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NEWSLETTER OF A NATIONAL CREDIT BUREAU

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POWER OF DATA TO ENHANCE PROFITABILITY IN SME LENDING

Lending to small businesses, often referred to as small and medium enterprises (SMEs), has been a keen interest among financial institutions. However, there are many key challenges, including the ability to manage credit risk, restrictions on the amount of capital available and the need to get the best return.

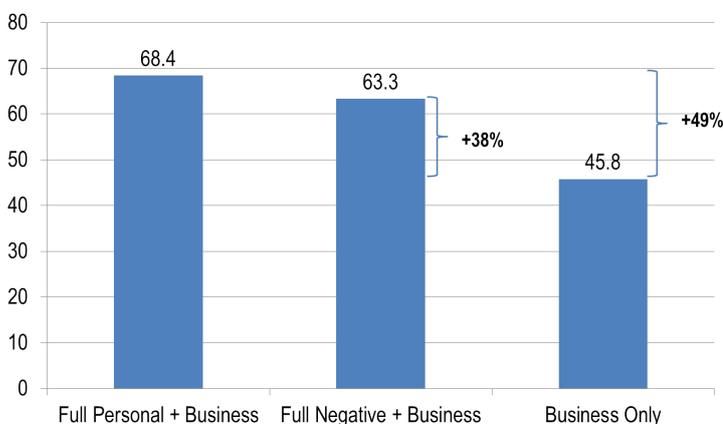
Although the financial behaviour of SMEs is complex, lenders can still minimise risks through decision analytics. The use of internal customer performance data, business and consumer external credit data, allied with sound credit risk management practices will support lenders with the challenges associated with identifying and lending to these groups.

USE OF PERSONAL DATA IN COMMERCIAL DECISIONS

Many entrepreneurs are using personal financial products for business needs to raise their start-up capital. This enables lenders to look beyond a typical SME portfolio and assess financial information of the registered directors.

Personal data is predictive of credit risk and helps to create a more comprehensive picture of the entity's risk profile and financial history. In particular, consumer data adds significantly to business data for new relationships such as start-ups or secondary banking, due to the lack of predictive business data. It also proves invaluable when looking predicting business failure. The graph illustrates the predictive power of adding consumer credit data to small business lending models.

Scorecard Predictiveness



The Gini coefficient measures the ability of a scorecard to discriminate between good and bad customers (range 0-100%) - a large Gini indicates strong discrimination.
Source: Experian Decision Analytics

COMMERCIAL DATA SOURCES

From a business data perspective, there is currently a large amount of data available, particularly around limited companies and derogatory information. This, combined with the relative success or failure of directors with other organisations, provides a fair view of the risk associated with a business.

As part of the process for gaining access to full data on the proprietors and directors, organisations will now have to supply fuller data on commercial obligations for data sharing. This in itself will lead to more powerful data being available on businesses; particularly those larger SMEs where consumer data may not be available, due to compliance purposes, or where a customer has multiple banking relationships.

BUREAU DATA SERVICES

Bureau data can be used across the customer lifecycle, from opening an account, to managing the customer through to carrying out triage/collections activity. Bureau data is typically available as:

- Real Time Service – carrying out searches as required, typically within the originations process, but also recently being extended into the collections sphere to provide updated view of the customers.
- Batch Bureau – provision of a snapshot of the customer at a particular time to aid the management of the customer.
- Bureau Events – provision of information about any key changes in the customer so that appropriate actions can be carried out. This could be removal of shadow, pre-approved limits through to delinquency and collections activity.

USE OF CURRENT ACCOUNT AND CASH FLOW DATA

The current account is primarily a money transfer product (providing debit and credit facilities) that also enables overdraft. It has often been overlooked as a source of predictive data in credit risk models for lending products such as credit cards or loans.

The incorporation of internal data sources such as current account and cash flow data adds considerable predictive power to SME decision models. The current account transaction data is analysed and incorporated with a product-based performance indicator to create a customer risk grade. This significantly enhances the granularity and discrimination possible in credit risk management for new lending and customer management.

Incorporating cash flow data to assess whether short-term financial commitments can be met by the business is paramount, taking into consideration the high number of insolvencies. Negative cash flow without a bounce back into net credit when expected can prompt serious questions to be asked about the viability of a business.

CONCLUSION

Bringing all product data together for a customer provides a more robust and predictive measure of risk than looking at a single account. Adding bureau in to this assessment as well will provide the most predictive measure of risk. Lenders can take advantage of these enhanced data to improve profitability with SME lending. As confidence in the data and decision-making increases, there will undoubtedly be opportunities to increase automated decision making thresholds. This will deliver operational efficiency however the real prize will be the subsequent capital benefits that come from recognition as Retail SME under Basel II.

This article is adapted from Small Business Lending – The Power of Data in the Decision Making Process by Experian. For more information, please email Lily at lily@dpgroup.com.sg.



HELPING YOUTHS AVOID THE CREDIT TRAP

Remember the thrill of filling your favourite piggy bank when you were young? A dollar a day does not go far but with some determination, it can be stretched. For many people, the piggy bank is the first step to learn about money and savings.

As you grow older, the world gets complicated. You are faced with increasing needs and a vast number of financial products to manage them. Personal finance is no longer about depositing coins into piggy banks. Without proper financial literacy skills, the dangers will start to creep in.

FUN LEARNING WITH FACEBOOK GAME

To stimulate learning for youths, DP Credit Bureau (DPCB) has developed a Facebook game with students from Singapore Polytechnic's School of Digital Media and Infocomm Technology. The game titled "Credit My Life" aims to make good money management both fun and comprehensible for youths. Users will learn how to manage their money and credit cards to meet their desired lifestyle needs.



Snapshot of Credit My Life on Facebook

Failure to pay after borrowing will incur credit card debt that lowers the DP-Delphi Score – a credit score that determines the creditworthiness of a user. The game also introduces personas of various age groups so that youths are exposed to and can better anticipate different financial situations in their adult life.

Mr Lim De Yang, lecturer at Singapore Polytechnic, said that the students have developed a playing environment, which will be attractive to the target age group and at the same time cultivate good credit habits. It is indeed a game developed for the young and by the young.

Interested youths can start playing the beta version of Credit My Life on Facebook at <http://apps.facebook.com/creditmylife/>. The sophistication of the game will be changed over time to make it more applicable and challenging to the community.

FEATURE SPECIAL: REACHING FOR THE GOAL

No dream is too big, success is within reach. To the students at Singapore Polytechnic, the short stint with DP Credit Bureau to develop an educational game has equipped them with essential financial literacy skills and brought them closer to their dreams.



(From L-R) Elaine Oh - EO, Jia Hao - JH, Jeremy - JE, Jing Wen - JW

Before the project, what does personal finance mean to you?

- EO: Saving what I have left after spending each week.
JH: Saving money. I usually know when to spend and when not to spend!
JE: Managing our allowance to last throughout the week.
JW: Saving part of my allowance while controlling my spending.

Now that the project is over, what have you learnt?

- JW: Before this, we only know we need to save but not why. The game helped us to anticipate the financial burdens when we reach different stages of our lives.
JH: Yes, financial literacy is so broad. At our age, most of us know nothing about education debt, bank loans and credit responsibilities, resulting in financial problems. As such, financial literacy is extremely important. No matter what age group we belong to, we need to be educated early and start managing our finances properly.

What are some goals you have set and how do you plan to work towards them?

- EO: I hope to become a successful graphic designer and earn loads of money! My plan is to start saving a large part of my income to get a college degree in design and at the same time, build up my portfolio.
JH: My friends and I are planning to go overseas, probably a neighbouring country due to budget constraint. We are working as interns right now to save money for the trip!
JE: I am also saving for our graduation trip, which is really the best reward after 3 years of hard work. For this, my friends and I have started to earn and save money at the beginning of the year to avoid taking hard-earned money from our parents.

Wow, these are fantastic dreams with sound financial planning, I am sure all of you can reach them. And finally, what is one money advice you will give to your peers in reaching their goals?

- EO: Work hard for it! Do not give up even if there are obstacles along the way. Know that obstacles are just a part of your journey to success. This is really the same when we are saving for a big-ticketed item.
JH: Do your budget diligently. If you can record how much you spend while saving a fixed amount of money, you will reach your goals fast!
JE: Plan it out and save up before getting anything. Make sure you only buy what you need and save for what you want.
JW: Focus and never give up!

MONEY SMART FACEBOOK WAY

DP Credit Bureau's National Consumer Credit Education Outreach Programme continues for a fourth year. To keep your financial health fit, come join us at our workshops. You can find more information on the workshops, as well as pick up useful financial tips and tools on our social media channels at www.facebook.com/consumercredit360 and www.twitter.com/dpcredit30.



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