

### Improving Credit Assessment and Information for SMEs in Europe to Facilitate Access to Finance

European Commission Workshop  
November 27<sup>th</sup>, 2013  
Brussels, Belgium

# Credit Infrastructure

Capital Markets

Bank and Trade Credit

Consumer Credit

Risk Assessment  
Method

Credit Rating

Commercial Credit  
Information  
Credit Scoring  
Risk Management

Consumer Credit  
Information  
Credit Scoring

Regulatory  
Aspects

Mandatory  
Disclosure  
  
Ratings  
Regulations

Mandatory Disclosure  
Industry standards  
based on best  
demonstrated  
practices  
Code of Conducts  
Credit Scoring  
Regulated by Basel II/III  
at the lending level

Consumer Data  
Regulations  
Privacy Regulations  
Code of Conducts

Business  
Universe  
% of Companies

Large

Medium

Small

Micro

Percent of Enterprises in the EU: Source: EU

# Credit Infrastructure

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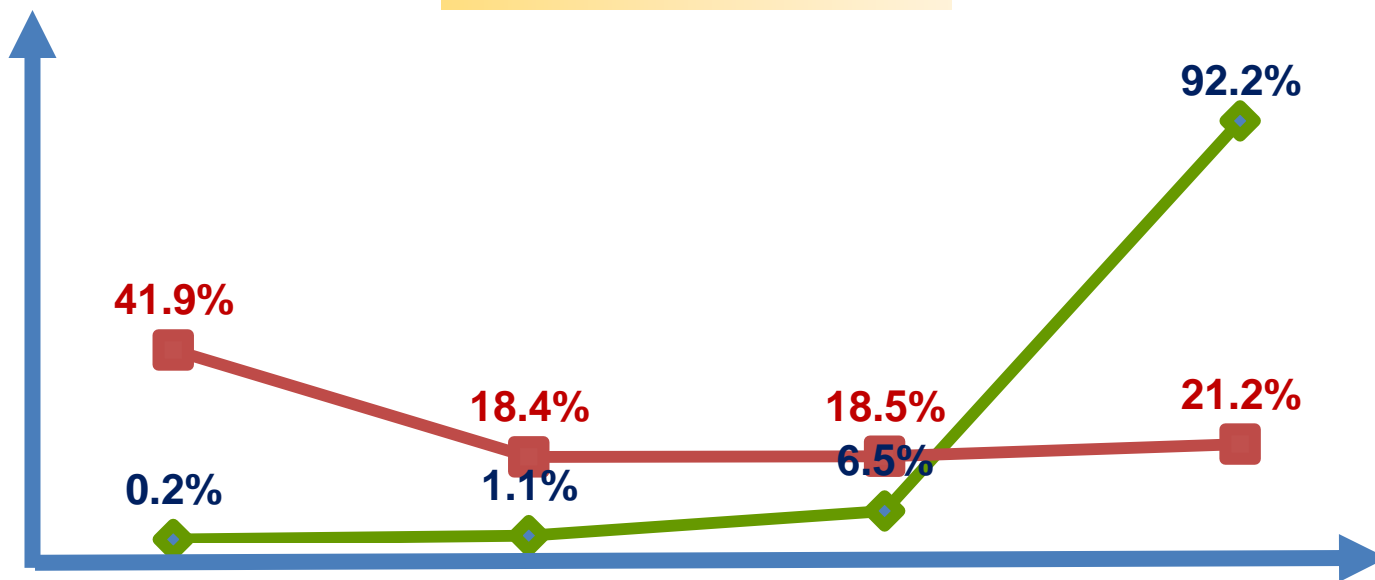
Risk Assessment Method

Credit Rating

Commercial Credit Information  
Credit Scoring  
Risk Management

Consumer Credit Information  
Credit Scoring

Gross Value Added at Risk  
EURO in Percent



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**Key Issues**

**Data on the  
Business**

- Lack of Mandatory Disclosure
- Limited Data Sharing

**Data on the  
Owner**

- Limited Access
- Privacy Laws

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Potential Answers

Data on the Business

- Broaden Mandatory Disclosure
- Enhance Data Sharing on Credit Performance

Data on the Owner

- Credit Performance

Blended Credit Score

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# World Bank Taskforce on Credit Information Standards

- General Principles for Credit Reporting (September 2011)
  1. Data: relevant, accurate, timely and sufficient data – positive & negative - collected on a consistent basis
  2. Data Processing : Security and Efficiency
  3. Governance & Risk Management
  4. Legal and Regulatory Environment
  5. Cross-Border Dataflow



## World Bank International Committee for Credit Reporting (ICCR)

- Identified Credit Reporting on Small and Medium Size Enterprises as a Key area Requiring further Development to effectively Reduce Information Asymmetries – Improving SME's Access to Finance
  - ICCR identified major impediments
  - ICCR identified nine possible actions for authorities and other policy makers to address the identified failures



**General Principles for Credit Reporting**

**International Committee on Credit Reporting**



# **Facilitating SME Financing through Improved Credit Reporting**

- **Impediments to Lending / Access to Finance**
  - **Lack of Transparency – No Adequate Disclosure**
  - **Lack of Credit History**
  - **Owners Mingle Business and Personal Finances**
  - **Diverse in Nature**
  - **Difficult to Identify Clear Success Factors**
  - **Lack of Financial Data – Consistent Reporting**
  - **Weak Financial Management – Vulnerable to Credit Losses**
  - **Asymmetries in Information Increases Cost of Credit Assessment**
  - **Independent Analysis (Rating) not Available and too Costly**



**BIIA**

***International Committee on Credit Reporting***

# Facilitating SME Financing through Improved Credit Reporting

## Potential Actions:

- **Broaden Data Sharing:** To include all relevant parties granting credit and institutions collecting data on SMEs
- **Increase mandatory disclosure**
- **Public sector to raise quantity and quality of data collected on SMEs**
- **Public sector to assist in the identification of SMEs**
- **Public Sector: Access to data, reuse of data**
- **Comprehensive use of consumer and commercial data (blended score)**
- **Regulatory oversight**
- **Cross border data transfer: Harmonization of standards**
- **Improve transparency of credit reporting**



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*International Committee on Credit Reporting*



# Improving Credit Assessment and Information for SMEs in Europe to Facilitate Access to Finance

## Guidelines for Financial Model Validation and Management (Credit Scoring)

- Have clearly stated credit policies
- Prepare suitable data example
- Ensure model segmentation transparency
- Choose the right model type
- Validate model effectiveness
- Defend decision strategies
- Monitor overrides
- Document thoroughly



Should be part of best demonstrated practices at the credit granting / lending level

# BIIA

## Business Information Industry Association

### BIIA Full Members



### BIIA Associate Members

