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400,000 SMALL BUSINESSES MISSING OUT ON MAINSTREAM FINANCE

Launch of unique tool to free up the small business credit market

Nearly 400,000 small businesses are missing out on access to mainstream finance largely because credit providers are unable to adequately assess and price small business risk.

According to a recent report by Dun & Bradstreet, *'Giving Small Business Credit – Finding New Opportunities in Australia's Most Dynamic Credit Market'*, of the more than one million unincorporated businesses in Australia, more than 650,000 have no major financial obligation and nearly 400,000 would immediately qualify for finance with a risk profile ranging from minimal to low.

The report represents the first time any detailed analysis of the credit profile of unincorporated entities has been conducted and provides an insight into the opportunity that exists for lenders pursuing the small business market.

According to Gareth Jones, CEO of Dun & Bradstreet, lenders have historically been hesitant about extending credit to small businesses as many of them are unincorporated entities that have little or no commercial credit history.

"Previously, it has been nearly impossible to appropriately assess small business risk as small businesses are often indistinguishable from their owner – the commercial and consumer entity are the same," Mr Jones said.

"A holistic picture of small business risk can only be obtained by acquiring an understanding of an entity's commercial and consumer profile."

For this reason, Dun & Bradstreet has created a unique *'Small Business Risk Score' (SBRS)* that brings together information from its extensive database on both a commercial enterprise and its owner in order to appropriately assess the risk of an unincorporated entity.

The SBRS is the only score of its type in Australia and predicts the likelihood of a small business entering bankruptcy over a 12 month period.

The score considers a number of key factors – including, business-to-business trade payment data, the time since the last consumer default, and the volume of credit enquiries.

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Small businesses rated as minimal to average risk by the SBRS have a significantly higher chance of paying their bills and a substantially reduced likelihood of failure. On the other hand, businesses with a severe risk rating from the SBRS can either be identified before credit is extended or monitored throughout an existing relationship.

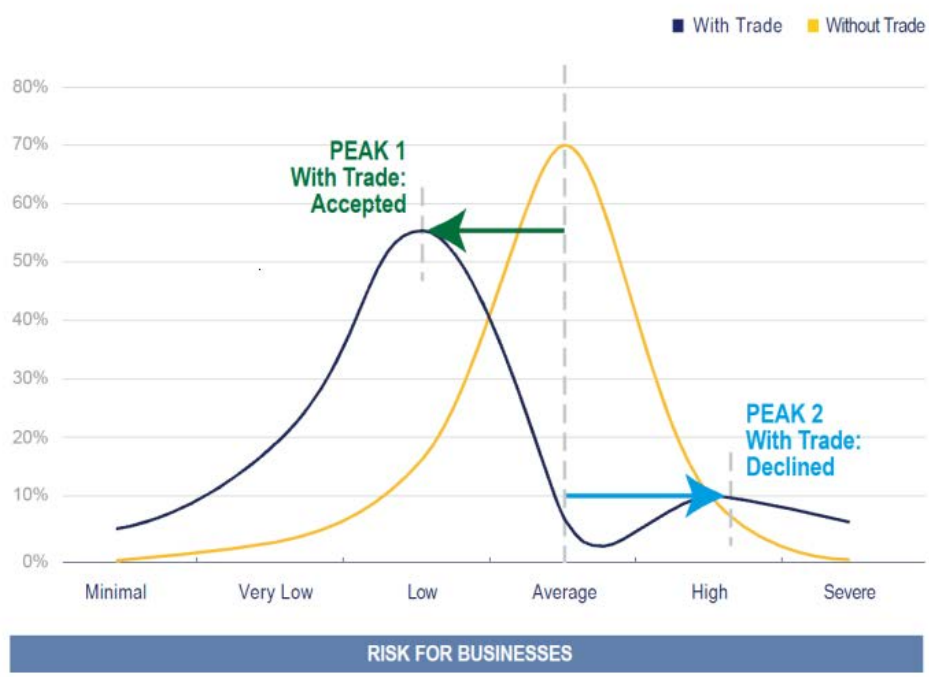
An analysis of Australian small businesses using the SBRS finds that:

- Small businesses rated as a 'severe' risk of entering bankruptcy are nearly 2.5 times more likely to pay their bills in a delinquent manner, while those rated as 'very high' risk are nearly twice as likely to be delinquent;

- Small businesses rated as a 'severe' risk are 12 times more likely to pay their bills more than 120 days late; and

- Proprietors of a small business that have defaulted on a credit obligation in the last two to three months are twice as likely to see their business enter bankruptcy.

These findings, however, also work in the reverse with small businesses classified as a 'good' risk more likely to meet their commitments and remain financially viable.



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"The real benefit here is as much about identifying new opportunities as it is about identifying which firms are high risk," Mr Jones said.

"The SBRS gives credit providers the ability to engage with a previously untapped market of credit worthy, and potentially credit hungry, small businesses. This represents a significant opportunity for credit providers and the broader Australian economy."

According to Peter Strong, Executive Director of the Council of Small Business Organisations of Australia (COSBOA), the more information we have on small businesses, the better.

"One obstacle to small business owners wishing to obtain credit is the perception that all small businesses are a risk. However, the more information that is available on small businesses, the more this fear can be addressed and the facts can be established," Mr Strong said.

"Changing the attitude of lenders will go a long way to freeing up credit."

"I do think that the SBRS will benefit the SME sector as our suppliers and financiers will likely feel more confident of their success rate when applying for credit. This in turn will pave the way for more cost-effective and small business-friendly contracts and processes."

Further information on the Small Business Risk Score (SBRS) is attached and below and is also available from the Dun & Bradstreet White Paper, *'Giving Small Business Credit'* available at www.dnb.com.au

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Dun & Bradstreet Small Business Risk Score

Description

The Small Business Risk Score (SBRS) is the only score of its type in Australia.

It is based on both Consumer and Commercial information to provide a complete representation of an unincorporated entity.

D&B Small Business Risk Scoring System predicts the likelihood of a credit active unincorporated entity, entering Bankruptcy over the next 12 months.

D&B defines:

- Credit Active as: The unincorporated business is registered for GST
- Unincorporated Entity as: Strictly Sole Traders, Partnerships and Family Partnerships
- Bankruptcy as: Debt Agreements, Sequestration Orders, Personal Insolvency Agreements and Bankruptcy

Scores are driven by advanced statistical modelling techniques derived from analysis of D&B's extensive commercial and consumer database.

Features

1. Small Business Risk Score (1001 - 1702)

The 1001 to 1702 score is the raw output of the Small Business Risk Scoring Model. 1001 represents the highest risk and 1702 represents the lowest risk of bankruptcy. Each Score (within the range 1001-1702) has a related probability of bankruptcy within a 12-month period.

2. Key Influencing Factors (KIF)

The Key Influencing Factors (KIF) are the drivers that influence the Small Business Risk Score for an unincorporated entity. There are a total of seven KIFs, four being business related KIFs and three being consumer related KIFs.

Business KIFs includes Trade Payment, Collection & Demographic information. Consumer KIFs includes Adverse Info, Enquiries & Demographic data.

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Factors

Data elements used in the model to assess the likelihood of Bankruptcy include:

- Trade payment information unique to D&B;
- D&B collections data;
- Geographical Consumer Risk Index;
- Geographical Business Risk Index;
- Businesses demographic information;
- Public record information on Business' owners; and
- Directorship information.

Performance

The following table provides the probability of bankruptcy for each score range together with an associated recommendation.

Score Range	Relative Risk Level	Probability of Bankruptcy	D&B Recommendation
1001-1256	Severe	10.12%	Cash on Delivery (C.O.D)
1257-1373	Very High	3.20%	Review Terms and monitor closely
1374-1439	High	0.70%	Review Terms and monitor
1440-1462	Moderate	0.37%	Extend Terms and monitor
1463-1487	Average	0.24%	Extend Terms
1488.-1508	Low	0.18%	Extend Terms
1509-1541	Very Low	0.12%	Extend Terms to encourage growth
1542-1702	Minimal	0.07%	Extend Terms to encourage growth