

# Business Resilience

Supporting Micro, Small to Medium Enterprises (MSMEs)

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## Introduction

Many governments stepped in to assist Micro, Small to Medium Enterprises (MSMEs) weather the impact of the global pandemic. At the same time, banks are also impacted by MSMEs' rising risk profiles and the resulting increase in delinquency rates. As a result, banks are adopting new approaches to identifying at-risk MSMEs and implementing flexible strategies to support the sector. Despite the short-term challenges, we believe that by working together, and bringing you a powerful combination of data and tools, we can help you and your MSME customers quickly recover.

## Situation analysis

### Current challenges

#### EFFECTS ON MSMEs

- MSMEs exposed to two main impacts;
  - Pandemic shock – short term contraction in expenditure due to reduced consumer appetites following lockdown.
  - Economic shock – Structural changes to consumer demand and and rise in unemployment.
- Despite Government stimulus, many MSMEs will fail with banking losses and provisions impacted..

#### IMPACTS ON LIQUIDITY

- Firms focused on the service, hospitality and tourism sectors face the greatest liquidity challenge.
- MSMEs are particularly vulnerable to reduced cash flow - typically have less than a one month "cash buffer".
- MSMEs risk profiles and delinquency rates may make gaining access to credit harder.

#### LACK OF ACCURATE INSIGHT

- Historical data doesn't reflect the effects of the pandemic and on-going changes in the characteristics of the MSME population.
- The performance of existing predictive models will decline – impacting decisioning, customer treatments and supporting processes.
- Banks need to leverage new and existing ways of identifying and supporting at-risk MSMEs.

### Impact



CUSTOMER



FINANCIAL



OPERATIONAL

## Implications and actions

Monitoring is critical to protecting both customers and loan portfolios

- Increased MSME credit risk creates multiple potential impacts – reduced account related fees, changes to interest revenue, credit losses and higher expenses.
- Identification of at-risk MSME businesses through stress testing is vital - however many banks' stress testing capabilities lack scale and are based on pre-pandemic risk calibrations.
- Pre-Covid macro-economic data and scenarios are of limited value.
- Credit providers need to develop their own risk scenarios and supporting strategies by leveraging all available data sources.

Identifying early indicators of potential default requires access to multiple data types

- Where available, traditional bureaux data provides a more detailed understanding of MSME gearing ratios.
- Additional traditional data sources - including management accounts, debtors books and so on - helps inform cash flow projections.
- Transactional data relating to both the MSME and its business owners enables analysis of individualised profit and loss statements and supporting cash flow, to assess an MSME's ongoing sustainability while under stress conditions.
- Alternative data, acquired from the internet enables new variables to be identified, clustered and correlated against probability of default, business failure and fraud.

Assessing future MSME resilience will require fresh insight, speed and agility

- Against the backdrop of government stimulus, the role of the banks will be to identify future MSME resilience.
- The three types of data complement each other to form a unique and accelerated view of risk.
- Implementing a holistic approach across data access, insight extraction and blending insights further accelerates an organisation's ability to make fast and accurate decisions.

### How we can support you



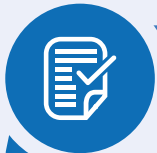
#### RAPIDLY ASSESS FUTURE RESILIENCE BY LEVEARGING DATA AND BLENDED ANALYTICS. INITIAL AND CONTINUING ASSESSMENT USING A UNIQUELY TRIANGULATED VIEW OF RISK.

- ✓ Access traditional data insights via bureau.
- ✓ Unlock transactional data insights from in-house and open banking data.
- ✓ Extract insights from web data with specialist technology.
- ✓ Uncover further insights by blending data variables.



#### ACCELERATED MSME DATA-TO-INSIGHT-TO-ACTION PATHWAYS

- ✓ Automated processes for the deployment of models and strategies within operational processes.
- ✓ Improved originations efficiency and reduce costs through digital channels automation.
- ✓ Enhanced credit-worthiness assessments for new and existing MSMEs.



#### IMPROVED RISK MODELLING, CREDIT POLICY FORMULATION AND STRATEGY DESIGN

- ✓ Re-develop models to reduce performance risks.
- ✓ Implement credit policy changes.
- ✓ Enhanced in-life customer risk modelling through advanced affordability analysis.



#### ALIGNMENT OF PRE-DELINQUENCY, COLLECTIONS AND REGULATORY ANALYTICS

- ✓ Early Warning Systems that support pre-delinquency customer engagement to reduce flows into operational collections.
- ✓ Optimisation of IFRS9 stage allocations through accurate identification of 'Significant Increase in Credit Risk' (SICR).

### Get in touch

If you'd like to discuss any aspect of this report or find out more about how we can support you, please get in touch with your Experian account manager today.



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