16%	4	44.32%	0.02%
E	3-100	99.98%	0.62%	2.49%	3	58.99%	0.02%
E	2-100	99.99%	0.63%	1.40%	2	68.60%	0.01%
E	1-100	100.00%	0.64%	0.00%	1	100.00%	0.01%