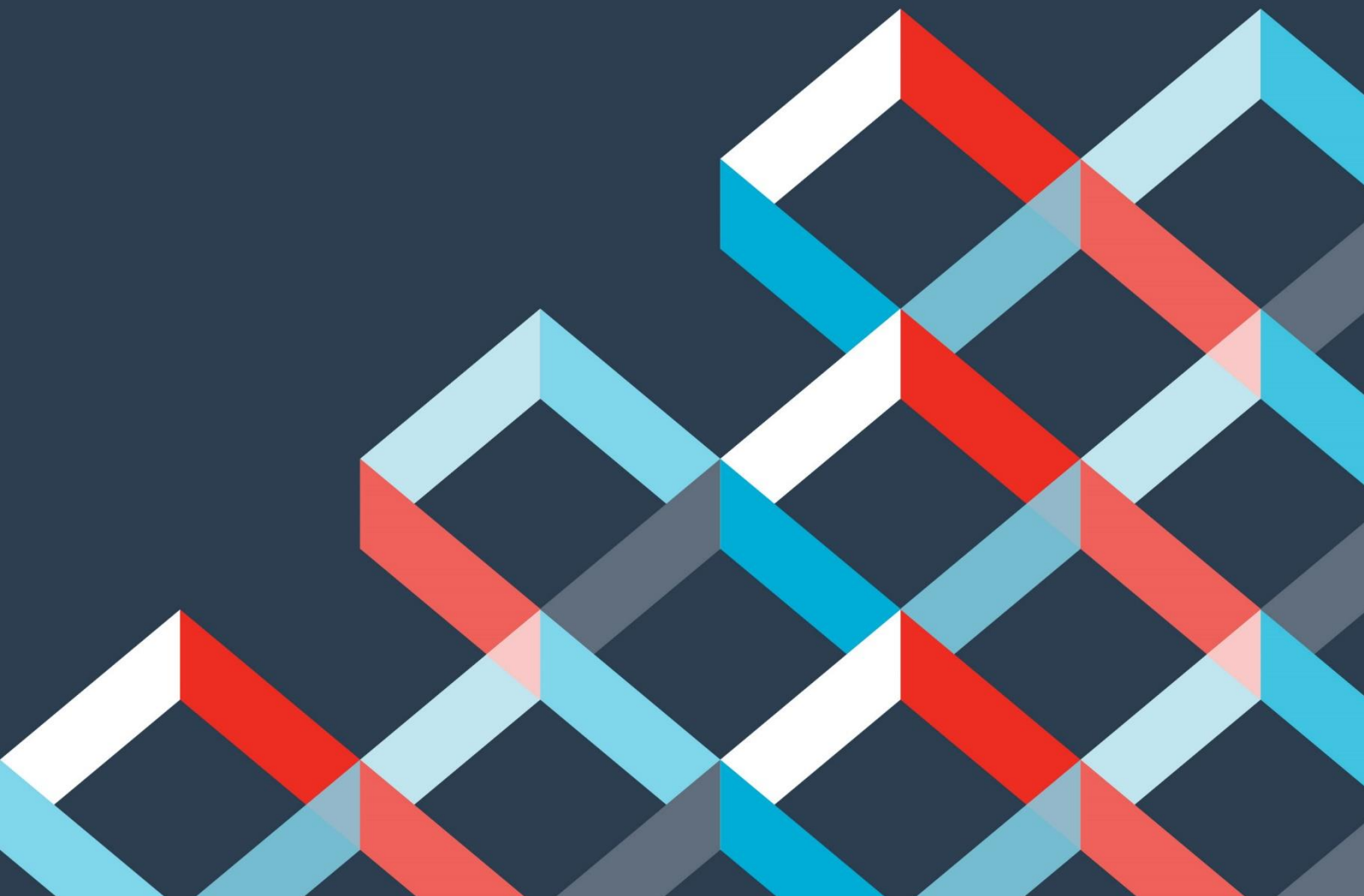GRAYDONcreditsafe

Frequently Asked Questions

Renewed Credit Scorecard - GraydonCreditsafe Netherlands

March, 2023

Why is GraydonCreditsafe changing its scorecards?

It is perfectly normal for credit reporting agencies to review and adapt their scoring models to changing economic conditions, available data and business information. When new data is available, we should take the opportunity to leverage this data and further improve predictability.

We also need to be vigilant in monitoring market trends and ensure that our forecasting models reflect current developments. With ongoing changes in the economic, social and political environment, some indicators that now predict failure are likely to change in the coming years.

GraydonCreditsafe continuously improves its scorecards to reflect current risk factors that have emerged within local economies. By assessing the entire business population, we have refined and confirmed the indicators that generally apply to commercial stability, and what is predictive of a struggling business.

How do I know if the new Scorecard is right for my business?

The GraydonCreditsafe Scorecard is built to assess the entire business population of the country, using data owned by GraydonCreditsafe, as well as partly from third parties.

Our assessment of this data produces a credit score that reflects the likelihood of business failure in the next 12 months. In addition, the Credit Limit is designed to provide a recommended maximum credit amount for this company, based on numerous financial indicators.

Our scoring models are designed to complement any business, but we also offer customised analytical services. Of course, all companies have unique business models, strategies, and objectives. To help companies gain greater clarity on their commercial landscape and opportunities, our world-leading analytics team has been commissioned to build several custom analytical models for companies in many countries.

For more information on our customised services, please contact your account manager.

Should I change anything in my system(s) when you make the changes?

You do NOT need to make any changes to your GraydonCreditsafe account, app or API when the new scorecard is launched. All changes will be made automatically.

Are all companies scored using the same algorithm?

No, depending on the type of company, size and country, the algorithm is adjusted.

What is the 'Probability of Default' (PoD)?

The Probability of Default (PD or PoD) is a mathematical calculation that indicates the probability of a company going bankrupt or becoming insolvent within 12 months from the date of application for a particular credit.

GraydonCreditsafe's scorecard gives a score between 1 and 100 for highest and lowest risk, respectively. This scale was constructed using the probability of default (PoD) outcome.

Why is the Probability of Default important?

The PoD will ultimately tell you exactly how stable a company is and, more importantly, the associated credit risk of doing business with it.

The GraydonCreditsafe scorecard gives a score between 1 and 100 for the highest and lowest risk respectively. This scale is created based on the outcome of the PoD, expressed as a percentage. The higher the credit score, the lower the PoD percentage and vice versa.

The development of the new model and the new PoD table means that it would be incorrect to compare scores on a like-for-like basis. The underlying statistics have changed, the scorecard has changed and, as a result, the meaning of the scores from 1 to 100 has changed. This may result in a company receiving a lower score on the 1 to 100 scale than before, but a lower associated risk of default or failure.

Thus, a company's score may drop from 70 to 60, but at the same time its credit limit may increase because the associated risks to the company are lower. It is important to note that this does not mean that all company scores will decrease, as some

companies will receive a higher score than before. However, when a decrease in score is observed, reference should be made to the changes in the PoDs.

What is the difference between the old and the new scorecard?

There are several differences between the old and new scorecards. All the changes have been made to improve the accuracy of the scores so that they are a true reflection of the risk associated with a company.

Crucially, our scorecard accurately calculates a company's probability of failure based on current market conditions. This is why GraydonCreditsafe used the most up-to-date business information available when developing the new scoring model. As the economy and market conditions change from year to year, the calculations behind the score naturally have to be adjusted to ensure an accurate prediction.

Thanks to a deeper segmentation of the companies, we have achieved a more representative spread of companies across the different risk classes. Companies classified as low risk in our Dutch scoring model generally have a lower probability of failure than the previous scoring model. Similarly, the high-risk segment of the population, with a score below 30, generally has a slightly higher probability of failure. This method was introduced to give a real picture of high-risk scenarios and to avoid stifling your business by rejecting growth opportunities.

The features of the new scorecard compared to the old one are as follows:

- Predictive power, stability and accuracy is even stronger
- Added more and up-to-date data sets that improve score quality
- Added more and new variables to the scorecards with more history and payment experiences
- Optimised business population classification to 6 segments (instead of 5).
- Improved scorecards for new businesses and public organisations by setting additional policies for specific business classes (e.g. semi-government, start-ups)
- Scores harmonised with international Creditsafe scoring methodology; Cut-off limit adjusted from 37 to 30

How often does GraydonCreditsafe change scorecards? When will it change next time?

Scorecards are not updated on a schedule or a fixed period. Besides the fact that the last update was a couple of years ago, the joining of forces of Graydon and Creditsafe also provided a great opportunity to update the scores.

The GraydonCreditsafe scorecards are continuously monitored to gain insight into the performance of the scorecards over time. As new economic changes and trends emerge, they inevitably cause small shifts in which factors are most indicative of a company's failure and stability. Our scorecard monitoring allows us to measure these shifts and determine whether the predictability of our scores remains above an acceptable threshold.

If and when the predictability of a scorecard begins to degrade, we make it a priority to re-evaluate the data we have, the variables we measure and the weightings we assign to each variable. With the development of even more robust scorecards, we have strengthened our ability to thoroughly assess the predictability of variables over time and adjust the model to economic changes if necessary.

What will happen when the new Dutch scorecard launches?

You do NOT need to make any changes to your GraydonCreditsafe account, App or API when the new scorecard is launched. All changes will be implemented automatically.

We will disable Score Change Alerts within Monitoring on the day of the launch to avoid a disruptive number of alerts being emailed to customers. You can export a list of portfolio changes, including score changes, from your Monitoring account the day after the launch of the scorecard.

Why are there new scoring categories?

This is because we want to create some uniformity, based on the international rating, across all Creditsafe entities where a new scoring model has been launched. By setting the cut-off limit internationally at 30, it is quicker to see internationally whether a company is creditworthy.

Why has my credit score (and limit) and those of my customers and suppliers changed?

At GraydonCreditsafe, we are fortunate to have an extensive and ever-growing database of up-to-date company information. As we expand and increase the wealth of data we possess, we must evaluate whether this new data contains information that is indicative of the stability or future insolvency of companies. We also need to revalidate whether previous indicators in the existing data still hold true. In both cases, additions and adjustments to the scoring model are likely to be needed to ensure high predictability.

So, when a new Scorecard is adjusted, there will inevitably be some shifts in the business Credit Score and recommended Credit Limits. We should also not forget that the Probability of Default has become an important and compelling element in the updated scorecard, resulting in a new score indication for many businesses.

What does the score predict?

GraydonCreditsafe's scorecard calculates the probability that a company will go bankrupt in the next 12 months. The calculation is converted into an easy-to-understand score between 1 (highest risk) and 100 (lowest risk). We consider a company with a score below 30 to be high-risk and therefore uncreditworthy, while a company with a score above 50 has a lower risk of bankruptcy.

GraydonCreditsafe considers the following criteria as the definition of failure:

For companies with annual figures:

- Bankruptcy

For companies without annual figures:

- Bankruptcy
- 3 or more payments, paid at least > 91 days later than the payment deadline

Where can I see how the score is built?

Our Scorecards are developed based on statistical analysis of the entirety of the Dutch business population. To approach the highest possible predictability, we divided this population in segments of lookalike companies, which allows us to better distinguish between companies within these segments. This distinctiveness is crucial for high predictive power. We use Stepwise Logistic Regression to calculate the Probability of Default, which is then converted into a score from 1 to 100.

Besides the Credit Scores that indicate the likelihood of bankruptcy, we also offer the Credit Limit. The Credit Limit is the individual amount of credit that GraydonCreditsafe considers feasible for a company to meet its payment obligations. The Credit Limit value is partly determined by the outcome of the statistical model.