

Yorkshire Water Alternative Eligible Credit Support Consultation

January 2021



YorkshireWater

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1. Introduction

Yorkshire Water are committed to continually reviewing our approach to Alternative Eligible Credit Support to ensure we provide trading parties with the best levels of service possible. Following an extensive internal review and ongoing dialogue with our contracted retailers and other stakeholders, Yorkshire Water is seeking feedback on the intended implementation of a new Alternative Eligible Credit Support policy.

2. Aim

The four key principles of the Yorkshire Water approach to Alternative Eligible Credit are that the arrangements should be;

- simple to understand
- beneficial to all Retailers
- accessible to all Retailers
- easy to implement and administer

To ensure that our new proposal is fit-for-purpose, we would like to invite you to provide feedback on a new Alternative Eligible Credit offering which we are calling **Credit Support Maximum Recommendation (CS Max)**.

The consultation can be accessed [here](#) and will remain open until the 10th February 2021.

3. Alternative Eligible Credit Support

Yorkshire Water is exposed to the risk of retailer default and therefore the aims and objectives defined above need to be balanced against any potential commercial risk. Yorkshire Water acknowledge that retailers pose different levels of commercial risk depending on their ownership structure, financial stability and payment history.

Whilst the unsecured credit support available to retailers is already reflected within the market codes in Schedule 2E of the Business Terms: Unsecured Credit Allowance where holding a Credit Rating entitles retailers to a higher Unsecured Credit Allowance than a Credit Score, Yorkshire Water would like to continue to support retailers and the wider market by introducing a further credit option.

The Schedule 3 Alternative Eligible Credit Support policies Yorkshire Water have available seek to provide a simple, effective and low maintenance credit arrangement to all retailers with an active Wholesale Contract for Wholesale Services with Yorkshire Water.

Yorkshire Water currently has three Alternative Eligible Credit Support policies available to retailers which can be found on our website and they are:

1. [Credit Support 100 \(CS 100\)](#)
2. [Credit Support Investment Grade \(CS IG\)](#)
3. [Credit Support Government \(CS Gov\)](#)

CS 100 and CS Gov will continue under their current terms. The proposal is to cease Credit Support Investment Grade.

This will be replaced with a new policy which are now proposing to launch called:

4. [Credit Support Maximum Credit Recommendation \(CS Max\)](#)

Credit Support Maximum Credit Recommendation

Credit Support Maximum Credit Recommendation	
1) What are we offering?	<ul style="list-style-type: none"> An Alternative Unsecured Allowance based on the Dunn and Bradstreet Maximum Credit Recommendation.
2) Why we are offering it?	<ul style="list-style-type: none"> The rationale for providing increased credit support to retailers with a Dun and Bradstreet rating of 5A/1 or 5A/2 is that these retailers present a lower risk profile, the same principle is applied in Schedule 2E.
3) What are the eligibility criteria?	<p>The retailer must;</p> <ul style="list-style-type: none"> have a good payment performance and history. hold and maintain a Dun and Bradstreet rating of 5A/1 or 5A/2. hold a Dun and Bradstreet "Overall Business Risk" score of "Low, Low/Moderate or Moderate"

To provide you with more clarity on how this policy will work we have included a worked example in Appendix 1.

We have also included the Draft CS Max policy in Appendix 2

4. Consultation Questions

The Draft CS Max policy, which can be found in appendix 2, should be reviewed before continuing with this consultation.

All feedback will remain anonymous.

1. Please state which organisation you represent?
2. How do you think the range of Yorkshire Water Alternative Eligible Credit Support proposals compares to other Schedule 3 arrangements that are currently operating in the market?
3. How do you think the Yorkshire Water Alternative Eligible Credit Support policies benefit the market?
4. Do you agree that the Yorkshire Water Alternative Eligible Credit Support supports the Objectives and Principles of the WRC? Please explain your answer.
 - *Efficiency*
 - *Proportionality*
 - *Transparency*
 - *Simplicity, cost effectiveness and security*
 - *Barriers to entry*
 - *Non-Discrimination*
 - *Customer participation*
 - *Customer contact*
 - *Seamless markets*
 - *No limit on upstream competition*
5. Please provide your comments on the Draft Schedule 3 – CS Max policy
6. Is the Draft Schedule 3 – CS Max policy easy to understand and administer?

7. Would you be interested in requesting an Alternative Eligible Credit agreement? If No, please explain why not?

5. Contact details

If you have any questions about this consultation or policy, please contact James Wilson on james.r.wilson@yorkshirewater.co.uk or 07791 817 369.

6. Appendix 1 – Worked Example

	No Sch 3 – standard code requirements	CS Max Unsecured allowance 1% (Overall business Risk = Moderate)	CS Max Unsecured allowance 2% (Overall business Risk = Moderate)
D&B Credit Score	5A/1 or 5A/2	5A/1 or 5A/2	5A/1 or 5A/2
D&B Maximum Credit Recommendation	N/A	£25,000,000	£25,000,000
Overall Business Risk	N/A	Moderate	Low or Low - Moderate
% of Maximum Credit Recommendation	N/A	1%	2%
PI Aggregated settlement amount	£250,000	£250,000	£250,000
Days in month	30	30	30
Credit Support Requirement - 50 days (CSR)	£416,667	£416,667	£416,667
Unsecured Credit Allowance - Sch 2E (20% for 5A/1 or 5A/2) (UCA)	£83,333	£83,333	£83,333
Credit Support Amount (CSA = CSR - UCA)	£333,333	£333,333	£333,333
D&B Unsecured Discount (% of Max Credit Recommendation)	N/A	£250,000	£500,000
New Credit Support Amount (NCSA = CSA - D&B Unsecured Discount)	£333,333	£83,333	£0
Reduction in Credit Support Amount	£0	£250,000	£333,333

**7. Appendix 2 - *Draft* Credit Support Maximum
Credit Recommendation**

***DRAFT*: Credit Support
Maximum Credit
Recommendation**

between

Yorkshire Water Services
Limited

and

[Retailer]

BETWEEN

- (1) Yorkshire Water Services Limited, a company incorporated in England and Wales (No. 02366682) whose registered office is at Western House, Halifax Road, Bradford, West Yorkshire, BD6 2SZ (the "**Contracting Wholesaler**"); and
- (2) [Retailer], a company incorporated in England and Wales ([Company Number]) whose registered office is at [registered address] (the "**Contracting Retailer**")

BACKGROUND:

- (A) Pursuant to Schedule 3 of the Business Terms contained within the Wholesale Contract, a wholesaler and a retailer may agree to an Alternative Eligible Credit Support arrangement.
- (B) This Agreement is an Alternative Eligible Credit Support arrangement between the Contracting Wholesaler and the Contracting Retailer, the purpose of which is to reduce the Eligible Credit Support required to be provided by the Contracting Retailer in connection with its wholesale contract with the Wholesaler dated [**DATE**] and made under section 66E or section 117E of the Water Industry Act 1991 ("**the Contract**").
- (C) The Business Terms require that an Unsecured Credit Allowance shall be available to the Contracting Retailer, where the Contracting Retailer holds a Current Credit Rating or Current Credit Score. In addition, the Contracting Retailer is required to ensure the remainder of the Credit Support Amount is met through additional Eligible Credit Support and/or Alternative Eligible Credit Support.
- (D) The Business Terms further state that the parties may agree Alternative Eligible Credit Support for all or part of the Credit Support Amount.

- (E) Accordingly, the Contracting Wholesaler and the Contracting Retailer agree to enter into this Alternative Eligible Credit Support Agreement (the “**Agreement**”) to supplement the Wholesale Contract by enabling the Contracting Wholesaler to provide an Alternative Unsecured Allowance linked to the Maximum Credit Recommendation and Overall Business Risk as recommended by the Nominated Credit Scoring Agency.

1 DEFINITIONS AND INTERPRETATION

1.1 In the Agreement

1.1.1 Alternative Unsecured Allowance means:

- an amount equal to 2% (two per cent) of the Maximum Credit Recommendation (save that the Alternative Unsecured Allowance shall not exceed £500,000 pounds) if the Overall Business Risk is Low or Low/Moderate as detailed in the Nominated Credit Scoring Agency’s report; or
- an amount equal to 1% (one per cent) of the Maximum Credit Recommendation (save that the Alternative Unsecured Allowance shall not exceed £500,000 pounds) if the Overall Business Risk is Moderate as detailed in the Nominated Credit Scoring Agency’s report.

1.1.2 **Code** means the Wholesale-Retail Code issued by the Water Services Regulation Authority under sections 66DA and 117F of the Water Industry Act 1991;

1.1.3 **Maximum Credit Recommendation** means the figure set out in the Nominated Credit Scoring Agency’s Report.

1.1.4 **Nominated Credit Scoring Agency** means Dun and Bradstreet Limited, company number 160043, with its registered office located at The Point, 37 North Wharf Road, London, W21AF.

1.1.5 **Other Unsecured Arrangement** means any other arrangement for unsecured credit that the Contracting Wholesaler makes available to retailers and for which the Contracting Retailer meets the applicable eligibility criteria.

1.1.6 **Overall Business Risk** means the risk assessment carried out by the Nominated Credit Scoring Agency’s system as detailed in reports made available to customers, including the Contracting Wholesaler.

1.1.7 **Nominated Credit Scoring Agency Rating** means the credit rating given by

the Nominated Credit Scoring Agency's system as detailed in reports made available to customers, including the Contracting Wholesaler.

- 1.1.8 **Wholesale Contract** means the contract between the Contracting Wholesaler and the Contracting Retailer that constitutes:
- I. a Section 66D Agreement; or
 - II. a Section 117E Agreement; or
 - III. both a Section 66D Agreement and a Section 117E Agreement; and which, in each case, is in the form prescribed by the Wholesale-Retail Code;

1.2 Unless the context requires otherwise, terms not otherwise defined in this Agreement shall have the meaning ascribed to them in the Wholesale Contract or the Code.

1.2.1 Interpretation:

Headings and titles are for convenience only and do not affect the interpretation of this Agreement. Unless otherwise described, references in this Agreement to sections are to sections of this Agreement.

2 ALTERNATIVE ELIGIBLE CREDIT SUPPORT AGREEMENT

2.1 The Contracting Wholesaler and the Contracting Retailer agree that for such period as this Agreement is in effect, the Contracting Retailer shall (as an alternative to the Unsecured Credit Allowance to which the Contracting Retailer is entitled to under the Business Terms and any Other Unsecured Arrangement from time to time) be entitled to utilise the Alternative Unsecured Allowance, subject to the terms of this Agreement (including without limitation the eligibility criteria set out at clause 2.3 below).

2.2 The Alternative Unsecured Allowance shall at all times be an alternative to the Unsecured Credit Allowance and any Other Unsecured Arrangement and may only be used independently of the Unsecured Credit Allowance and any Other Unsecured Arrangement from time to time. In no circumstances shall the Contracting Retailer be entitled to combine the Alternative Unsecured Allowance with the Unsecured Credit Allowance and/or any Other Unsecured Arrangement.

- 2.3 To be eligible to use the Alternative Unsecured Allowance as set out in this Agreement, the Contracting Retailer shall at all times hold and maintain a Nominated Credit Support Agency Rating of 5A/1 or 5A/2.
- 2.4 The Alternative Unsecured Allowance will be assessed each month and may change each month in accordance with any change in the Nominated Credit Scoring Agency's Report.
- 2.5 The Contracting Wholesaler reserves the right to review, temporarily suspend, or remove the entitlement of the Contracting Retailer to Alternative Eligible Credit Support under this Agreement, if:
- (a) the Contracting Retailer becomes a Defaulting Trading Party under the Wholesale Contract, and/or is otherwise in breach of the Wholesale Contract; and/or
 - (b) the Contracting Wholesaler otherwise has reasonable grounds to believe that the Contracting Retailer will default on its payment obligations under the Wholesale Contract, and in such circumstances the Contracting Wholesaler shall notify the Contracting Retailer in writing and the requirements of the Wholesale Contract relating to the provision of Eligible Credit Support shall continue as though this Agreement was not in force and effect from the date of the written notice.
- 2.6 The parties agree that nothing in this Agreement shall prejudice or otherwise undermine the obligation or other liability of the Contracting Retailer to pay any amount to the Contracting Wholesaler under the Wholesale Contract, and the rights and remedies of the Contracting Wholesaler in respect of such obligations and liabilities shall be unaffected.

3 TERMINATION ON THIS AGREEMENT

- 3.1 This Agreement will automatically terminate if the Wholesale Contract terminates.
- 3.2 This Agreement may be terminated:
 - 3.2.1 by the Contracting Retailer on written notice to the Contracting Wholesaler at any time; or
 - 3.2.2 by the Contracting Wholesaler on thirty (30) days' written notice to the Contracting Retailer; or
 - 3.2.3 by the Contracting Wholesaler immediately if the Contracting Retailer in any event fails to make a payment (regardless of the amount) due under the Wholesale Contract on or before the due date, in accordance with Business Terms; or
 - 3.2.4 by the Contracting Wholesaler in the event that the Contracting Retailer fails to maintain the required Nominated Credit Support Agency Rating as specified at clause 2.3 above; or
 - 3.2.5 by either Party in the event that replacement credit support arrangements take effect between the Parties.
 - 3.2.6 if the Contracting Wholesaler otherwise has reasonable grounds to believe that the contracting retailer will default on its payment obligations under the wholesale contract and in such circumstances the Contracting Wholesaler shall notify the Contracting Retailer in writing and the requirements of the Wholesale Contract relating to the provision of Eligible Credit Support shall continue as though this Agreement was not in force and effect from the date of the written notice.

3.3 On expiry or earlier termination of this Agreement the arrangements set out herein shall end and the provision of the Credit Support Amount by the Contracting Retailer shall be governed exclusively by the Wholesale Contract and the Parties agree to co-operate with each other to the extent necessary to ensure compliance with the Wholesale Contract.

4 GENERAL

4.1 No variation of this Agreement shall be effective unless it is in writing and signed by or on behalf of each Party.

4.2 In the event of any conflict between this Agreement and the Wholesale Contract, the terms of the Wholesale Contract shall take precedence, save as expressly specified otherwise in this Agreement.

4.3 The Parties do not intend any third party to have any right to enforce any provision of this Agreement under the Contracts (Rights of Third Parties) Act 1999 or otherwise.

4.4 Any notices under this Agreement shall be served in accordance with the provisions of the Wholesale Contract.

4.5 Save for the Wholesale Contract, this Agreement is the entire agreement between the Parties and replaces all previous written or oral agreements, representations, and understandings between them, relating to its subject matter.

4.6 This Agreement shall be governed by and construed in accordance with English law, and the English courts shall have exclusive jurisdiction to determine any dispute arising in connection with it (but subject to the powers of the Water Services Regulation Authority to determine disputes).

Signed by

for and on behalf of

Yorkshire Water Services Limited

.....
Director/Authorised Signatory

Print Name:

in the presence of:

Witness Signature:

.....

Print Name:

Address:

.....

Date:

for and on behalf of

[INSERT NAME OF RETAILER]

.....
Director/Authorised Signatory

Print Name:

in the presence of:

Witness Signature:

.....

Print Name:

Address:

.....

Date:

A Guide to Dun & Bradstreet's Predictive Indicators

UK & Ireland



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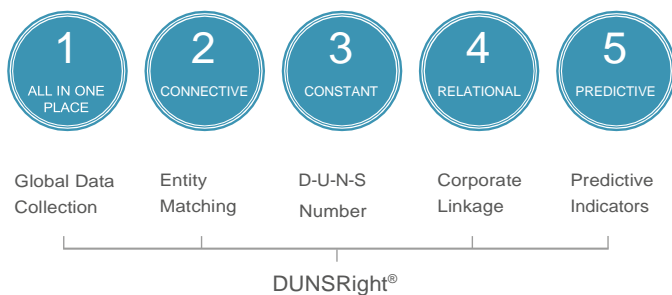
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Dun & Bradstreet Risk Assessment Explained

Decide With Confidence

Understanding and minimising risk is fundamental to your organisation. Staying informed of any changes is key to enabling you to profitably grow your customer portfolio without increasing risk exposure. Knowing a customer's or prospect's long-term commercial sustainability is critical to your organisation and a commercial imperative.

To evaluate risks objectively and consistently, you need to combine a multitude of business information sources with expert analysis to develop an Informed Perspective. By choosing Dun & Bradstreet (D&B) you can be assured of accurate, up-to-date and quality assured insight supporting your decision making.



The DUNSRight process includes separate automated and manual checks to ensure D&B data meets the high quality standards demanded by our customers."

DUNSRight And What It Means For Your Organisation

All D&B data and insight has been quality assured via our patented DUNSRight process. In this process we collect, aggregate, verify and enhance data from thousands of sources daily so customers can use our information and assessments with the confidence to make profitable decisions. The DUNSRight process includes separate automated and manual checks to ensure D&B data meets the high quality standards demanded by our customers.

The DUNSRight process has 5 Quality Drivers and works in this way:

1. Global Data Collection brings together information from a variety of sources worldwide, delivering more robust and accurate information.
2. D&B integrate the data into our database through our patented Entity Matching, which produces a single, accurate picture of each business.
3. We apply the D-U-N-S® Number as a unique means of identifying and tracking a business globally through every step in the life and activity of that business.
4. We use Corporate Linkage to enable our customers to view their total risk or opportunity across related businesses.

The first 4 DUNSRight drivers provide the platform to produce the final driver – the Predictive Indicators.

5. Our Predictive Indicators use statistical analysis and expert rules to indicate how an organisation is likely to perform in the future and make the information actionable.

What Are Predictive Indicators?

D&B's Predictive Indicators are tools that are designed to provide customers with insight into how an organisation is likely to behave in the future.

Utilising the insight provided by D&B's Predictive Indicators helps customers to quickly identify the organisations that are likely to fail, pay late or purchase their goods/ services, helping to drive growth, mitigate risk and increase profitability by:

- Allowing automated decisions for increased efficiency, freeing up valuable resources to focus on more important decisions.
- Enabling more consistent decisions across the entire organisation.
- Applying scores across an entire portfolio to segment risk and opportunity.
- Allowing faster processing of large volumes of transactions.



Utilising the insight provided by D&B's Predictive Indicators helps customers to quickly identify the organisations that are likely to fail, pay late or purchase their goods/services."

D&B Solutions

Risk Management Solutions identify prospects, customers or suppliers that are likely to fail owing money or who will pay invoices slowly:

- *D&B Failure Score* – Likelihood that an organisation will fail in the next 12 months.
- *D&B Delinquency Score* – Likelihood that an organisation will pay its suppliers in a severely delinquent manner in the next 12 months.

D&B models are predictors based on statistical probability and are not guarantees of a particular event. They are designed as a tool to help customers make their own decisions and should be used as part of a balanced and complete assessment relying on the knowledge and expertise of the reader, and where appropriate on other information sources.

Overall Business Risk

Dun & Bradstreet delivers an Overall Business Risk in our D&B Credit solution that uses the best available scores, ratings, and indices to provide a high-level assessment for each company. The overarching Low- to High-Risk Levels are based on the combination of individual risk levels for scores, ratings, and indices that have been assessed for the specific company.

Whilst each market globally will have their own risk scores and ratings, the Overall Business Risk uses data that is available locally to create a globally consistent view that can be used to compare businesses in different countries to one another.

Scores, ratings, and indices that give a perspective on business discontinuation or failure:

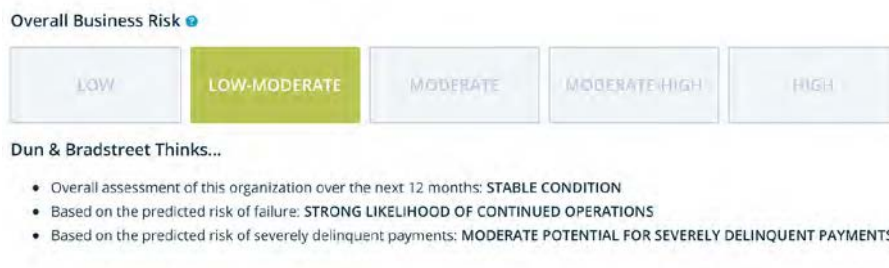
- Failure Score
- Portfolio Comparison from the Viability Rating
- Risk Indicator from the D&B Rating

Scores, ratings, and indices that give a perspective on payment behaviour:

- Delinquency Score
- PAYDEX®
- Triple-A Rating
- 1-2 Trade Experiences
- Financial Strength from the D&B Rating



The overarching Low- to High-Risk Levels are based on the combination of individual risk levels for scores, ratings, and indices that have been assessed for the specific company.”



D&B Failure Score

Identify Risk & Opportunity

The D&B Failure Score predicts the likelihood that an organisation will obtain legal relief from its creditors or cease operations over the next 12 month period. The Failure scorecard also looks for events signalling the onset of failure, such as a meeting of creditors, administrator appointed, bankruptcy, receiver appointed and petition for winding-up.

The Failure Score makes risks visible, allowing our customers to reduce their bad debt and identify profitable opportunities – it also improves objectivity and consistency.

Transforming Information Into Insight

How is the D&B Failure Score calculated?

Factual information is analysed using advanced statistical modelling techniques (including Logistic Regression, Discriminant and Segmentation Analysis) and commercial expertise to identify data characteristics that are common to and most predictive of organisational failure. These characteristics are then weighted by significance to form rules for our scorecards that differentiate between organisations with a high risk of failure to those with a low risk.



How is the D&B Failure Score calculated?

The areas of information used in the D&B Failure Score include:

- *Demographics* – Including business age, location (local or national trading) and line of business incorporating the Economic Index which reflects the risk to different industries when the economy changes.
- *Corporate Linkage* – The size, strength and risk of a group of businesses as a whole is taken into consideration when calculating the Score for an individual business.
- *Principals* – The Principal’s experience and performance of associated businesses.
- *Financial* – Ratios and trends taken from financial accounts. Factors assessed include liquidity, solvency, profitability, debt, late filing and detrimental notes.
- *Trade Experiences collected through the D&B Trade Programme* – D&B customers regularly provide their experiences of the payment habits of businesses they are trading with. Payment trends and percentages of prompt or late payments will affect Scores in addition to comparison with industry payment averages.



Factual information is analysed using advanced statistical modelling techniques (including Logistic Regression, Discriminant and Segmentation Analysis)."

- *Public detrimental information* – Such as County Court Judgements (CCJs), mortgages / charges and the legal pre-failure events (administration, receivership, bankruptcy, etc.)

Expert rules (sometimes referred to as overrides) including the following are also used to calculate the Failure Score:

- *Minimum Data* – To identify trading activity and provide substance for the Score.
- *High Risk Parent* – The high risk of a domestic ultimate parent cascades down through the corporate family tree so that subsidiaries are also marked as high risk.
- *Detrimental Legal Events* – In addition to failure events (for example; meeting of creditors, administrator appointed, bankruptcy, etc.). Detrimental Auditors Reports will also automatically mark the subject organisation as high risk.
- *Possible Fraudulent Activity* – Our Critical Intelligence team identify potential and actual fraudulent businesses and individuals to help protect our customers.
- *Manual Overrides* – Predictive Indicators can be adjusted by authorised experts to reflect non statistical /catastrophic events. For example, news reports from trustworthy sources that indicate a material change to risk can be investigated and changes made where appropriate.

The information used may vary from market to market as D&B scorecards are tailored to local data and legal procedures.

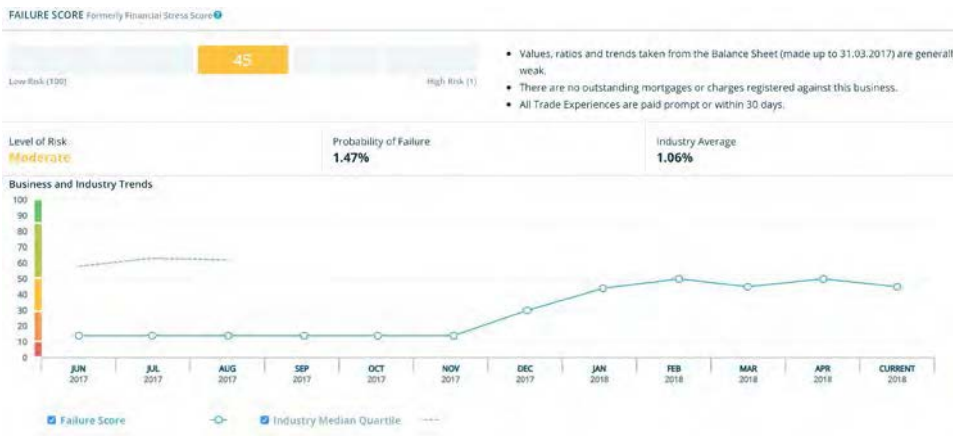
The D&B Failure Score is dynamic, meaning that it is recalculated every time we collect a new piece of information about an organisation, or when information changes. For example, as the age of an organisation increases its risk typically decreases and our Failure Scores will change to reflect this.



The D&B Failure Score is dynamic, meaning that it is recalculated every time we collect a new piece of information about an organisation, or when information changes.”

Interpreting The D&B Failure Score

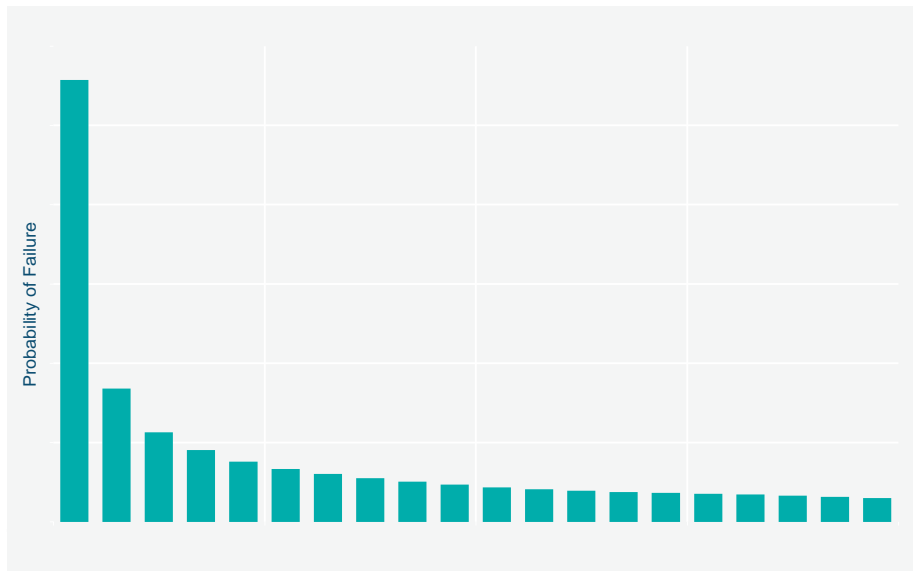
The D&B Failure Score is a relative measure of risk, whereby 1 represents organisations that have the highest probability of failure and 100 the lowest. It shows how an organisation’s risk of failure compares to other organisations within a country.



Probability of Failure

Behind each Failure Score is an associated probability of failure, which rises rapidly at the low end of the Failure Score range (1-10).

The probability of failure allows our customers to set cut-offs for decisions based on their own credit policy and attitude to risk. It can be used to show the expected level of 'bad' applications / accounts for each Failure Score and therefore allow our customers to balance the opportunity of increased sales against the risk of bad debt.



The probability of failure allows our customers to set cut-offs for decisions based on their own credit policy and attitude to risk."

There is a direct correlation between the Failure Score and Risk Indicator:

Please note regarding "Undetermined" or "—" Risk Indicators; this means D&B have been unable to collect or verify certain key data elements, including some that confirm that an organisation exists or is still trading. Another reason this Indicator may be assigned is when D&B learns of an event that has not yet been published through the official channels but will affect the risk assessment for an organisation. For example a business may advise they have ceased trading but not have filed the appropriate documents yet.

Therefore, when an organisation is assigned an "Undetermined" or "-" Rating we recommend that our customers conduct further analysis and investigation before making a decision. Customers can contact D&B to understand the reason for the dash rating, why it was assigned and use that insight to influence their decision.

Failure Score	Risk Indicator	Probability of Failure
86 – 100	1	Minimum Risk
51 – 85	2	Lower than average risk
11 – 50	3	Higher than average risk
1 – 10	4	High risk
--		Insufficient information



The D&B Financial Strength Indicator

The Financial Strength Indicator is determined by the Tangible Net Worth from the latest financial accounts and provides an indication of the strength of the organisation to cope with adverse trading periods or exploit investment opportunities.

Tangible Net Worth is defined as shareholder funds minus any Intangible Assets.

Financial Strength Indicator	Tangible Net Worth (in £ for UK and € for Ireland)	
	From	To
Net Worth		
5A	35,000,000	And above
4A	15,000,000	34,999,999
3A	7,000,000	14,999,999
2A	1,500,000	6,999,999
1A	700,000	1,499,999
A	350,000	699,999
B	200,000	349,999
C	100,000	199,999
D	70,000	99,999
E	35,000	69,999
F	20,000	34,999
G	8,000	19,999
H	0	7,999
Alternate Symbols Used		
N	Negative net worth	
O	Net worth undetermined (accounts unavailable or older than 2 years)	

The Financial Strength Indicator is determined by the Tangible Net Worth from the latest financial accounts and provides an indication of the strength of the organisation to cope with adverse trading periods.”

2A
Financial Strength

- The Financial Strength indicator is determined by the latest Tangible Net Worth.
- Based on latest filed annual accounts.

4
Risk Indicator

- Linked directly to the failure score.
- Dynamically kept up-to-date.

The D&B Rating

Identify Credit-Worthiness Quickly

The D&B Rating provides an indication of credit-worthiness. The rating is made up of two parts:

- *Financial Strength* – Based on Tangible Net Worth from the latest financial accounts.
- *Risk Indicator* – Derived from the D&B Failure Score.

D&B Maximum Credit

Agree Appropriate Terms & Limits

The D&B Maximum Credit shows the total value of goods and / or services the ‘average’ creditor should have outstanding at any one time with an organisation. It is not necessarily the maximum the organisation can afford and helps our customers to agree appropriate terms and limits when extending credit.

The areas of information used to calculate the Maximum Credit are:

- *Organisation Size* – Based on financial information including Turnover and Total Assets when available or demographic information such as the number of employees.
- *Industry* – Based on the Standard Industrial Classification (SIC) code.
- *Risk Factor* – Banded segments of the D&B Failure Score linked to the risk of failure.

D&B Delinquency Score

Manage Your Cash Flow

The D&B Delinquency Score predicts the likelihood that an organisation will pay its bills in a severely delinquent manner over the next 12 months.

The Delinquency Score identifies organisations that are likely to pay late and helps customers manage their cash flow. Having the cash or liquid resources available to meet daily working capital requirements is fundamental to the survival of all organisations.

How is the D&B Delinquency Score Calculated?

Similar to the D&B Failure Score, factual information is analysed using advanced statistical modelling techniques (including Logistic Regression, Discriminant and Segmentation Analysis) and commercial expertise to identify data characteristics that are common to and most predictive of delinquency. These characteristics are then weighted by significance to form rules for our scorecards that differentiate between organisations with a high risk of delinquency to those with a low risk.

The main difference between the calculation of the D&B Failure and Delinquency Scores is that we use different data elements and weightings because we are predicting a different result.

What Information is Used to Calculate the D&B Delinquency Score?

The areas of information used in the D&B Delinquency Score include:

- *Trade Experiences collected through the D&B Trade Programme* – D&B customers regularly provide their experiences of the payment habits of businesses they are trading with. Payment trends and volatility will affect Scores in addition to percentages of prompt or late payments.
- *Public detrimental information* – Such as County Court Judgements (CCJs), mortgages / charges and the legal pre-failure events (administration, receivership, bankruptcy, etc.).
- *Demographics* – Including business age, location, line of business and corporate linkage (especially when there is risk within the group).
- *Corporate Linkage* – The size, strength and risk of a group of businesses as a whole is taken into consideration when calculating the Score for an individual business.
- *Financial* – Ratios and trends taken from annual and interim accounts. Factors assessed include liquidity, solvency, profitability, debt, late filing and detrimental notes.

The D&B Delinquency Score is also dynamic just like the Failure Score. Whenever we collect a new piece of information or information changes the Delinquency Score is recalculated.



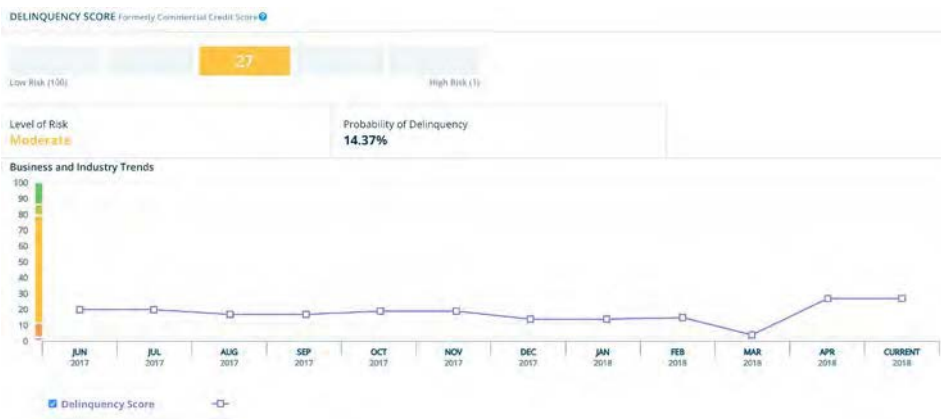
The D&B Delinquency Score predicts the likelihood that an organisation will pay its bills in a severely delinquent manner over the next 12 months.”

Interpreting the D&B Delinquency Score

The D&B Delinquency Score is a relative measure of risk, whereby 1 represents organisations that have the highest probability of delinquency and 100 the lowest. It shows an organisation's relative rank against other organisations within a country by ordering and segmenting that country's database into 100 equal percentiles. Each Delinquency Score represents 1% of organisations within that country with the same risk of delinquency.



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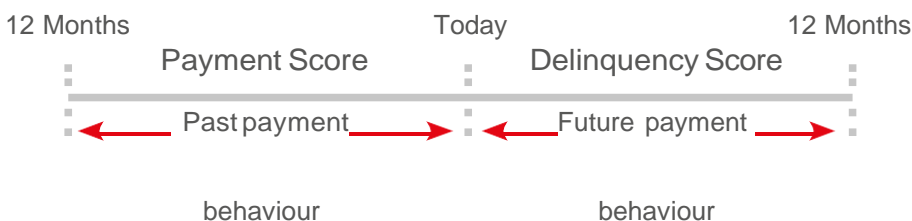
D&B Payment Scores (Paydex)

The D&B Payment Score (or Paydex) is a score that evaluates an organisation's payment history based on trade experiences collected through D&B's Trade Programme i.e. how the organisation has been paying its bills.

A Paydex Score of 80 indicates prompt payments, less than 80 (down to 1) indicates slow payments, and greater than 80 (up to 100) indicates payment before due.



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How Do Our Customers Use D&B's Predictive Indicators?

Monitoring our Predictive Indicators for key changes can provide our customers with critical early warning signs of increasing risk or opportunity. D&B experience shows:

- Over 90% of organisational failures exhibit deteriorations or fluctuations in payment behaviour 3 – 6 months before bankruptcy.
- Organisations with cash flow pressures are likely to pay less important suppliers slower or not at all, so if you are a key supplier you may be one of the last to know of impending financial stress.

However, by proactively monitoring these early warning signs, corrective action can be taken before it's too late.

Combining the power of the Failure Score and the Delinquency Score allows our customers to segment their credit risk profile and focus sales teams, credit management and collections resources where they will be most effective, for example:

	LOW RISK OF FAILURE	HIGH RISK OF FAILURE
HIGH RISK OF DELINQUENCY	<p>Cash Vultures</p> <ul style="list-style-type: none"> - Offer discount for prompt payment - Improve relationship with client to induce prompt payment - Charge interest on late payments - Reset payment terms accordingly 	<p>Let Your Competitors Have Them</p> <ul style="list-style-type: none"> - Increase prices to cover risks/ costs - Reduce exposure – stop orders until paid - Take guarantees - Monitor vigorously - Avoid new clients with this profile - Up-front payments
LOW RISK OF DELINQUENCY	<p>Ideal Customers – Cultivate</p> <ul style="list-style-type: none"> - Push for more sales - Improve relationship with client - Find more like this 	<p>Monitor Closely</p> <ul style="list-style-type: none"> - Reduce exposure – minimise outstanding balances - Monitor vigorously - Take guarantees

To learn more about D&B's Predictive Analytics and how you can make better credit decisions for your business, call: **(0800) 001234** or visit www.dnb.co.uk.



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