

Commercial information trends and Capabilities

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Agenda



- Business failure and payment delinquency dynamics
- Mortgage crisis and small business owners
- Business failure performance results
- Deploying “the grid” for your risk issues
- Commercial information for insurance modeling

GOING OUT OF
BUSINESS
SALE

Business failure/default and payment delinquency dynamics



Small Business Owners and the Mortgage Crisis

National payment delinquency trends

Stabilizing, but companies still cautious with cash

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- Risk score show slight increases across all regions
- DBT (days beyond terms) stabilizing but remains elevated vs. prior year, up 14%
- Slight increase in dollars delinquent
- Within aging categories more dollars going 91+

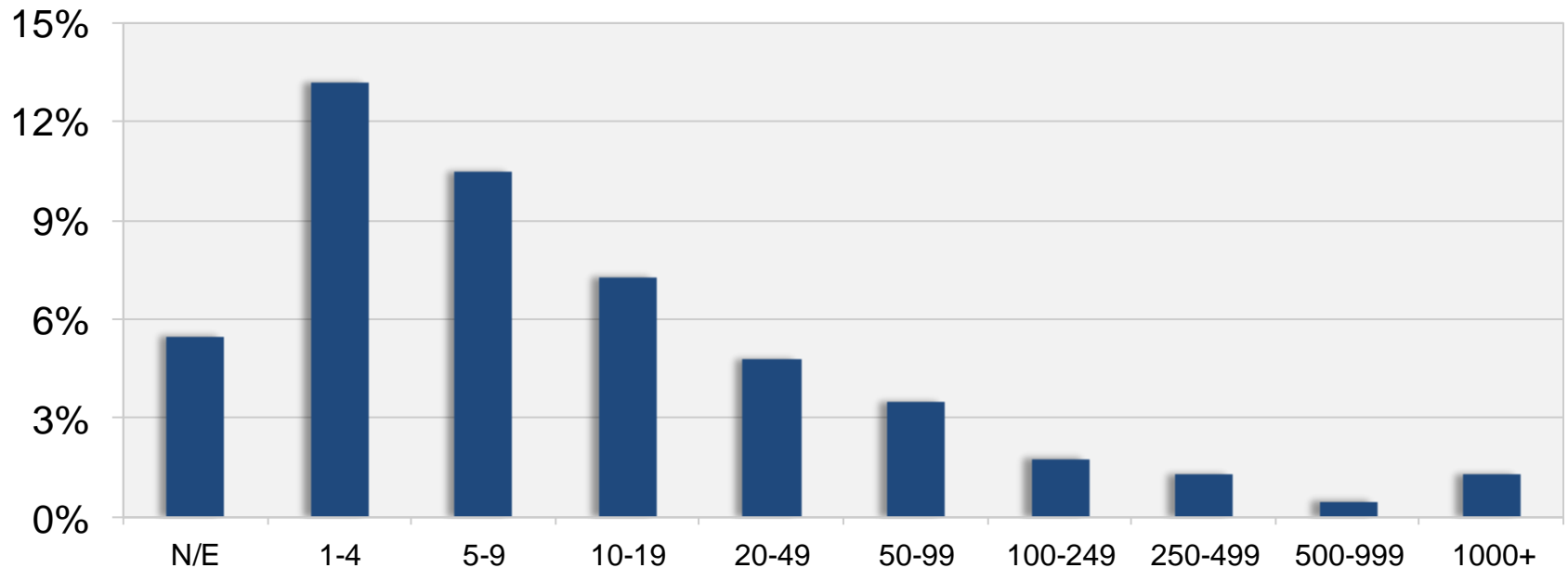
Business benchmark trends

Key categories all declining

Category	Q4-11	Change*	Trend
Risk score	60.54	0.7%	↑
DBT	7.3	1.6%	↓
% Delinquent	10.3%	1.4%	↓
\$ 91+	6.5%	1.7%	↓

Size of business – percentage of payments 91+

Payment delinquency is best sign of small business stress



- Larger businesses manage cash flow but do not stretch payments out beyond 91+
- Smaller businesses have highest rate of severe delinquency as they wait for payment

Model: Financial Stability Risk ScoreSM addresses bankruptcy and severe stress

Less than 10% of business “deaths” file for bankruptcy

What causes a business failure?

- Bankruptcy filings represent a small, but not insignificant segment
- Business stress and ultimately failure driven by competition, economics, and business practices
- Unexpected personal health or natural/man made disasters can end a business, difficult to predict



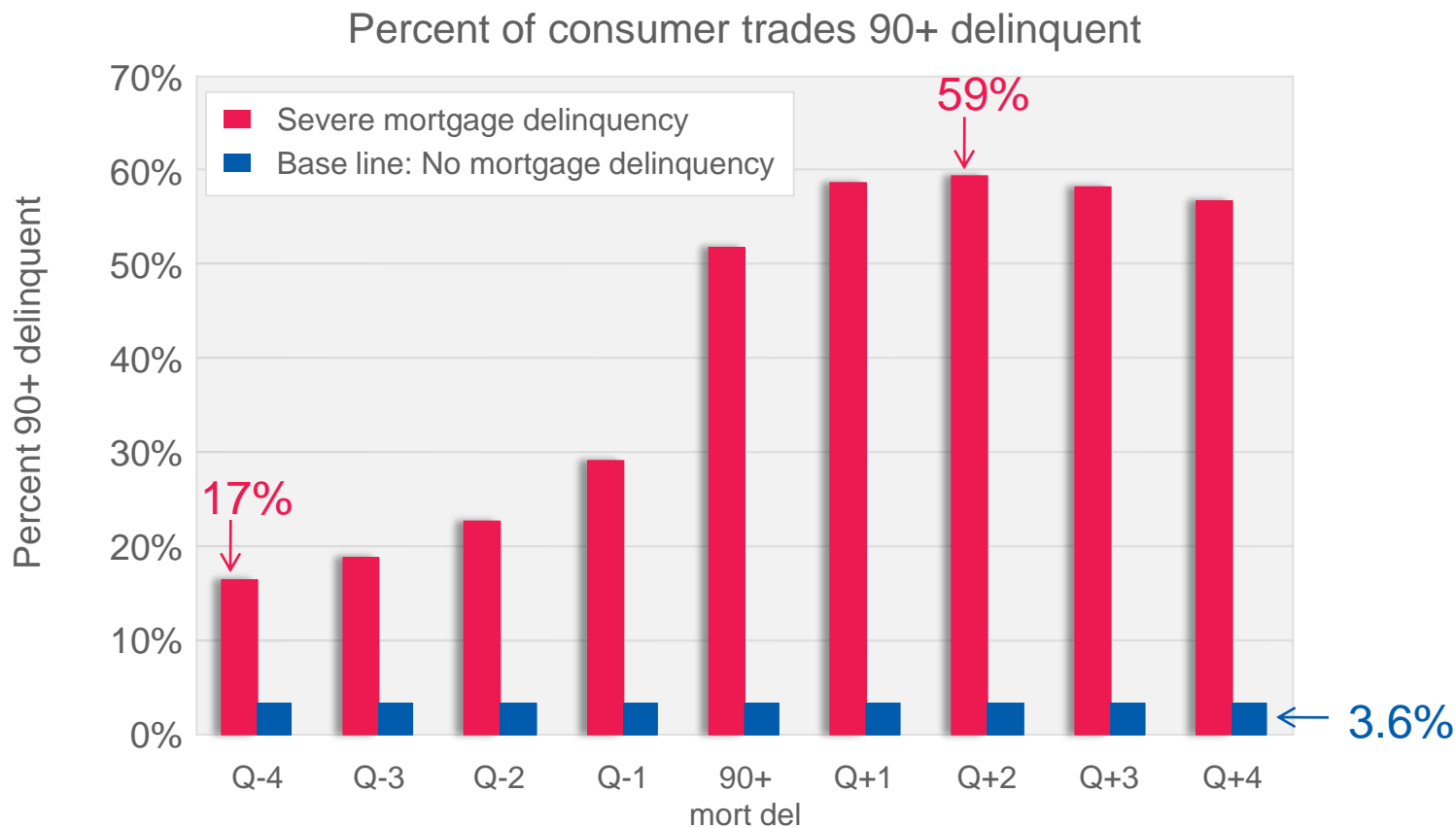
Starts and closures of employer firms, 2005 to 2009

Category	2005	2006	2007	2008	2009
Births	644,122	670,058	668,395	626,400	552,600
Closures	565,745	599,333	592,410	663,900	660,900
Bankruptcies	39,201	19,695	28,322	43,546	60,837

SOURCE: U.S. Department of Commerce, Census Bureau

Small business owners with mortgage problems

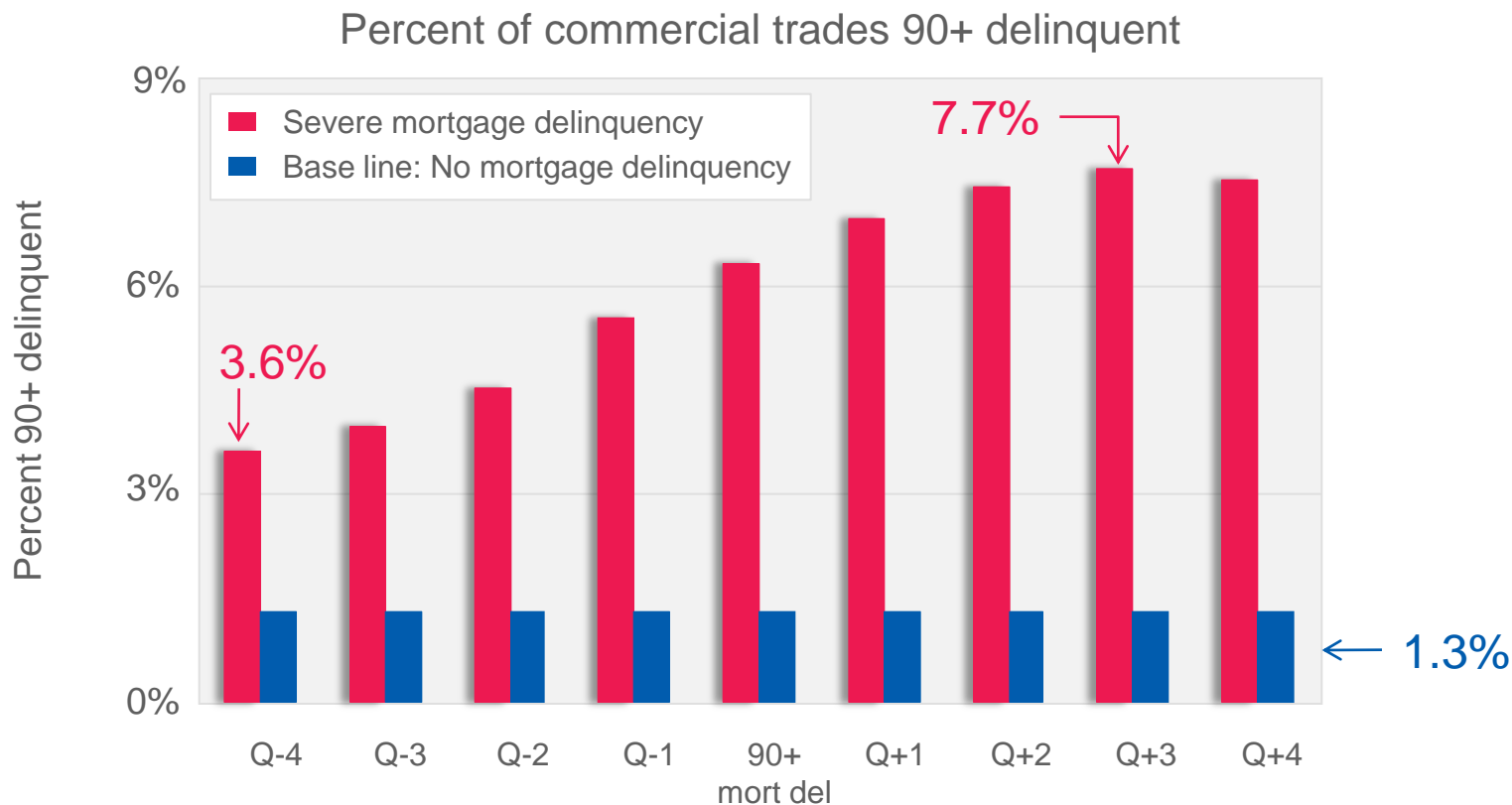
Consumer obligation delinquency trends



- Significant increase in consumer credit delinquency, from 17% to 59%

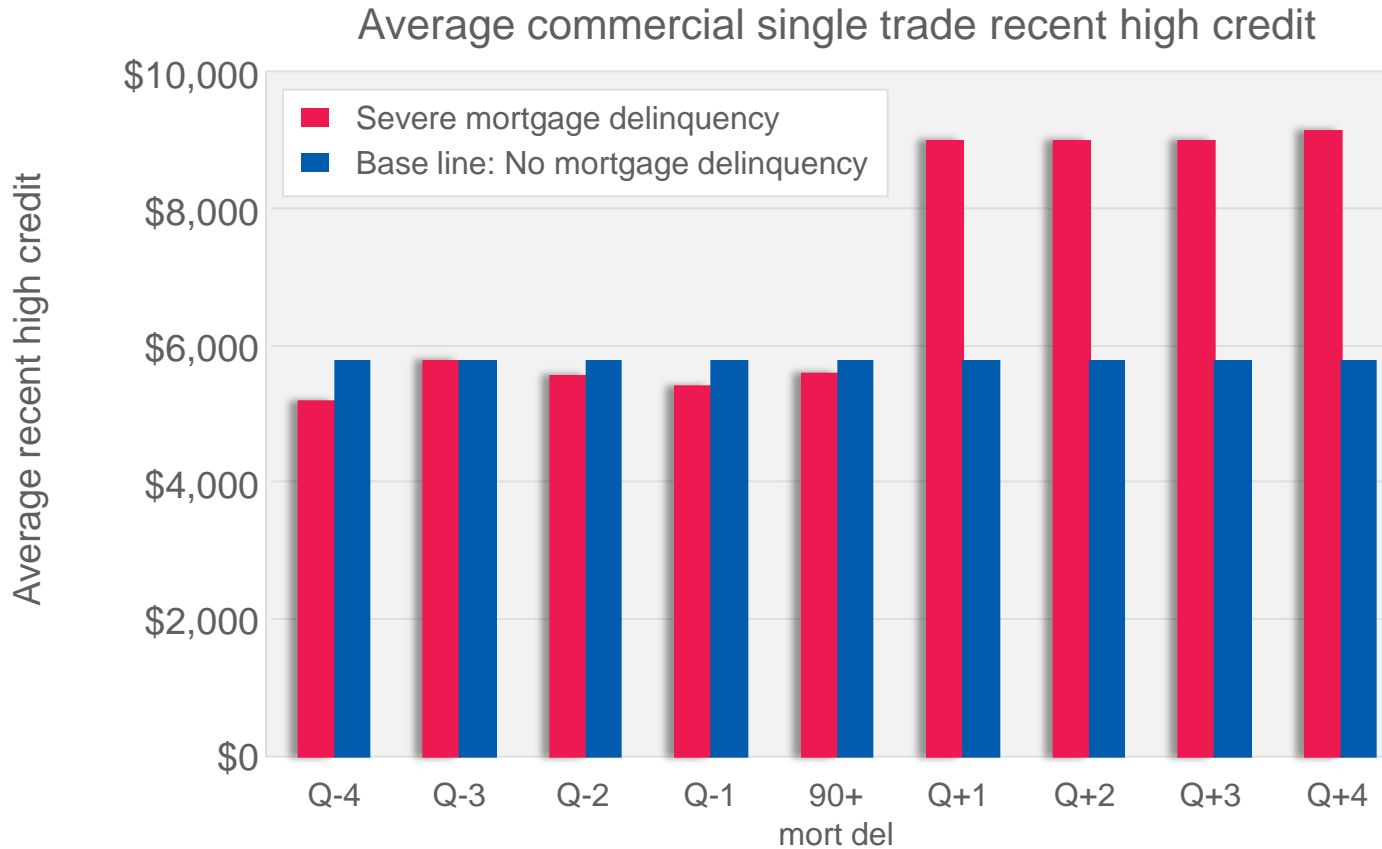
Small business owners with mortgage problems

Commercial payment delinquency trends



- Delinquent payments only increased to 7.7% protecting their business credit as they let their consumer credit deteriorate

Commercial average high credit usage



- Increased dependence on business credit lines

Key findings



- Small business owners with mortgage trouble were placing more importance on paying their business credit obligations over their personal obligations, including their mortgage
- This group is likely to sacrifice their home in order to keep the business and preserve the source of their income
- The finding was a surprise as conventional wisdom has been that the mortgage is always paid first

Business failure performance results

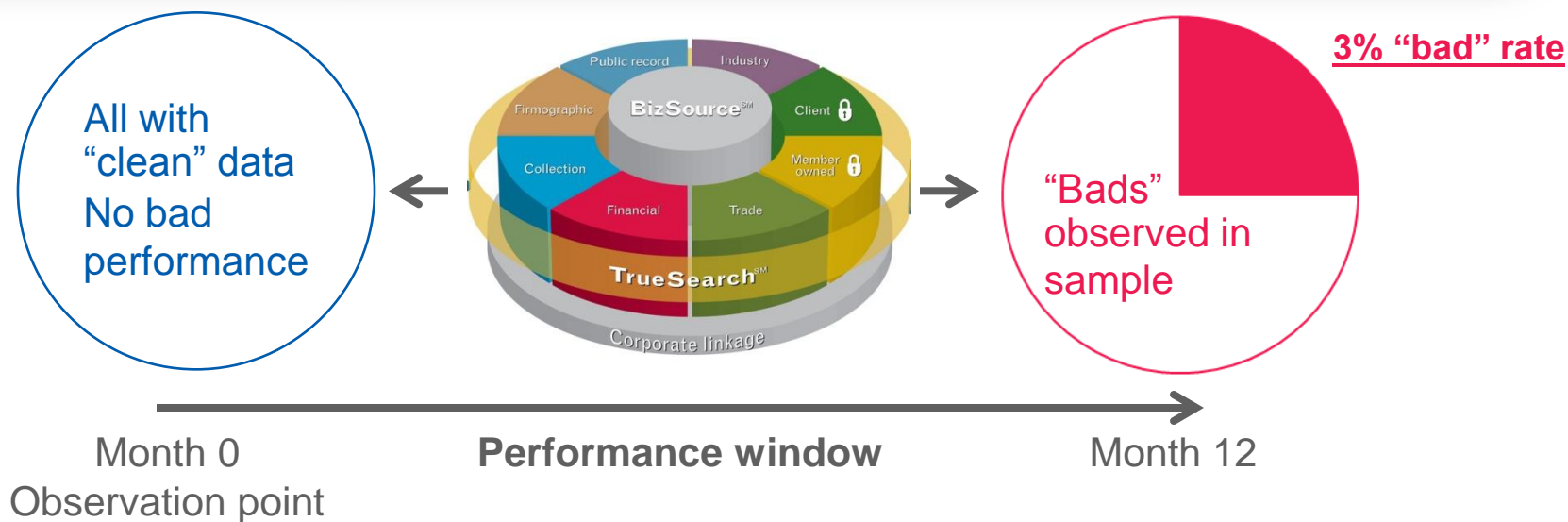
Use of *“the Grid”*



Financial Stability model process

Developed from 1.3 million records, all with “clean” data

Bad definition: Firms filing bankruptcy / firms where GT 75% of trade dollars are 91+ and / or negative trade comments for multiple quarters and at the end



What archived data from the observation point, when all records had “clean” data, would have predicted the “bads” at the end of the performance window in month 12

SOURCE: Experian Business Information Services

Model process: Financial Stability Risk ScoreSM factors

Common elements among stressed businesses



Key factors correlated with business stress

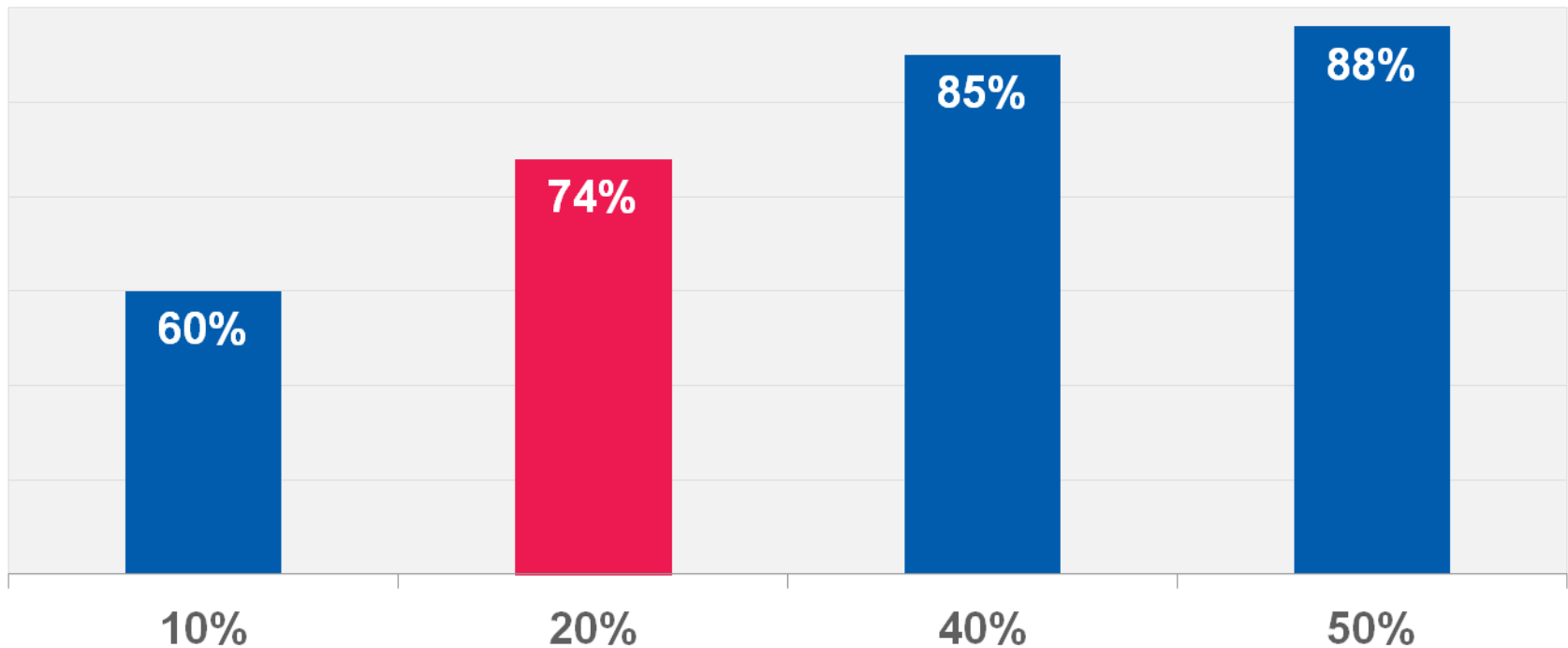
- **Payments:** 91+ and 61+ status, past delinquency
- **Credit utilization:** High ratio of outstanding balances vs. previous high credits
- **Derogatories:** Collection trades and lien and judgment filings
- **Firmographics:** Younger businesses and industry risk

SOURCE: U.S. Department of Commerce, Census Bureau

Financial Stability Risk ScoreSM model performance

“bad capture” – Bottom 20% captures 74% of “bads”

Bottom percent of Financial Stability Risk ScoreSM or cut-off level



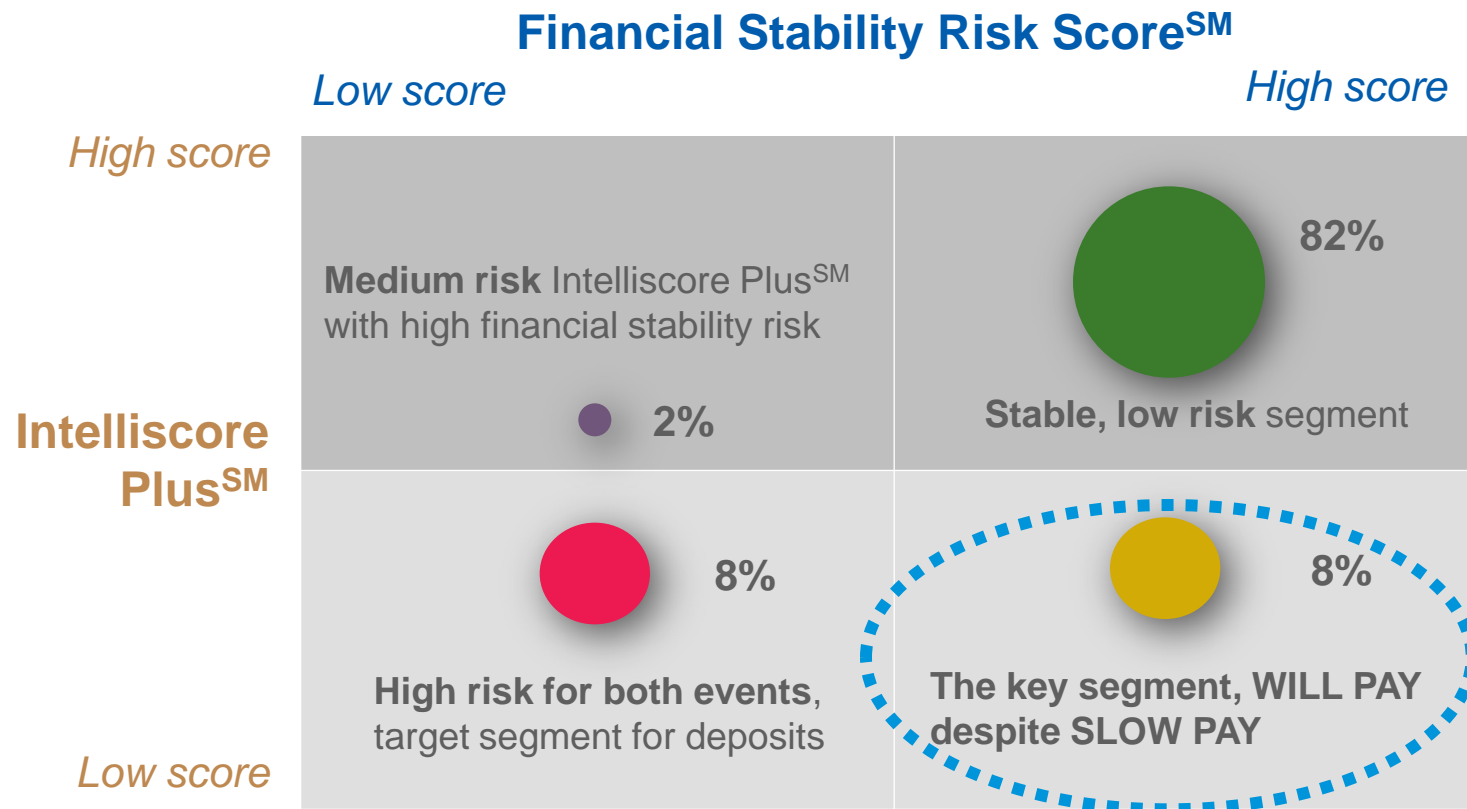
Financial Stability Risk ScoreSM performance

By industry

Industry	Percentage of file	Average Financial Stability Risk Score SM
Agriculture / mining	1%	67
Health services	6%	66
Public administration	2%	63
Wholesale	5%	60
Legal services	2%	57
Hotels / lodging	1%	55
Insurance	2%	55
Manufacturing	5%	53
Construction	14%	50
Real estate	5%	47
Finance	2%	44
Retail	20%	43
Transportation	3%	39
Services	17%	37

“The Grid”

Identify slow pay, BUT will pay



SOURCE: Experian Business Information Services



Commercial information for insurance modeling

Four main groups of data

Firmographics

- Address
- Phone
- SIC, number of employees
- Sales

Public records

- Liens
- Judgments
- UCC filings
- Bankruptcy

Scoring

- Intelliscore PlusSM
- Key score factors

Trade

- Number and percent of trades by aging categories, categories of trade and collection data

Over 660 data elements

Value of information

Insurance analysis methodology

- Univariate analysis: 200 Experian credit variables vs. instance of loss within a 12-month window
 - ▶ Rank-ordered variables (information value)
 - ▶ Multiple client loss results
- Segmented into “good” and “bad” distributions
- Findings
- Credit score is a good, but not the sole indicator of potential loss
 - ▶ On average commercial credit scores indicate loss 60-80% of the time
 - ▶ Optimize by combining credit and internal data variables in a custom insurance score

Top-11 variables

Rank / business aggregate / description

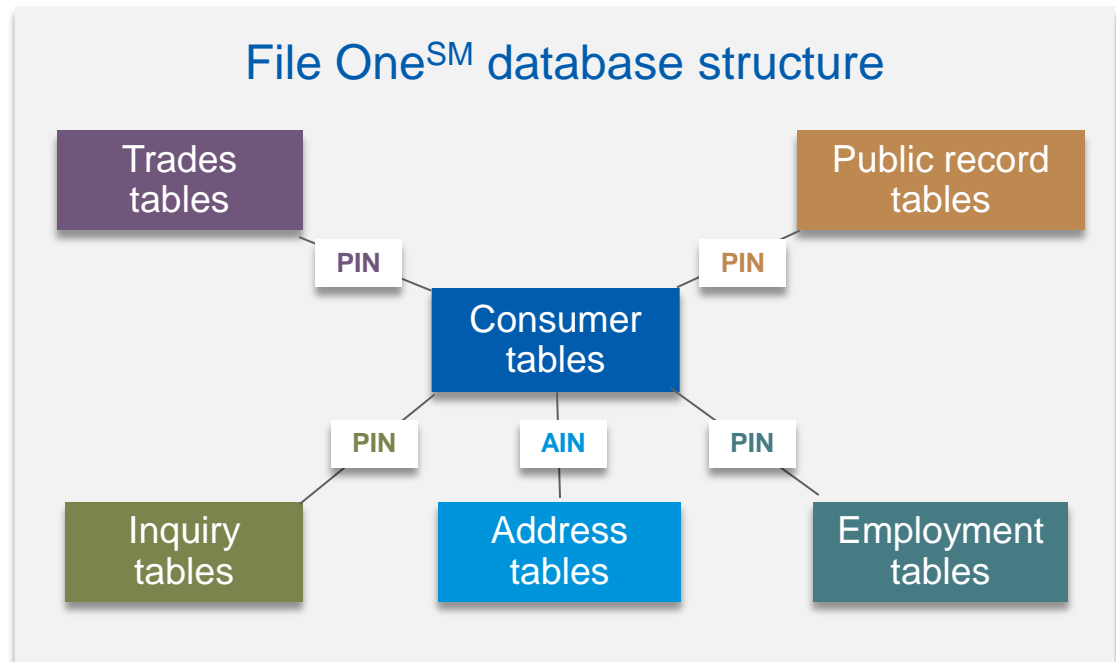
1	TOT111	Total number of trades reported within 12 months of the profile date	7	Total account balance	Total \$ trade balance for all trade lines on business
2	TOT212	Total high credit balance	8	TOT260	Total account balance that is current across all trades
3	TOT102	Total number of active trades	9	TOT121	Total number of trades with last activity within 12 months of profile date
4	TOT101	Total number of trades	10	REG230	Average balance that is current over the past six months for regular trades
5	TOT110	Total number of trades reported within six months of the profile date	11	IND101	Total number of regular trades
6	TOT201	Total account balance			

Use of consumer predictive data

Blending owner / guarantor information with commercial data

Powerful predictive consumer data elements

- ▶ Number of accounts recently delinquent
- ▶ Number of derogatory payment accounts
- ▶ Number of accounts with 90% utilization
- ▶ Number of bankcards with 100%+ utilization
- ▶ Number of inquiries
- ▶ Real estate delinquency



Current insurance industry file use examples

- National P&C, full national file, consultant custom model for renewals news, accesses new account on-line and may obtain other data
 - ▶ Archives files received for ongoing model development
- Regional worker's comp, 26 state coverage, went with Experian BIS for hit rate improvement; consultant model recently moved to internal custom model
- National full lines, starting with existing portfolio, developing model with quarterly file scoring, new account model
- Regional P&C, 29 states, using consultant custom model

Flexible file process meets needs for national / state coverage, full data file or selected data elements, web or direct connection access

Business information analytics

Available to you on the Web at...

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Small Business Bankruptcies

