

# BIIA NEWSLETTER

Market Intelligence • Industry Developments & Trends • Information Technology • Regulatory Issues • User Community

For Members Only - May 2011

## OBSERVATIONS FROM THE BIIA FORUM 2011

### Users, Regulators and Industry Executives Debated Key Issues



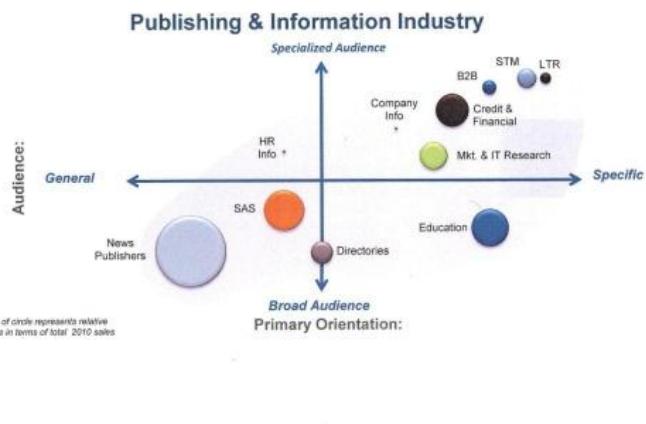
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2011

### Industry Ecosystem



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We reported in our April 1 – 2011 Issue on the first session of the BIIA Forum 2011: “**The State of Information**”

Steve Goodall, Executive Vice President of Outsell Inc. had the following message for our members: “Develop Platforms, Not Products; Invest in Web and Customer Analytics; Help Make Money, Save Money, or Mitigate Risk; Perform at Industry Benchmarks or Better.”



The following is a special attachment to the BIIA Newsletter May 1 – 2011 Issue: “**The Future of Trade Credit and Implications on Information**” and the open discussion forum on the “**SME Access to Finance Issue**”

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The BIIA Forum 2011 was held in Hong Kong in March in conjunction with Incisive Media's Online-Information Asia-Pacific Conference & Exhibit. Both events provided BIIA members with an opportunity to exchange views with industry experts, users and peers. The BIIA Forum 2011 once again accentuated the point that an intensive interaction between users and industry members is essential to better understand future information needs.

We highlighted **Session I, "The State of Information"**, which was moderated by our Chairman David Worlock, in the BIIA Newsletter April 1 – 2011. Commentary and presentations are posted on: [BIIA News](#)

### The Future of Trade Credit and the Implications on Information Services



This session was moderated by our board member **Chris Kuehl, Armada Corporate Intelligence**. BIIA invited its member **Jerome Peze, President of Tinubu Square, France** to cover the problems of the credit insurance industry during the credit crisis. He stressed the fact that, notwithstanding the high loss ratios, the credit insurance industry did not require a bail-out. He pointed out that the credit insurance industry was becoming global. It is expanding from its traditional base in Europe and he sees a large potential in almost untouched markets. There was lots of room for value creation and a strong potential for differentiation. However this will not be accomplished without the availability of accurate, reliable and timely information. [To view the presentation click on the link](#)

The second speaker representing the user community was **Kuresh Sarjan who is Managing Director & Head of Asia Trade and Supply Chain Finance at Bank of America Merrill Lynch** responsible for the firm's Asia Pacific Global Trade & Supply Chain Finance line of business. His message to the audience was that notwithstanding the pains of the global financial crisis the trend to more open credit terms and less on secured transactions continues.

BIIA had asked Dun & Bradstreet to explain how it responded to the needs of users post financial crisis.

**Dr. Anthony Scuffignano, VP of D&B's Global Data Strategy**, stated that the financial crisis was a crystallizing force in articulating customer needs. He acknowledged there was a greater need for richer and deeper data, improvement in timeliness and access. The crisis accentuated the fact the industry had to respond to changing demand, characteristics of 'what is a business' with greater agility than before. During a very animated discussion with users, Dr. Scuffignano outlined what is being done to respond to the new credit management and credit information challenges post global financial crisis. [To view the presentation click on the link](#)



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### The SME Dilemma: Eliminating Information Asymmetries – A Challenge and Opportunity for the Business Information Industry

*The afternoon session* of the BIIA Forum 2011 was entirely devoted to this very relevant and timely issue and focused specifically on core issues identified in the IFC report<sup>1</sup> "**Scaling-Up SME Access to Financial Services in the Developing World**". The report was prepared for the G20 finance agenda, and was presented at the G20 Summit in November 2010. Participants discussed the causes of information asymmetries and discussed potential solutions. The opportunities for the business information industry would be on multiple fronts:

- a. Building of reliable data sources on SMEs to strengthen financial infrastructure and the ability for all credit grantors to extend credit to SME
- b. Promote the pooling of trade information
- c. Assist the SMEs to better manage finances, trade credit and accounts receivables
- d. Work with the IFC and local government institutions to build reliable corporate, small business and collateral registers
- e. Get involved in financial literacy education and training of SMEs



The session was moderated by industry veteran **Christine Christian, Managing Director of D&B Australasia**. In her introductory remarks, Ms. Christian stated that access to credit for small business is constrained by a number of factors including the availability of wholesale funds for lenders, prudential requirements and government regulation. However, even in markets where these factors are benign the flow of credit to SMEs remains a challenge.

This signals that the problem is more than just one of supply. The inability of many lenders to adequately assess and price risk is as great a problem as the size of the lending pool. At the heart of this challenge lie information asymmetries. Bridging the gap in information between lenders and borrowers is essential to improving the flow of credit to small business.

While most countries could do with improvements in this area it is developing markets that are most confronted by the challenges of inadequate financial infrastructure and the resultant lack of meaningful credit information.

Fortunately, there are a number of solutions. The development of credit bureaus, both public and private, to facilitate the sharing of information is one solution. Moving away from a reliance on bank data to other sources of insight, such as trade and telecommunications credit data is another. There are many more: For instance the lack of transparency, absence of disclosure and compliance, as well as inadequate public sector information sources.

Organizations such as the Asia Pacific Economic Cooperation forum, the International Finance Corporation (IFC World Bank Group) and the International Monetary Fund are all examining ways in which financial infrastructure can be improved in developing economies to reduce information asymmetries.

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BIIA had *invited Tony Lythgoe, from the IFC (World Bank Group)* to provide an overview of the key findings from recent IFC work on the impact of information asymmetries on SME finance in developing countries, particularly the report titled '*Scaling-Up SME Access to Financial Services in the Developing World*' released in October last year.



The IFC's primary objective is *Financial Infrastructure Development* to improve access to finance for individuals and businesses. At the root of the problem is the fact that financial sector penetration is only 5% to 25% vs. 70% to 90% in developed markets. Banks in emerging markets tend to focus on large commercial and top retail clients. Mr. Lythgoe gave an overview of the current work of the IFC:

Post financial crisis the IFC has been very active in creating a broader public awareness of credit reporting and to work on global standards. He stated that the paradigm was shifting from a financial services only perspective to a systems point of perspective, embracing the concepts of full file reporting, financial inclusion of Micro and SME, the prevention of over indebtedness and responsible lending.

The IFC is also deeply involved in the *G20 SME Access to Finance Initiative*. Tony Lythgoe provided an update of the status of this important initiative and credit reporting case studies which were selected as part of the 'stock taking' exercise by the IFC. Four of the case studies were presented at the BIIA Forum 2011: SME Corp. Malaysia; Bank Negara, Malaysia, Credit Bureau (CBS) Singapore, SMERA India.

Suggested action and policy recommendations to the G20 can be summarized as follows: '*Establishing a solid financial infrastructure should be a priority in the financial development agenda of most developing countries.*' *The aim should be to develop a comprehensive credit reporting system that covers both personal and commercial credit information .... positive as well as negative .... from all relevant players.*'

**What are the implications for credit reporting?** There will be plenty of opportunities for information providers.

[To access Tony Lythgoe's presentation click on this link](#)



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### The SME Dilemma: Eliminating Asymmetries in Information with Information Sharing

To provide further input to the open forum discussion the audience had the benefit to listen to **William Lim, Executive Director of the Singapore Credit Bureau** presenting two excellent role models, the SME credit bureaus of Malaysia and Singapore:

In essence two progressive nations are way ahead in terms of embracing the recommendations of the IFC. The objectives of the Malaysian & Singapore role models are to enhance SMEs access to financing and to address the negative perception of SMEs being high risk borrowers.

Both role models embrace the concepts of information sharing, full file and use of non-traditional data (Utilities etc.), public sector data, trade information and a blended credit score based on consumer and business data. In the case of Singapore the data from the Consumer Credit Bureau can only be used for the blended score if the lender is a member of the Consumer Credit Bureau. It is hoped that these restrictions will be removed in the foreseeable future.



For further details go to: <http://www.smeccb.com/default.jsp> and Credit Bureau Singapore

### The SME Dilemma: Eliminating Asymmetries in Information through SME Ratings



Parag Patki, Managing Director of SMERA offered a different approach. SMERA was initially set up as a rating agency to provide non-regulatory ratings on SMEs. In the meantime SMERA is registered under the Securities and Exchange Board of India (Credit Rating Agencies) Regulations, 1999. The initial challenges in setting up SMERA were the reluctance of lenders to provide default data, the lack of Information availability in the public domain and the submission of unreliable and insufficient data by SMEs.

SMERA concentrates on building SME industry clusters and benchmarks which are used in the rating process. It uses statistical modeling, expert rules, business analysis and industry trends to arrive at a particular rating. Its rating model focuses on financial factors and other qualitative factors based on due diligence and site visits.

Since its foundation in 2005 it has been able to create a credible experience base. To date SMERA has issued 9,000 SME ratings. Its ratings go beyond financials by considering parameters specific to a geographic location. As a next step SMERA considers the creation of a trade information exchange with suppliers of SMEs.

[To access the SMERA presentation click on the link](#)

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### Open Discussion of the SME Access to Finance Issue

Following the presentations of the IFC, the Malaysian / Singaporean and SMERA role models **Ms. Christian** opened the discussion by asking the members of the audience what they see as the main obstacle - whether it is a regulatory obstacle, industry obstacle or some other type - to reducing information asymmetries.

Specifically she called on a number of experts indicated below to take an active role in the debate due to the complexity of the issues on hand. We thank these individuals for their lively contributions.

- Dr. Chris Kuehl, Armada Corporate Intelligence; NACM's Chief Economist
- Xiaolai Wang, Credit Reference Center of the Peoples Bank of China
- Vicky Han, Sinotrust
- Tony Lythgoe, IFC (World Bank Group)
- Jerome Peze, Tinubu Square
- Dr. Anthony Scriggiano, D&B
- William Lim, Credit Bureau Singapore
- Parag Patki, SMERA
- Rory Matthews, Veda Advantage

#### Issue: SME Characteristics

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- **Very Diverse in Nature**
- **Difficult to Identify Clear Success Factors**
- **Owners Mingle Business and Personal Finances**
- **Independent Analysis (Ratings) Not Available**
- **High Cost of Traditional Risk Assessment Methods Make Lending to SMEs too Costly**
- **SMEs are More Vulnerable to Credit Losses**

World Bank Report on SME Environment 2002  
World Bank Definition of SMEs: Small and Medium Size Enterprises with less than 250 Employees

#### SME: Vulnerability to Credit Losses

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The complexity of the matter is illustrated by the slides on the left. Firstly SMEs seem to have characteristics which make credit assessment costly and difficult at best.

The answer to that lies in creating greater transparency – information pooling seems to be a good solution, but privacy advocates and regulators tend to disagree. They want to protect the privacy of the owner of a business notwithstanding the fact that he or she mingles business and personal finance.

Furthermore an owner of a business is registered as such in public sector registers and thus is therefore already in the public domain. Privacy advocates generally tend to ignore that fact. Rather than expanding the concept of disclosure many governments are working on removing such requirements for SMEs. The credit granting community is not very happy about this development.

The last line of the first slide seems to point to a core issue why SMEs need access finance but are unable to obtain access to it. SMEs seem to be ill equipped to deal with the credit assessment of clients and dealing with accounts receivable management in a timely manner, while financial institutions and suppliers demand timely payments.

The information industry needs to gear up to assist SMEs in managing credit and help them to become financially literate.

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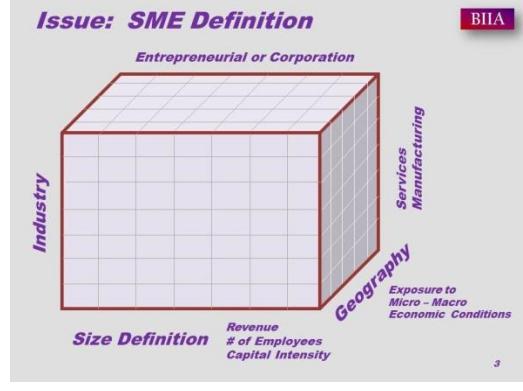
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## OBSERVATIONS FROM THE BIIA FORUM 2011

### Open Discussion of the SME Access to Finance Issue (continued)



#### **Another stumbling block is the definition of an SME.**

Defining an SME as a company that has less than 250 employees is too broad. The IFC paper '**Scaling-Up SME Access to Financial Services in the Developing World**' is making an effort to segment by Micro, formal SMEs (registered as companies) and informal SMEs.

However more work needs to be done to better segment the SME population. The IFC indicated that more will be done in this regard, however the business information industry needs to get involved.

**Last but not least there is the problem with Public Sector Information.** Generally speaking underdeveloped infrastructures (public registers) and negative attitudes towards mandatory and voluntary disclosures are almost insurmountable obstacles to objective credit granting and creating value added information solutions.

To overcome these obstacles it will require a concerted effort of institutions like the IFC (World Bank Group), the credit granting community (through their associations), regional and local economic development organizations and industry association such as BIIA.

**With such issues floating around the room, the conference lit up with a really vibrant debate,** sourced from members all around the Asia-Pacific region, on a subject which at once focused regional attention and yet was symptomatic of the state of ePublishing and Information Solutions in a global networked society as a whole.

In a topic devoted to eliminating information asymmetries it quickly became clear that for many participants business information was becoming increasingly controversial. There were major issues concerning government-held information in the region, symptomatic both of culture and control, and of privacy and data protection legislation. Everyone recognized the role of business information services in creating value, and the utility of those services in creating credit referencing services which enabled the region's huge and growing trade. Yet there was also an air of discontent: current content was becoming commoditized, and in particular, it was becoming much more difficult to provide reliable and verifiable information about small and medium-sized enterprises.

"How well I recall this debate in the European Union in the 1990s, and how frustrating it was that nothing could ever be done at any level to alleviate it"



"I settled in for an interesting but fruitless discussion. Which was not how things turned out. Instead real energy was devoted to ways of tackling this."

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### Open Discussion of the SME Access to Finance Issue (continued)

The problems were not confined to banks and finance houses: clearly identifying SMEs (or even defining them) was a problem for all traders in the market, especially as SMEs are generally seen as the engine of growth in any economic recovery.

One party, in which I (David Worlock) found myself a dissident, sought remediation through re-regulation. Information control was the answer, and this had to be accompanied by better benchmarking to define what information should always be available on differently defined enterprises at different sizes. Enforcement of disclosure was the stumbling block.

Meanwhile on the other side, the counter argument that the internet was an economy unto itself, where every trader left an impression, seemed to me to have growing attraction. The implication here was that increasingly, as we move about the network buying and selling things, we should want to have our efforts noted and



scored, so that the favorable or otherwise impression of our activities on everyone else could be known. This would be a competitive activity, and risk management value would migrate to those who were best at mining the network's information yields.

All of this hung in our minds on the trip back to our respective countries. We have now reached the stage in a networked society where the source of all information about participants in that society lies increasingly in the network itself. We now have the tools, in data mining and entity extraction, to locate and interrogate both structured and unstructured content. Then think of the advances in workflow modeling noted here from the most major players like Lexis and Thomson Reuters. I (Worlock) do not seriously doubt any longer that the answers to most information services development questions are already known, because the content needed to answer them already lies, though under-exposed, in the network. ***Asia-Pacific region remains undoubtedly the most stimulating part of the world if one wants to think about Next Steps.*** The editor thanks David Worlock for his contribution to this Newsletter

<sup>1</sup> International Finance Corporation (World Bank Group) "[Scaling-Up SME Access to Financial Services in the Developing World](#)"

<sup>2</sup> General Principles for Credit Reporting [www.worldbank.org/paymentsystems](http://www.worldbank.org/paymentsystems)

*"I like to know whether the panelists do believe the solution to fixing these obstacles is country specific or requires a broader response?"*



*"What would be the nature of that response?"*

*"What then should the business information industry's next step be in moving this issue forward?"*

Christine Christian



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