Small businesses are under the most economic pressure from second COVID-wave

An Experian NL White Paper
November 2020

In July 2020 we published a whitepaper about the impact of COVID-19 on the financial situation of businesses. Unfortunately, the COVID-19 situation is far from solved yet and the world is suffering from a new coronavirus wave.

Government organisations are still, or again, offering financial support and payment risks and fraud risks are continuously increasing.

What have the past months done for the credit risk of businesses?

In this Quarterly Update we provide you with new insights.

The authors

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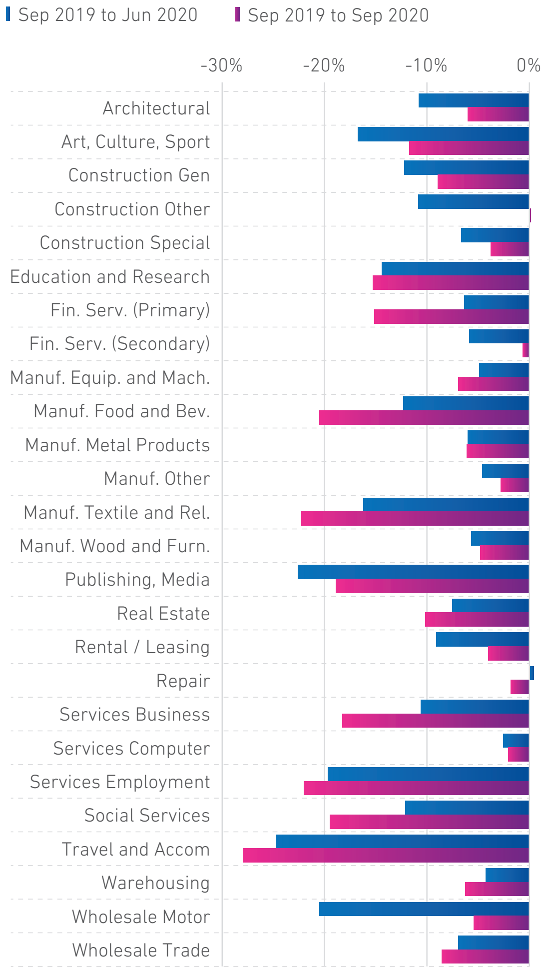
Further negative impact on credit scores

Over the period 30 September 2019 to 30 June 2020 we already saw a significant decrease in credit scores. In September 2020 the persistent COVID crisis has had further negative impact on the credit scores on a sample of 5.000 SME's, as stated in the figure below. This increase is mainly due to the impact the virus is having on business conditions in the Netherlands. The impact is greatest in the Travel and Accommodation, Wholesale Motor, Leisure and some Services and Manufacturing sectors.

Over the summer, conditions and sentiment improved for some sectors as lockdown restrictions were eased. This applies mainly for the Construction and Automotive sector. A slight recovery is observed here. This improvement is however offset against further negative situations in other sectors. Therefore, the overall credit risk outlook remains poor. In the reduction of financial support, an increase in payment defaults and bankruptcies can be expected over the coming quarters.

Impact of COVID-19 on Credit Scores by Sector



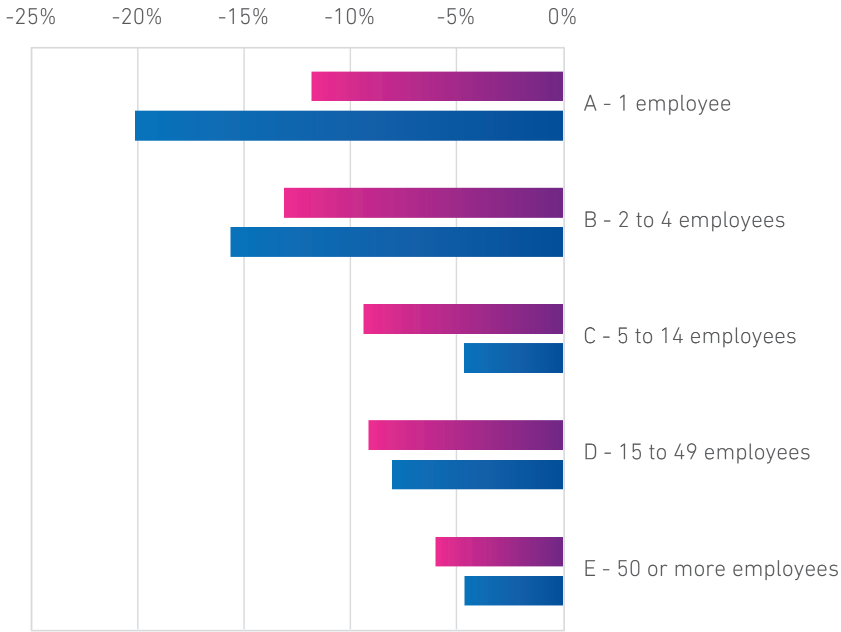
Small companies remain under severe pressure

The initial impact of the coronavirus is more evident in smaller companies, as shown in the figure below. With companies with 4 or less employees showing the biggest increase in risk over the period September 2019 to June 2020. In September 2020 these smaller companies remain under severe pressure as the credit risk outlook continues to deteriorate. These companies are less likely to survive extended disruptions to favourable business conditions.

The credit risk outlook for companies with 5 or more employees stabilized over the quarter ending 30 September 2020, most likely due to the easing of lockdown restrictions and the NOW financial support program launched by the Dutch Government. However, the second corona wave might throw a spanner in the works for the coming period.

Impact of COVID-19 on Credit Scores by Size

Sep 2019 to Sep 2020 | Sep 2019 to Jun 2020



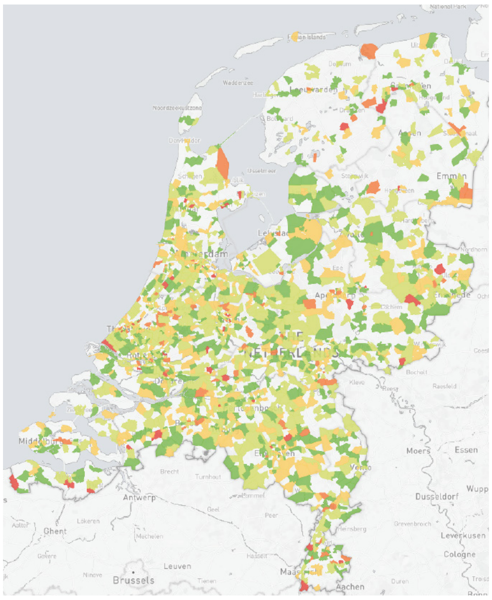
Business solvency continues to deteriorate

The heatmaps in figure 3 show the impact of the COVID-19 virus on credit scores from September 2019 to September 2020. We still see a drastic negative shift in credit scores amongst businesses across the Netherland, compared to same period last year. We expect this outlook to deteriorate from a business solvency perspective over the coming quarters as benefits of payment holidays and support programs fade.

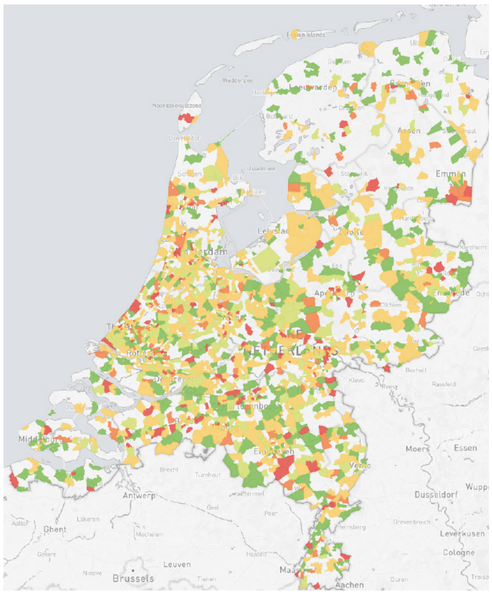
Sectors not impacted by the pandemic are being affected via non-payment contagion and negative sentiment.

As a quick end to the crisis is unlikely, the financial reserves of more companies will be exhausted in the coming months, resulting in more payment defaults and insolvencies.

Average SME Credit Score – Sep 2019



Average SME Credit Score – Sep 2020



A fast-changing environment asks for real-time data

The figures show that the current COVID-19 situation is continuing to have a negative impact on credit risk scores. As a result, fraud and credit risk continue to increase as the need for funding becomes more urgent. Historical data does not provide us with up to date information on the financials of businesses.

The fast-changing environment we are in asks for the use of real-time data to limit the risk for financial organisations. In response to this, Experian launched its innovative, web data-based business application risk index solution Web Data Insights (WDI) at the start of 2020. WDI uses real-time (not historical) data. Then machine learning and advanced data science are deployed to generate entirely new predictive data variables.

This results in models that enable lending organisations, including retailers and telcos, to add a COVID-relevant new dimension to credit risk management. Ultimately, limiting the risk for lending organisations and ensuring a healthy future economy for SME's.

The solution has already proven its success for several clients. Both telco and financial services are using Web Data Insights for various objectives, depending on their risk strategies. It has led to better decisions in organisations with the same level of defaults. Others want to maintain their acceptance rates with more control in bad debt. A 30-50% improvement in rejection rate and 20-30% in default rate has been observed.

About the authors

Gerrit Bekker
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Gerrit has more than 20 years of experience in analytics and data science in the insurance, banking and credit referencing industries including analytical modelling covering multiple disciplines and industries, data architecture, data warehousing and data management, as well as the development and management of analytical platforms and systems.

Herman Peeters
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Herman has nearly 30 years' sector-specific expertise working for multi-national banking, automotive and financial services companies. His specialist areas include the full spectrum of risk, collections management and fraud prevention systems - from the application of emerging technologies and biometrics to transactional and payments fraud, application fraud, online, mobile and card-not-present fraud. Herman's track record includes the design, build, launch and delivery of top-performing digital on-boarding, fraud and collections models for numerous high-profile companies and global brands.

If you want to know more about how Experian can help you address your credit risk challenges and reduce loan defaults while also decreasing reject rates, do not hesitate to reach out to us.

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21-NL-00040