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Reduce your ongoing risk by identifying changes in SMEs' payment behaviour



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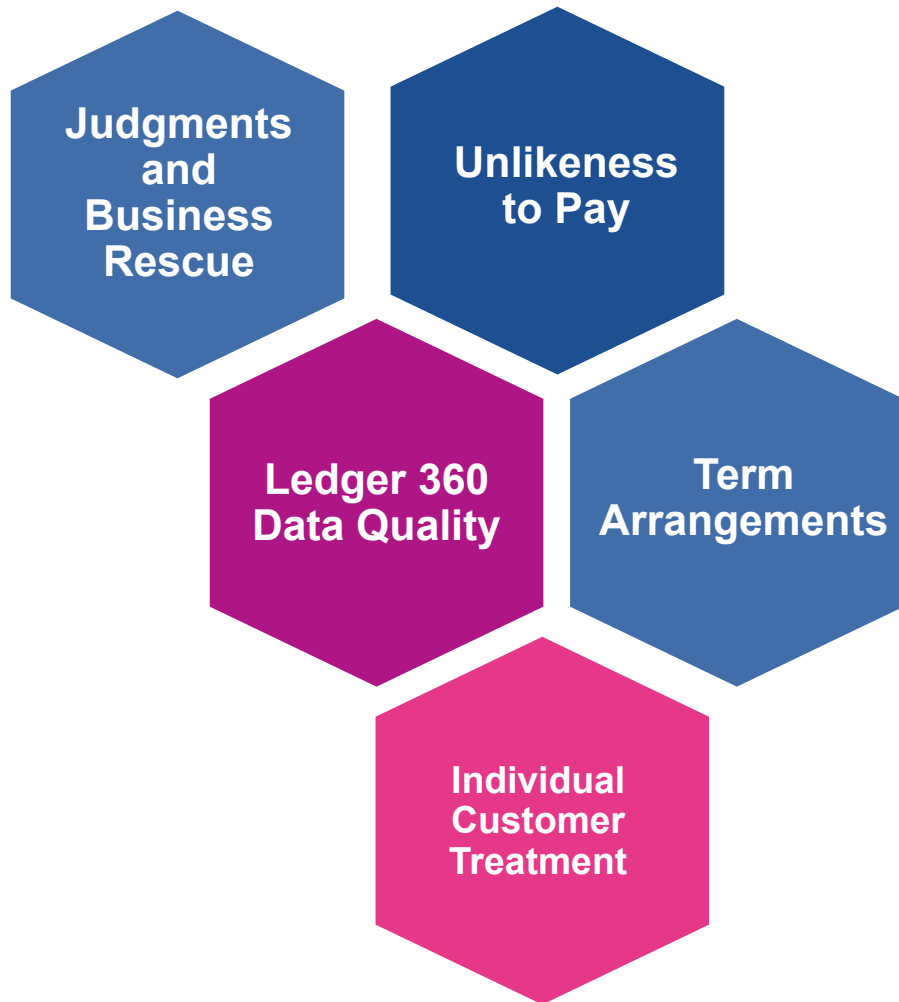
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Background to the solution



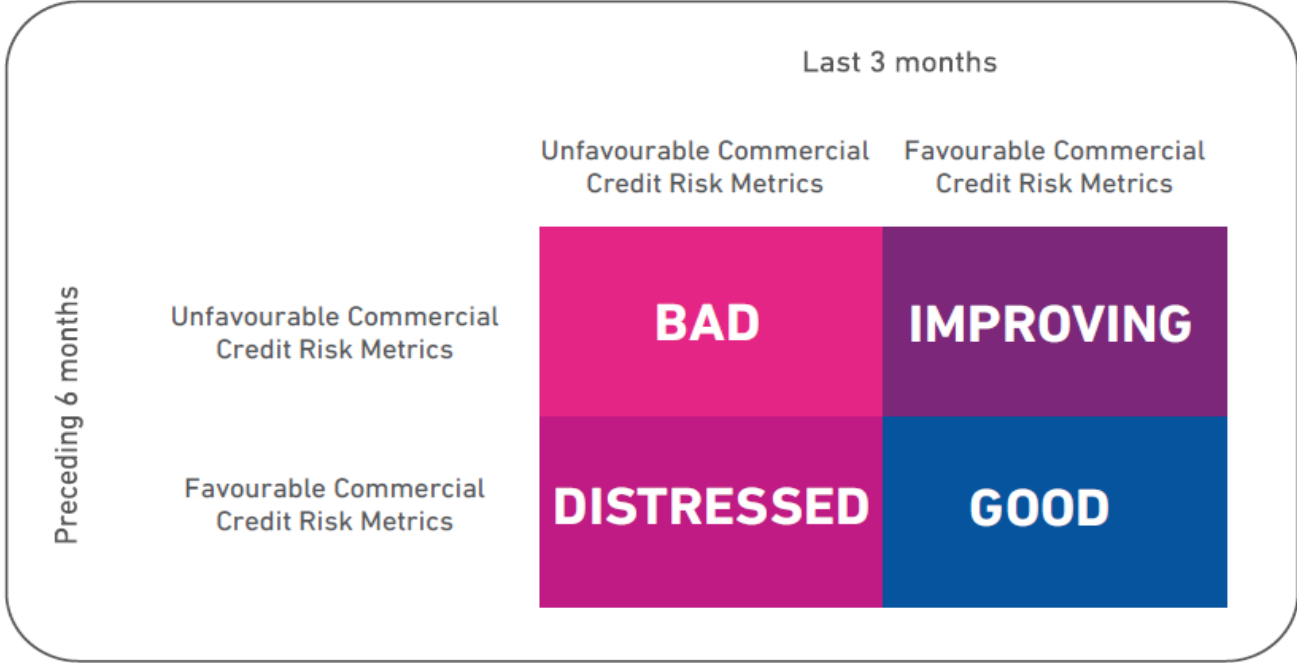
Use Cases

- Who are the clients that are **likely to default in the near future**
- How do we manage **credit granting limits**
- Incorporating **risk-based terms** if industry standard allow
- Undifferentiated collections process
- Which are the higher risk **businesses** that should be **removed from targeted** future sales

Data Approach

- Performance period in this example: May 2021 – Jan 2022 (6 preceding and 3 most recent months).
- We use Full Business Name, Registration number, VAT number and total amount outstanding (Ledger 360 in place).
- SME is defined as:
 - **Under R8 million turnover p.a.**
 - **Or \leq 50 employees**
- Rand-values reported for this example reflects the data submitted by the client for month-end January 2022.
- Behaviour is measured by change in the Commercial Credit Risk Scores in the two performance periods.

Early Warning Categories



- Good** – Consistent Performers in the recent 9 months
- Improving** – Did not do well 4 to 9 months ago, but have been performing in the recent 3 months
- Distressed** – Were good performers 4 to 9 months ago but are struggling in the recent 3 months
- Bad** – Have not been performing well in the recent 9 months

Suggested Strategies

Good

- Follow soft collection approach, as they still have the willingness and ability to pay.
- Identify self cures and redirect resources to more riskier segments.
- Ideal for Marketing.

Improving

- Positive movement recently. Use this new category to prioritise for collections, review account to see what has changed.
- Able to qualify for higher limits in the future.

Distressed

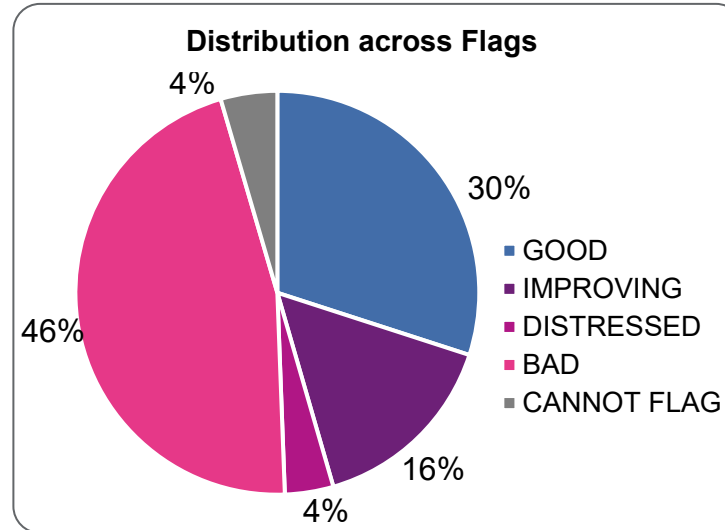
- This business has been negatively affected of late.
- Use this new category to show impact of the latest market conditions on book.
- Share with sales to get updated financials, focus relief efforts.
- Manage limits and be cautious regarding new exposure.

Bad

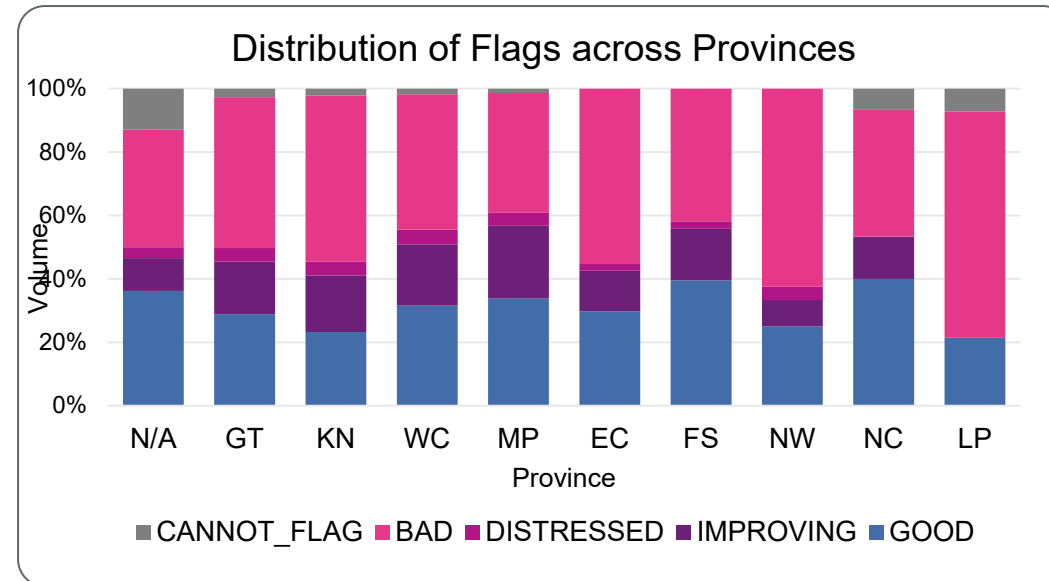
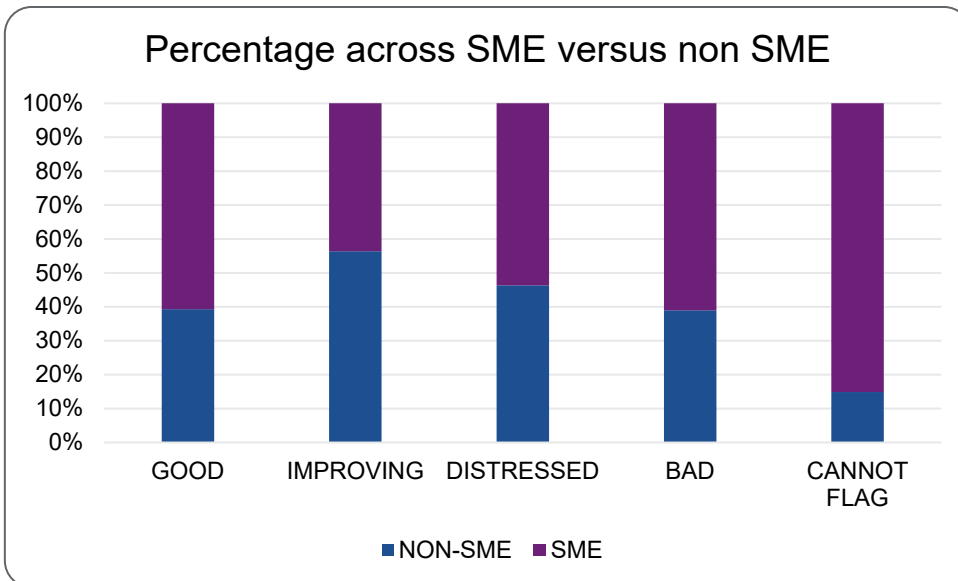
- Hand over to Debt Collections.
- Offer settlements.
- Writing off, as they have been struggling for a prolonged period.

Model Output Example: SME Split by Volume

	NON-SME	SME	Grand Total
GOOD	125	193	318
IMPROVING	93	72	165
DISTRESSED	19	22	41
BAD	193	302	495
CANNOT FLAG	7	40	47
Grand Total	437	629	1066

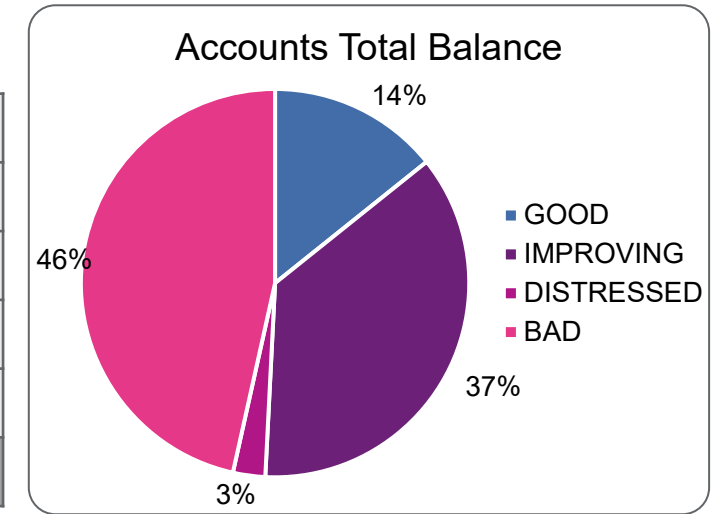


- Distribution of volumes across flags indicate that 46% is classified as Bad, 30% is classified as Good using the grand total.
- It is also available to view the distribution across provinces given this data is submitted and populated well.



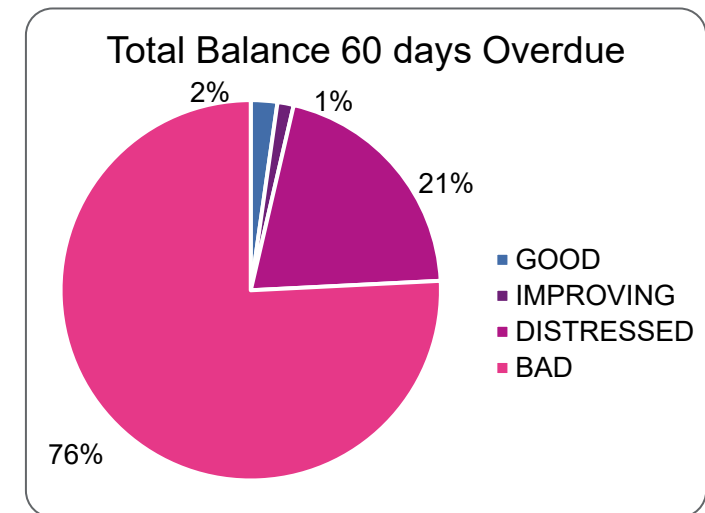
Results: SME Split Value (Total balance, incl. overdues)

		NON-SME		SME		Total
GOOD	R	42,727,264	R	6,376,652	R	49,103,916
IMPROVING	R	33,017,842	R	92,872,335	R	125,890,177
DISTRESSED	R	15,725,435	-R	6,478,029	R	9,247,406
BAD	R	140,123,187	R	20,075,533	R	160,198,720
Total	R	231,593,728	R	112,846,491	R	344,440,219



Results: SME Split by Value (60 Days Overdue balance only)

		NON-SME		SME		Total
GOOD	R	706,821	R	36,440	R	743,261
IMPROVING	R	448,371	R	6,220	R	454,591
DISTRESSED	R	6,778,950	R	1,548	R	6,780,498
BAD	R	16,604,975	R	8,378,965	R	24,983,940
Total	R	24,539,117	R	8,423,173	R	32,962,290



Top 20 “Bad” accounts by overdue value

Below an Example of the Businesses that were assigned as Bad. Ranking by 60 days Overdue value.

FLAG Assigned	BAD	
SMEs	Sum of Accounts Overdue 60 days	Sum of accounts' Total Balance
FIRE*** (PTY) LTD	R 4 896 835	R 4 896 835
MPHAK*** BK	R 3 289 470	R 3 356 849
ETH*** LITY	R 2 435 217	R 25 082 937
R.T (EAST *** LTD	R 1 437 567	R 1 437 567
MAKHA*** (PTY) LTD	R 1 320 431	R 1 342 318
JABU *** (PTY) LTD	R 1 279 555	R 1 337 866
KHUS*** (PTY) LTD	R 1 042 383	R 1 042 383
PHUMAP*** (PTY) LTD	R 991 032	R 991 032
MAVAT *** (PTY) LTD	R 967 644	R 975 597
K*** LOGISTICS CC	R 771 439	R 771 439
BRI* *** (PTY) LTD	R 766 222	R 766 222
*** INVESTMENTS (PTY) LTD	R 582 520	R 776 745
*** TRANSPORT (PTY) LTD	R 581 930	R 581 930
*** LOGISTICS PTY LTD	R 477 103	R 477 103
JU***R *** (PTY) LTD	R 392 488	R 392 488

Questions?

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