



Fresh Perspective on Data for Credit Risk Management

CRF Forum- March 2025
San Diego, CA

POWERING BUSINESS DECISIONS



TODAYS SESSION

A fresh perspective on Credit Risk Management -

Harnessing, Aggregating and turning data into Credit Risk Decisions

We will cover the following Key points in today's session:

Managing Big Data

Internal Data

External Data

Crowd Source Data

How to Make the Data Meaningful



BIG DATA CAN BE OVERWHELMING

Interesting Facts about data:

To download all the information from the internet today, it would take 181 million years

Every 2 days we create as much information as we did from the beginning of time to 2003

According to PragmaticWorks, global businesses lose about 20-35% of their operating revenue from poor-quality data.

Less than 0.5% of all data we create is ever used or analyzed. " *University of Texas @ Dallas" Data science Program*"

In 2024, the digital universe houses about 1.09 billion websites. Every day sees the creation of 252,000 new sites," Forbes advisor, Top Website statistics for 2024"

Data from the US Census Bureau shows a record-breaking 5,481,437 new businesses were started in 2023. On average, there are 4.7 million businesses started every year, in the US.

DATA ANALYSIS

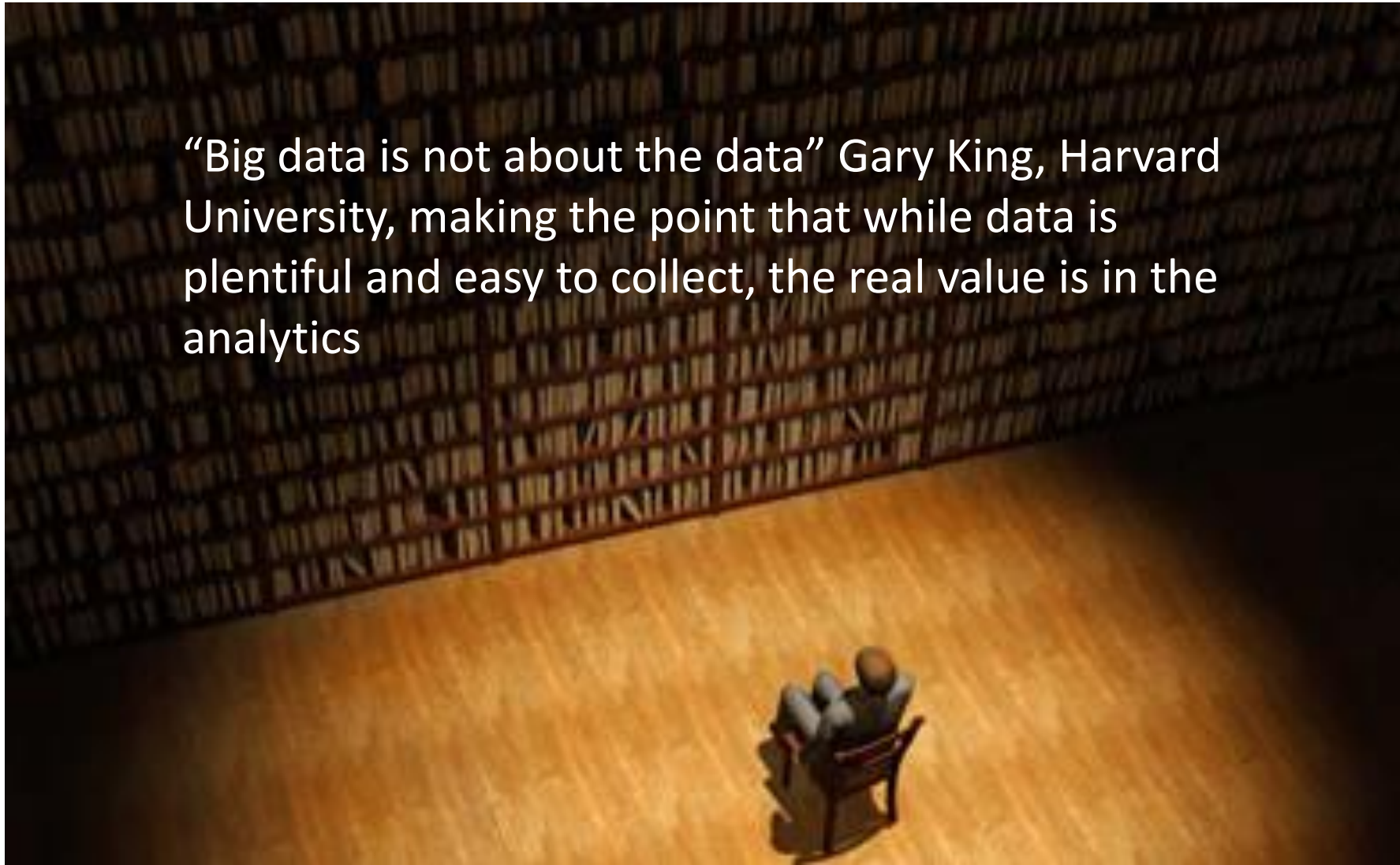


A widely quoted statistic that has not changed much is that most companies only use 12% of the data they collect. That means that 88% of the data goes unused. "Forrester, survey of 2014"

This is believed to still be the case with few exceptions in high-tech organizations such as Amazon, Uber, IBM, etc.

IT IS WHAT YOU DO WITH THE DATA

“Big data is not about the data” Gary King, Harvard University, making the point that while data is plentiful and easy to collect, the real value is in the analytics



INTERNAL DATA



Existing Customer-
Payment Behavior



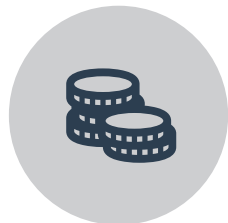
Payment Trend
Analysis- 90 day , 12
months, 2 years?



Profitability - Credit
Risk vs. Profit
Potential



Percentage of
Sales/Revenue



Private Financial
Statements



Customer Visit
evaluation

EXTERNAL DATA

New Customer – Credit References/Credit Application

Credit Bureau Data: (Consider having more than 1)

- No. Of Years in Business
- confirmation of legal name
- understanding of corporate hierarchy, family tree
- Principal/Ownership information
- Liens, Judgements, public filings

Financial Statements if public company

Google location search

Website URL validation search

Press Releases

News Sources



CROWDSOURCE DATA

Customer Sentiment:- Yelp, Google, Better Business Bureau



Social Media information- youtube, instagram, Facebook, Trustpilot



Employee sentiment- Glassdoor, Indeed, Gallup



SOCIAL MEDIA CROWDSOURCE DATA

Pros

Cost effective – usually FREE

Real-time or very current

Credit group or credit chat platforms are industry specific



Cons

Data quality can be inaccurate or biased

Brand sentiment comments require some research in order to verify or cross-check

Ethical privacy issues may come up if employees or principal information is disclosed



MORE CROWDSOURCING

Most of us are familiar with GoFundMe for charitable crowdfunding but there are similar sites for **small and mid -size businesses** to raise funds.

Regulation Crowdfunding overseen by the SEC:

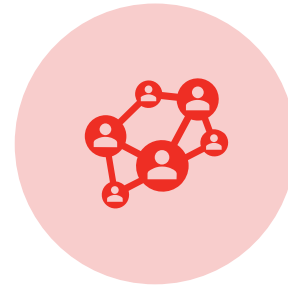
- require all transactions under Regulation Crowdfunding to take place online through an SEC-registered intermediary, either a broker-dealer or a funding portal
- Permit a company to raise a maximum aggregate amount of \$5 million through crowdfunding offerings in a 12-month period.
- An issuer that sold securities in a Regulation Crowdfunding offering is required to provide an annual report on Form C-AR no later than 120 days after the end of its fiscal year. <https://www.sec.gov/resources-small-businesses>
- Approved crowdfunding sites are regulated and listed by FINRA- [FINRA.org/about/entities-we-regulate/](https://www.finra.org/about/entities-we-regulate/)

Crowdfunding sites for information on start ups- **Kickstarter, Runner-up, Indiegogo**, there are more but these are the most recognized overall

CREDIT GROUP CROWDSOURCE



Credit Group Payment Experience- current payment data that is industry specific. Probably the best example of crowdsource data before the name crowdsource existed.



If you are in a company with diversified product lines, belonging to several credit groups is the norm and considered a best practice



Credit group Alerts- look for credit groups with a comprehensive alert or communication system that allows for sharing real time data in an anti-trust compliant environment.



Chats- Similar to above, Best in class credit groups will have a chat function or feature that allows for interactions for a new credit application, NSF check or fraud alert .

WHAT TO DO ?

With ALL this data?

- Create a checklist of data elements that are an absolute must for a credit decision or approval
- Have an " **if- then**" framework for your analyst to follow. If certain elements are missing or not positive, take the following actions.....
- Create various decision trees based on your credit policy:
- Decisions can be approve/deny/more information needed

OR

Request security instruments, or CIA (Cash in Advance) or Credit card required, or lower credit limit, etc.



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WHAT TO DO CONT.



Create customized credit scoring models or use an existing third-party model



Decide what you want the credit scoring model to predict



That will dictate how many data elements from your external, internal and crowdsource data you want to include.



B2B Credit scores are not as cut and dry as consumer scores.



" One score may indicate the chance of a company going bankrupt within the next two years while another provides the probability of going 90 days past due in the next 12 months " Virtual Credit Manager" April, 2024

AUTOMATED CREDIT DECISION

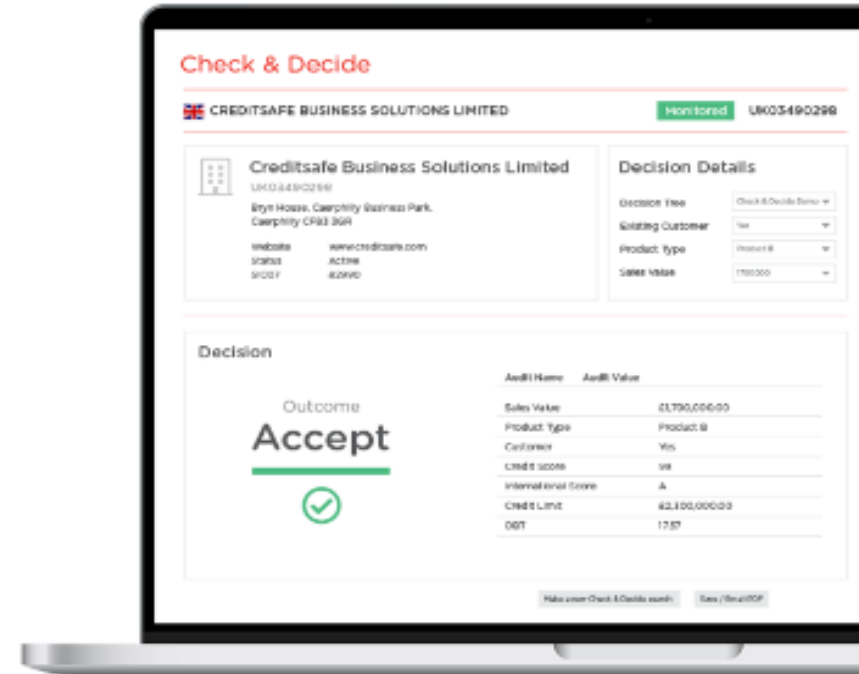
Example of an Automated Decision Tree-

In Creditsafe world it's called Check & Decide

You have several options based on different credit policy scenarios,

Or

one standard model and any exceptions are reviewed by credit analysts





Reporting and interpreting data is the big ROI-
Dashboards and Visuals are the preference

Reporting on productivity

- # Of accounts reviewed
- #. Of Orders released
- #. Of new accounts

Reporting on A/R Insights

Payment Trend Analysis- Days beyond terms, month over month, quarter over quarter, etc.

Payment performance focused on the top 10 or 20 customers

Risk classification of entire A/R portfolio





QUESTIONS ?????

Thank you for your time.

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