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Business Information Industry Association

The BIIA Business Information Forum 2011:

The Future of Trade Credit and the Implications for Credit Information



Dr. Chris Kuehl, Armada Corporate Intelligence and a director of BIIA was a moderator at the recent BIIA Business Information Forum 2011 in Hong Kong. Here is an excerpt of his comments and observations:

The BIIA Forum 2011 brought together key players in the credit information industry, rating agencies, credit insurers, trade finance groups, trade credit grantors, Credit Reference Centers of Central Banks and NGOs such as the International Finance Corporation (World Bank Group). During the course of the conference it was evident that there are three prime issues facing the credit information industry in emerging markets:

The first issue is simply the completeness and reliability of data. This is the constant struggle as those who are in the business of issuing credit are never given all the information they really need to make the most informed decisions. This problem gets

worse and worse when the size of the business is small. The majority of the companies that supply information to the banks and other lenders are determined to update and refresh the information they provide but there are always gaps and there are limits to what can be collected and how quickly.

The businesses that are most adversely affected by this lack of detailed information are the smaller and newer ones. They struggle to get the attention of the banks and lenders under the best of circumstances but when there is insufficient data to make decisions that struggle is made even more overwhelming. In recent years the industry has become far better at ferreting out the information needed by those that issue credit but there is a cost to that search and that presents yet another challenge. How much will lenders invest in learning about small players when the same effort can be directed at the larger companies that potentially yield far more profit?

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Second issue is information pooling between lenders and credit grantors: The International Finance Corporation (World Bank Group) and other international organizations take the position that data should be as widely available as possible and they advocate complete and open sharing – no silos.

This is a grand approach and they are correct in asserting that such a strategy is the best for the development of economies the world over as well as for advancing the prospects of small and medium sized business. The problem is that the majority of the institutions who collect, process and analyze data are trying to make a living from this. **Information has been called the new gold – it is the lifeblood of organizations** which need credit to grow as without information the credit issuers will not do much. If information is gold how can those that have it be expected to give it away? The costs of mining for information have grown at the same time that more and more data is available all the time. The sophistication that allows this expansion is not cheap and therefore groups and companies are likely to hoard data as opposed to sharing it without consideration of compensation.

The third issue is that of privacy. There are many in the business community who oppose the whole notion of sharing their data, not just consumer advocates. The business person does not want his or her financial affairs made public and there is resistance to all kinds of data gathering.

The problem is that business decisions can't be effectively made without access to that data. The question is whether a company can be expected to forfeit a certain amount of the privacy that is due an individual by dint of the fact that they are engaged in the public sphere (a business and its owner are registered by law and thus in the public domain). Privacy advocates assert that the **information could be used by** competitors and may expose them to exploitation.



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However, the gatherers of this information point out that collective data is awfully hard to exploit in this way and they further point out that denying information to an institution that is considering a financing option is a good way to be denied that assistance.

[Editorial comment: Information industry experts and even some central bankers feel that not enough is being done to improve transparency in credit transactions. They oppose proposals by regulators that a business owner should be given the right of consent when his or her data is being passed on to credit bureaus. That goes against the entire notion of transparency. Governments need to do more in the area of mandatory disclosure, compliance and enforcement. Borrowers need to be required to provide accurate and reliable data]

STRATEGIC BUSINESS IMPACT – The credit industry depends on data – lots and lots of it.

It is the heart of risk mitigation. The safest course of action for a lender is to do no lending at all but that is hardly a business model. Taking the opposite approach and lending to anyone who asks is not much of a plan either – as we saw during the period of the “ninja” loans (no income, no job or assets). The lender wants to weigh the risks of not being paid against the risk of losing that customer to somebody who can offer them a better deal. The changes in the business of information will have a truly fundamental impact on the way that all business is conducted.



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