

FCIB

International Credit Executives Conference

The State of Information in World Markets

Presented by Joachim C. Bartels, CEO
Intrepid Explorers, Inc.
Chicago, Il, April 6-8, 2005



Key Discussion Points

- Complexity of Risk is Growing
 - The Imperfect World of Information
 - Overcoming the Information Deficit
- **New Demands on Information**
 - **Attitudes and Infrastructure Impact Availability & Reliability**
 - **Investment in Information**
 - **The World Bank Discovers Information Pooling**



The 'New World' of Risk ...



Imperfect World of Information

- **Attitudes: Information is Secret!**
 - Lack of Voluntary and Legal Disclosure
 - Little Enforcement of Compliance
 - No Transparency
- **Infrastructure: Underdeveloped Public Records**
 - Lax Compliance
 - Paper Based
 - Poor Quality – Out of Date
 - Difficult to Access
- **Absence of Financial Databases for Benchmarking**



Overcoming the Information Deficit...

- **Investment in Information:**
 - **Who should Make the Investment?**
 - **Opportunity Cost or Expense?**
 - **Lessons Learned from the Past ...**



Investment in Information ...

- Opportunity Cost or Expense?

“The Arabian Sea in the 17th Century”

- Information

Rather than Spices ...

- Demand & Supply
- Pricing
- Credit

- The Solution:

- Investment in Information
 - Infrastructure
 - Rules
 - Security

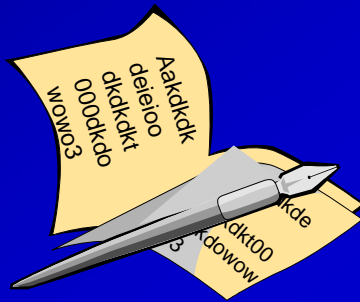
Land Route:
‘The Runner’
6 – 8 Months

Round Trip
20 - 24 Months



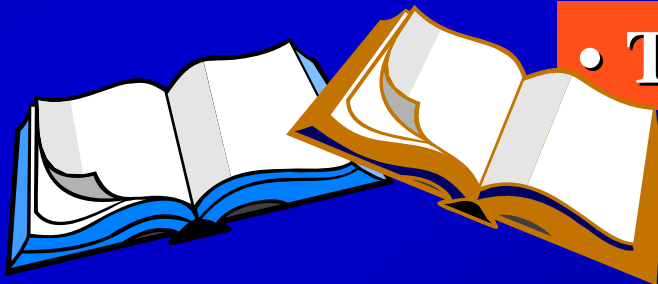
Investment in Information

- Information was Secret ...



- Investment in
 - Encryption
 - Codes

- Two Sets of Books

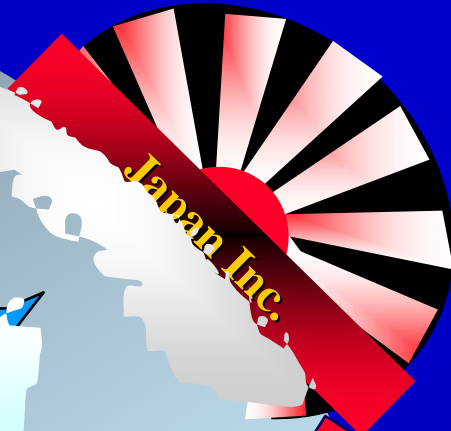


Argentina

Barings Bank



Parmalat



Lucent

Global Crossing



The New World of Risk

Help



Allied Irish Bank



Flowtex

WorldCom



Ahoy

That Sinking Feeling ...



Two Sets Of Books



- **Off-Balance Sheet Transactions**
- **Lack of**
 - **Transparency**
 - **Disclosure**
- **Conflict of Interest**
 - **Management**
 - **Directors**
 - **Auditors**
- **Fraud & Identity Theft**



Overcoming the Information Deficit...

- **Investment in Information**
- **The Unresolved ‘Two Sets of Books Syndrome’**
 - **Reliability of Financial Statements and the Quality of the Audits?**
 - **Alternatives?**



Overcoming the Information Deficit...

- **Investment in Information**
- **The Unresolved ‘Two Sets of Books Syndrome’**
- **Fraud**
 - **High Degree of Sophistication**
 - **Legitimate Businesses and Communication Lines**



Overcoming the Information Deficit...

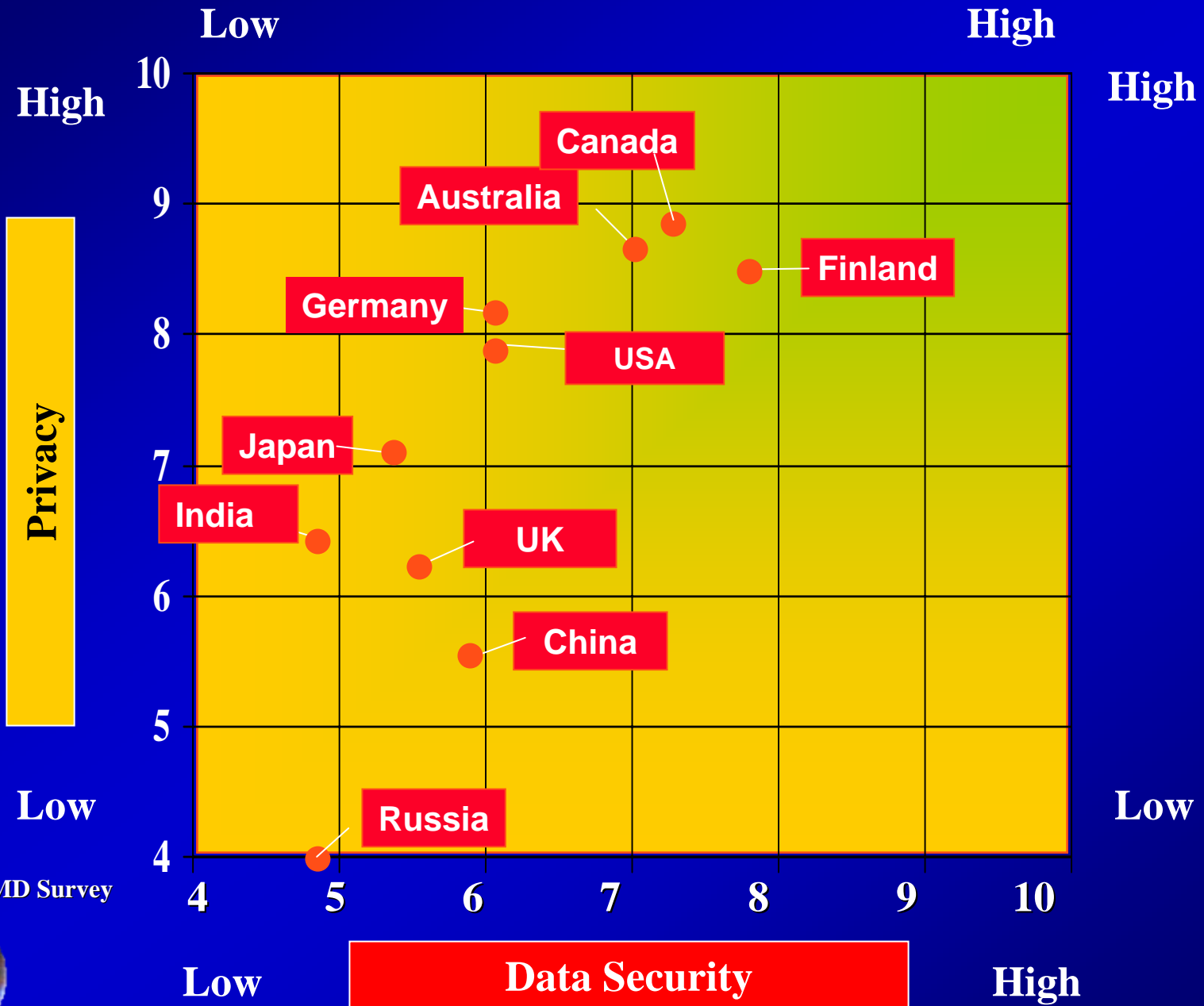
- Investment in Information
- The Unresolved 'Two Sets of Books Syndrome'
- Fraud
- **Identity Theft - Impact on Transparency!**



Identity Theft

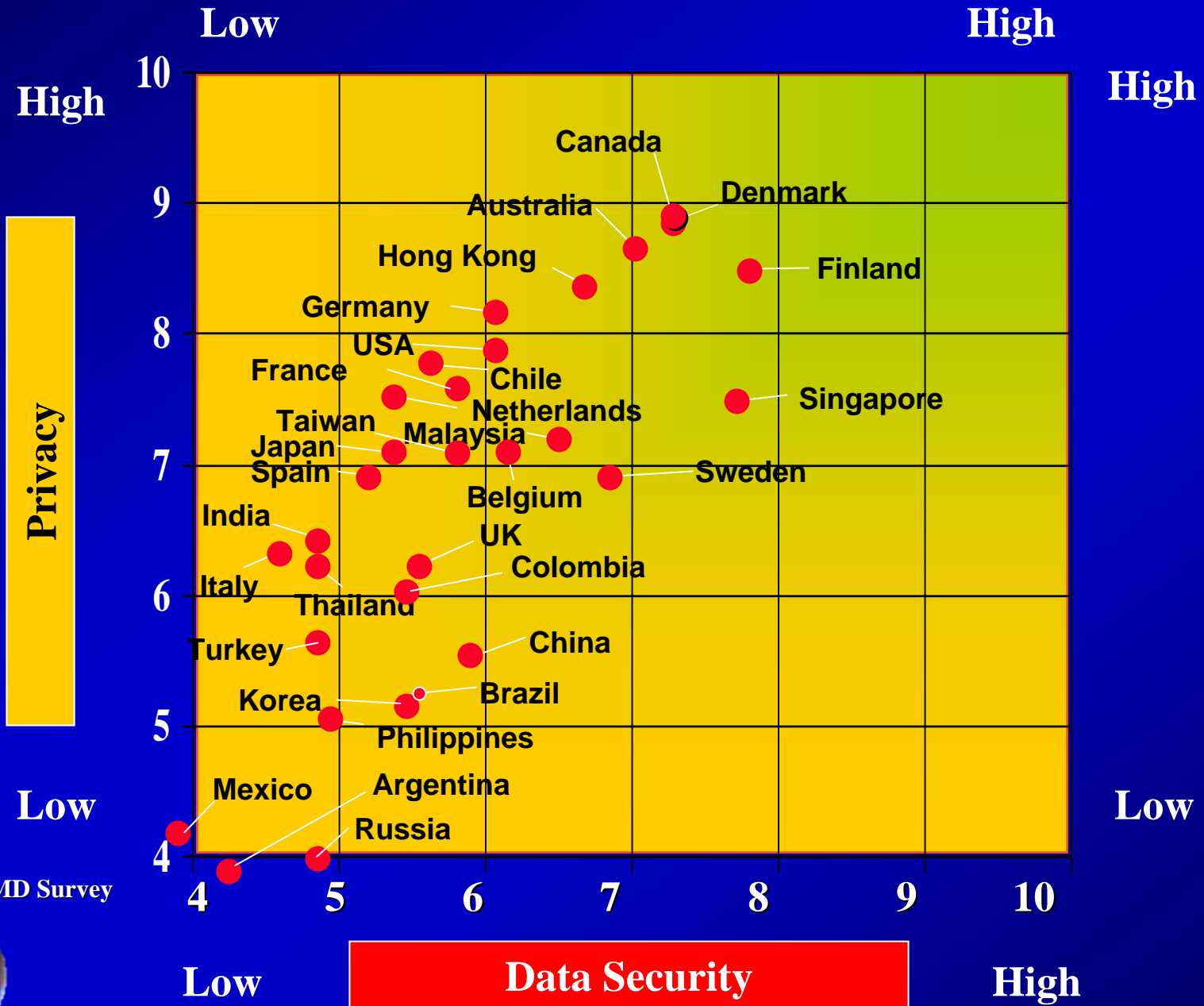
- **The Case of ChoicePoint**
 - **Company Maintains 19bn Records on Consumers**
 - **Court Records; Addresses; Social Security Numbers**
 - **Credit Information – other Public Data)**
 - **Fraud Ring Infiltrates ChoicePoint (FT 2005-02-17)**
 - **Obtained Access by using Legitimate Business Accounts**
 - **Circumvented Rules which Require Consent from Subjects of Inquiry**
 - **Retrieved Data on 35,000 Consumers in California alone**
 - **Nationwide Identity Theft could Total 100,000 Individuals**
- **Bank of America - 1.2 Million Records with Sensitive Consumer Data Stolen**
- **LexisNexis and Westlaw - Databases with Sensitive Consumer Data Compromised**





Source: IMD Survey





Source: IMD Survey

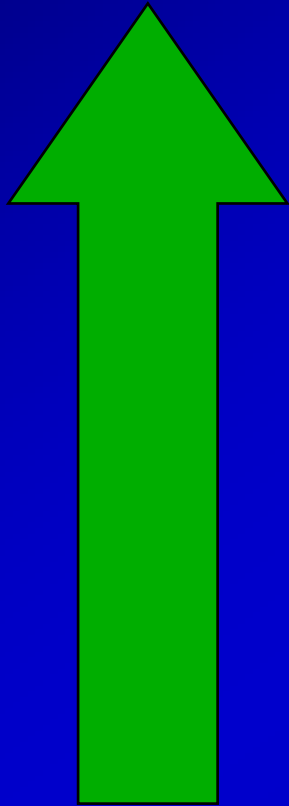


Transparency and the Internet

- **The New World of Obfuscation**

Drivers:

- **Regulatory: Disclosure**
- **Success of Market Economies and Globalization**
- **Technology: The Internet**
- **Employees**
- **Supply Chain Transparency**
- **Consumer Advocacy**
- **Shareholders**
- **Institutions**



Source: 'The Naked Corporation': Don Tapscott and David Ticoll

Transparency and the Internet

• The New World of Obfuscation

Obstacles:

- **Legal Inertia: Little Disclosure**
- **The Business Value of Secrets**
- **Cost of Openness**
- **Structural Obstacles - US Litigious Culture**
- **Transparency Fatigue and Paralysis**
- **Pseudo-transparency and Deceit - the New Power for Obfuscation**
- **Corporate Parody Sites - Bogus Information**



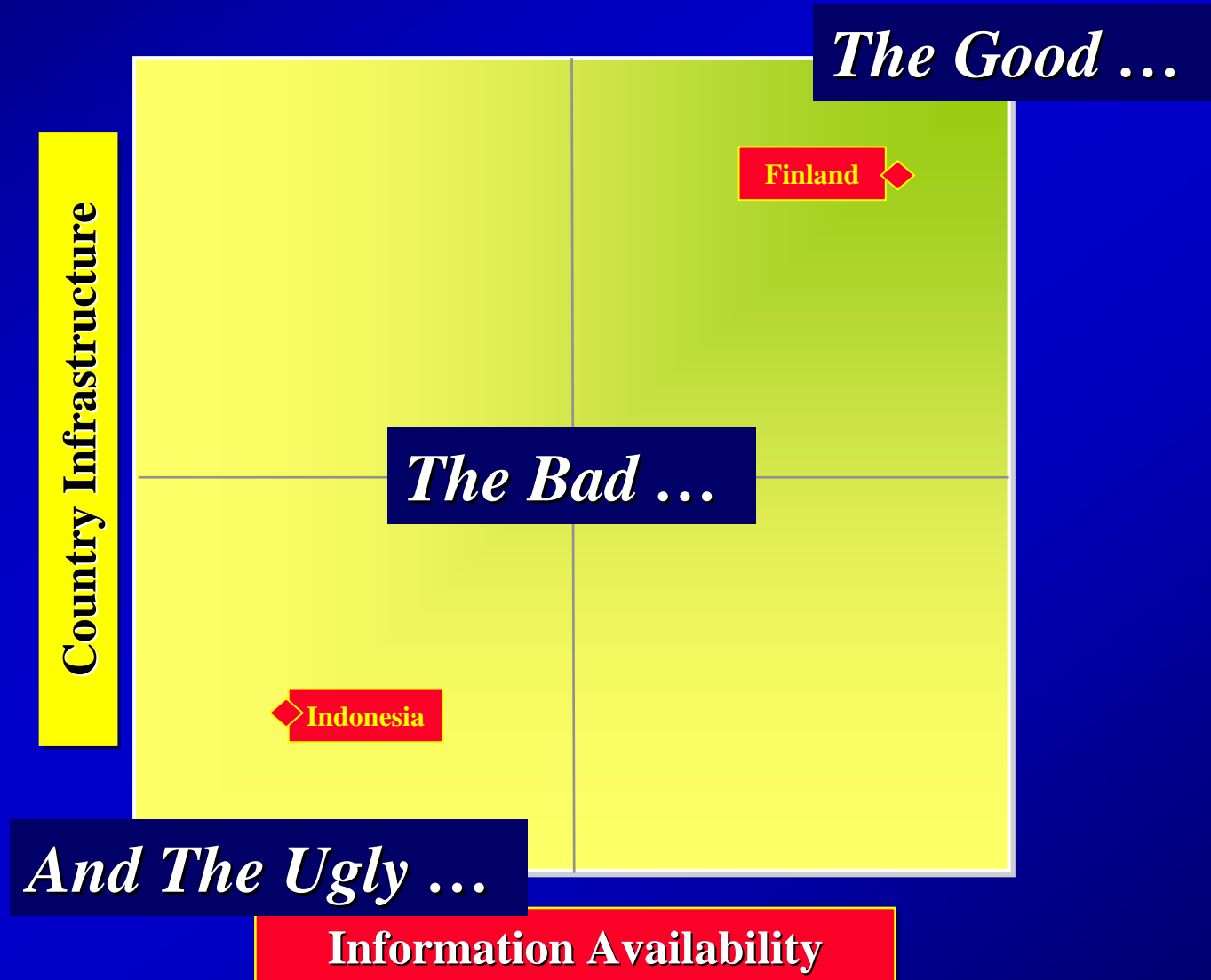
Source: 'The Naked Corporation': Don Tapscott and David Ticoll

Key Discussion Points

- Complexity of Risk is Growing
- The Imperfect World of Information
- New Demands on Information
- Attitudes and Infrastructure Impact Availability



A Quantitative Analysis ...

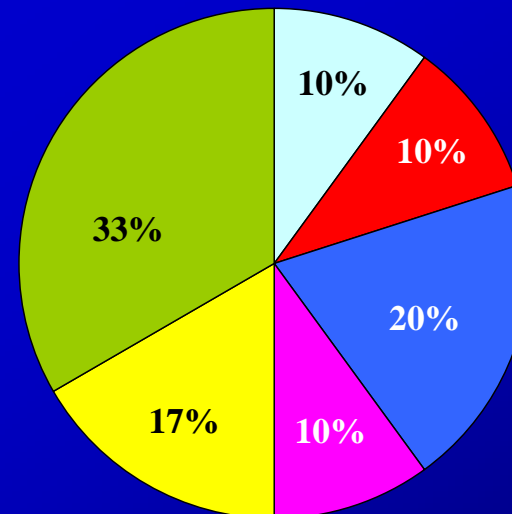


Infrastructure Criteria

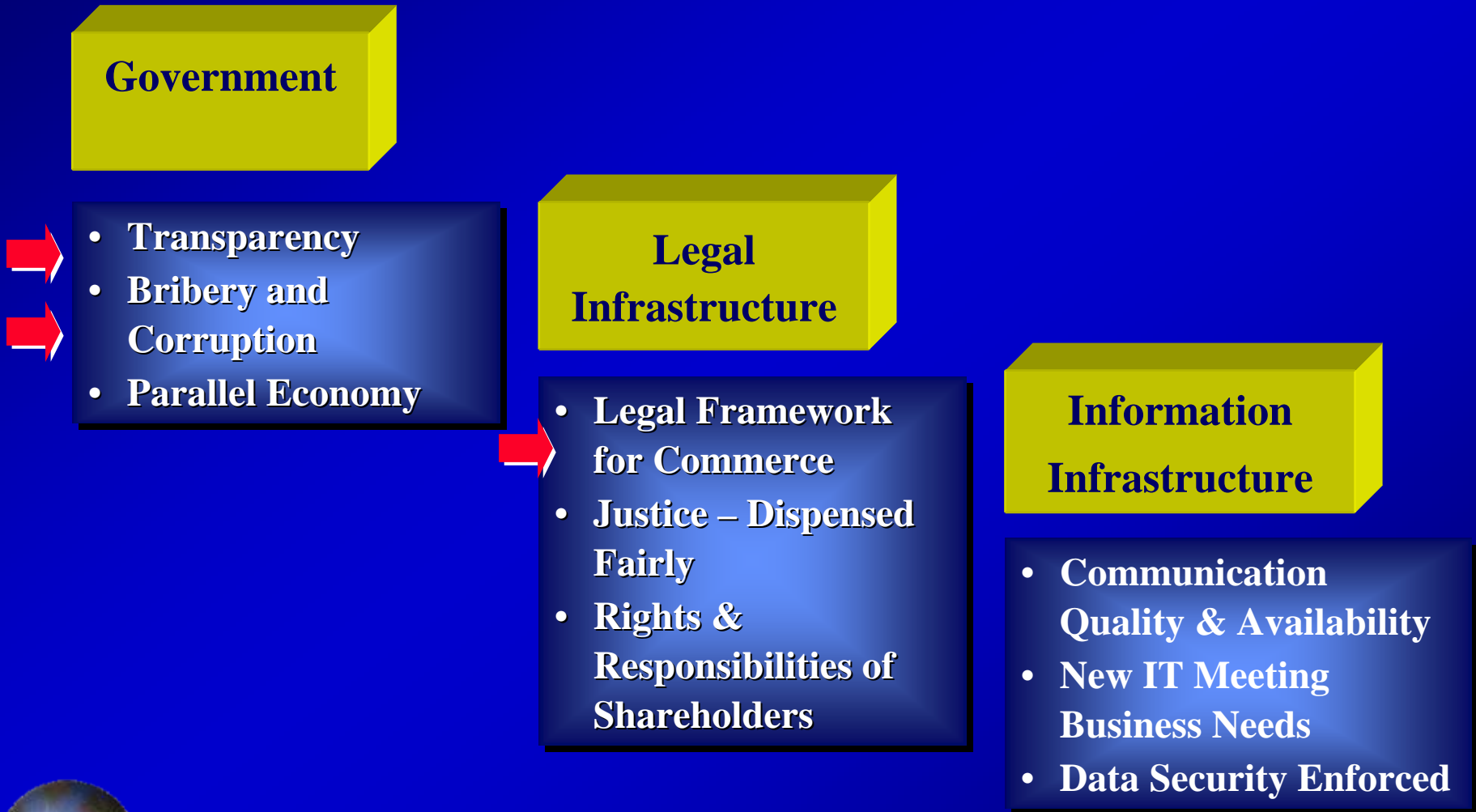
- **IMD World Competitiveness Yearbook Analyzes and Ranks the Ability of Nations to Create and Maintain an Environment which Sustains the Competitiveness of Enterprises**
- **Data on 60 Economies**
- **323 Criteria Combining Hard and Soft Data**

- **Infrastructure Factors Impacting Credit and Information**

30 Criteria



Country Infrastructure Criteria



Country Infrastructure Criteria

Credit Infrastructure

- Financial Institution Transparency
- Central Bank Policy
- Export Credit & Insurance
- Confidentiality of Financial Transactions
- Legal Regulation of Financial Institutions
- Flow of Credit from Banks to Businesses

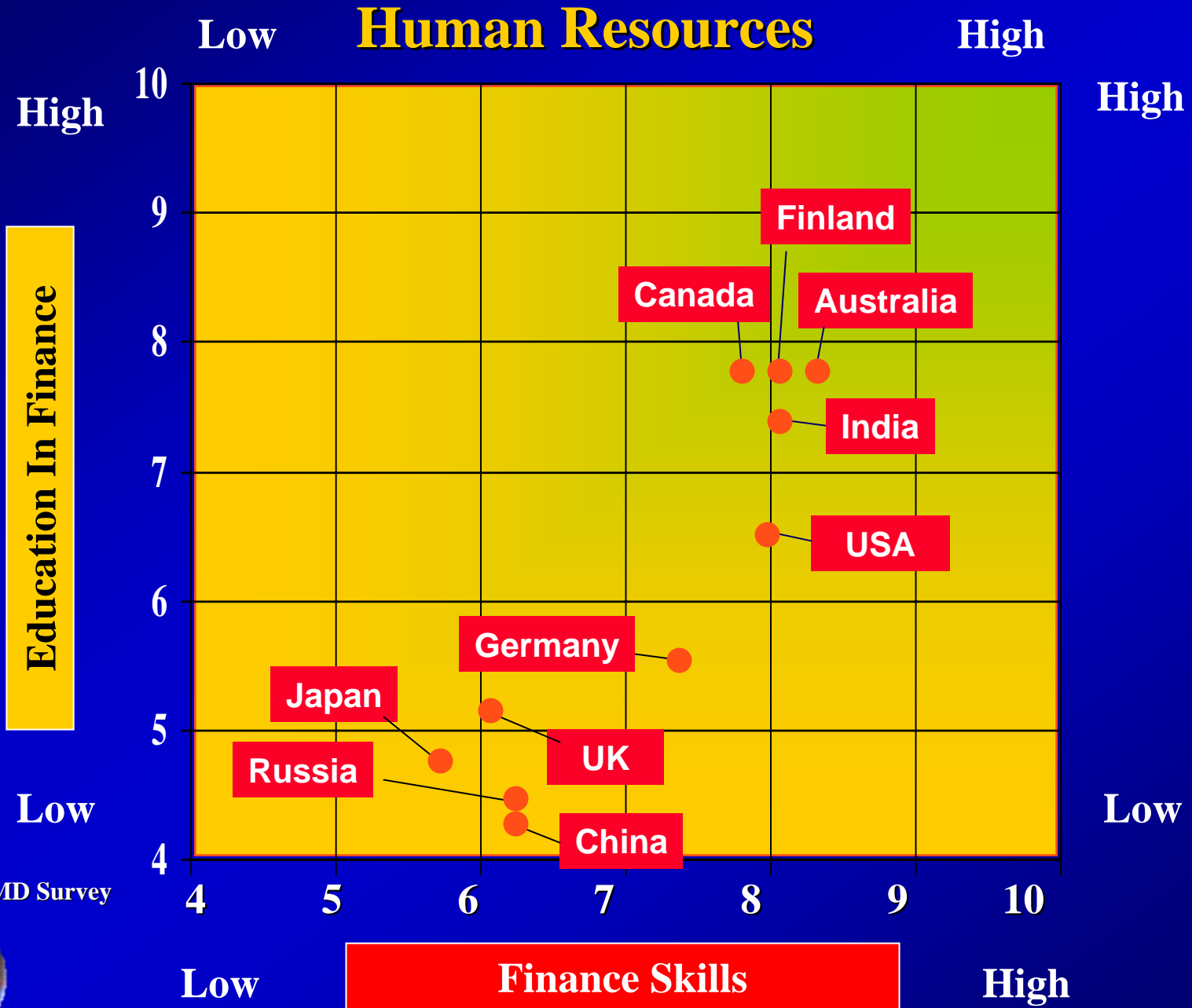
Business Infrastructure

- Ease of Doing Business
- Transfer of Know-how
- Venture Capital
- Insider Trading
- Cash Flow - Self Financing
- Ethical Practices
- Credibility of Managers
- Credibility of Corporate Boards
- Entrepreneurship
- Adaptability of Companies

Human Resources

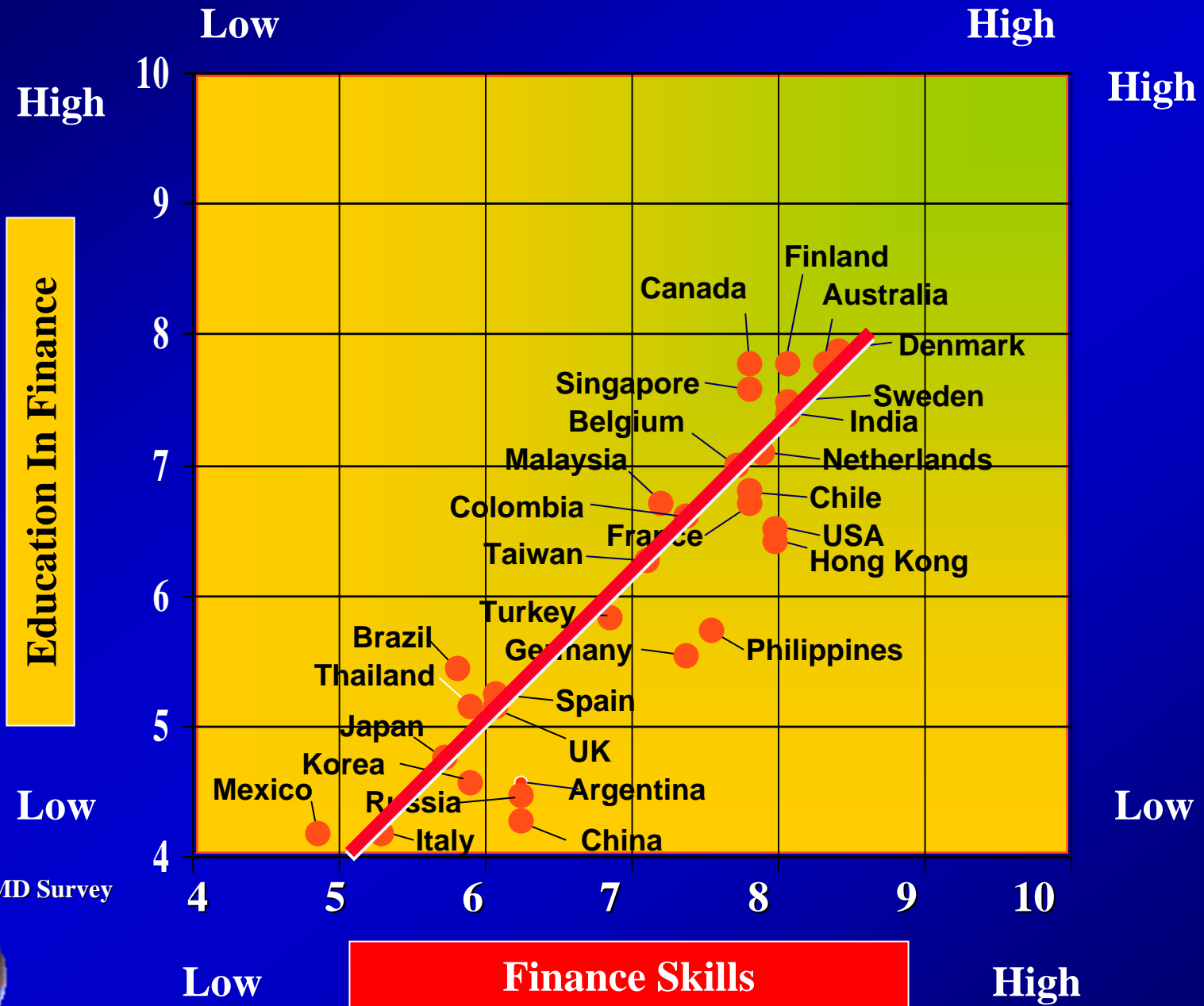
- Economic Literacy
- Education in Finance
- Finance Skills
- Worker Motivation
- Adaptability & Flexibility of Workforce





Source: IMD Survey





Source: IMD Survey



Information Availability

Government Availability of Information

- UCC Filings or Equivalent
- State of Public Registers
- Access to Public Registers
- Compliance

- Availability of Court Records
- Access to Court Records

Credit Acceptance of the Concept of Information Pooling

- Efficient Credit Bureaus

Legal Requirement to Disclose

- Disclosure - SEC
- Disclosure - Filing of Financials

- Reliability /
Accuracy of
Data

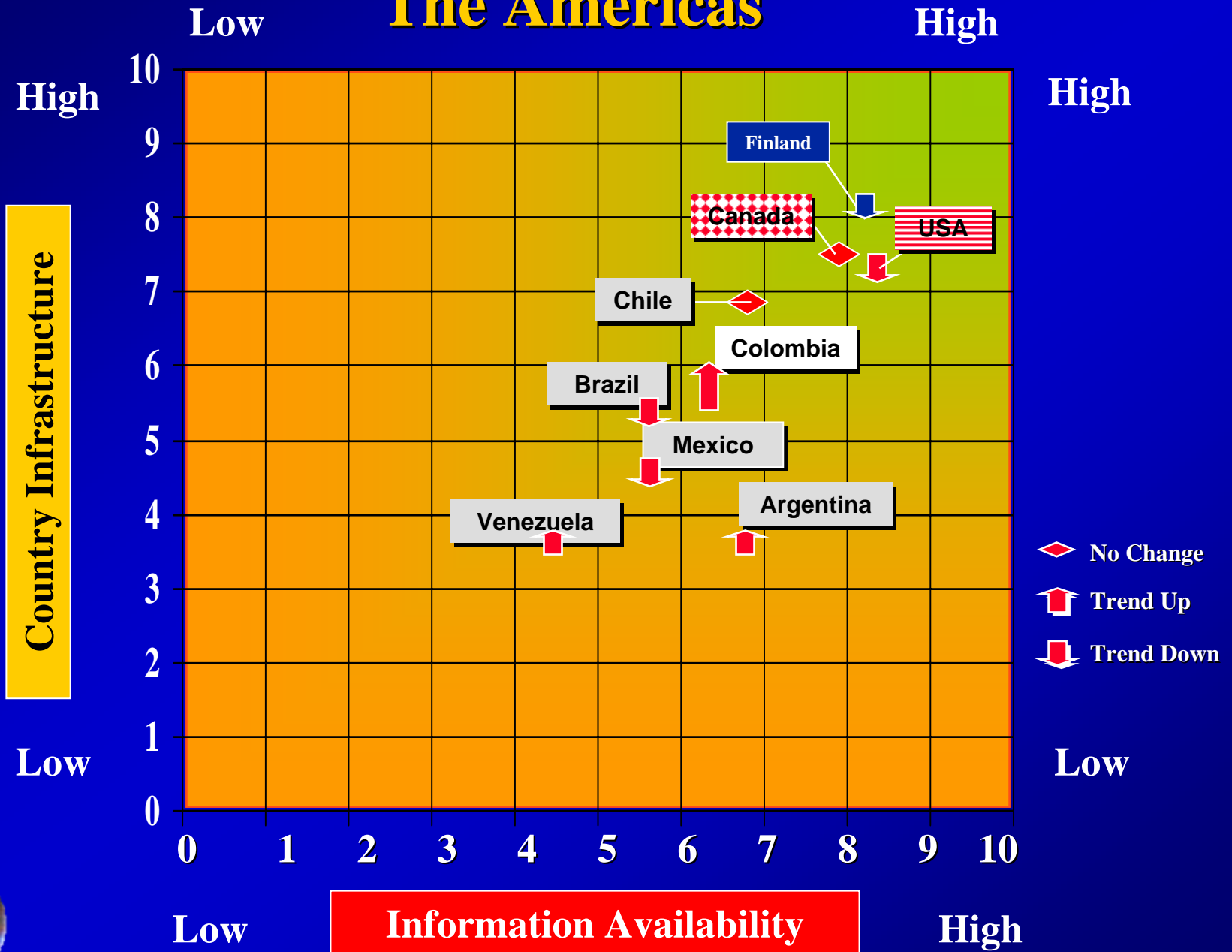
Business Attitudes and Compliance

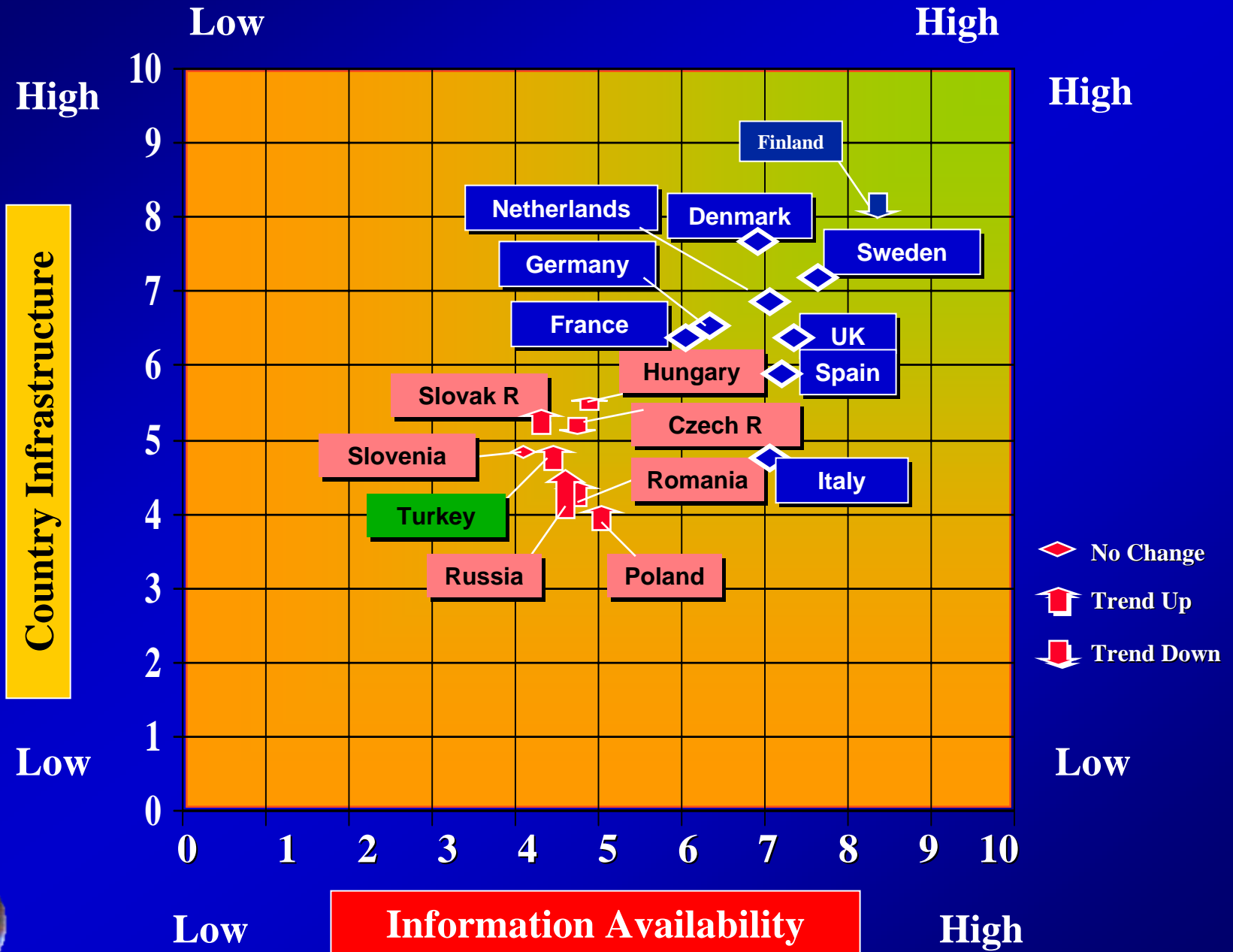
- Attitudes Towards Disclosure
and Transparency

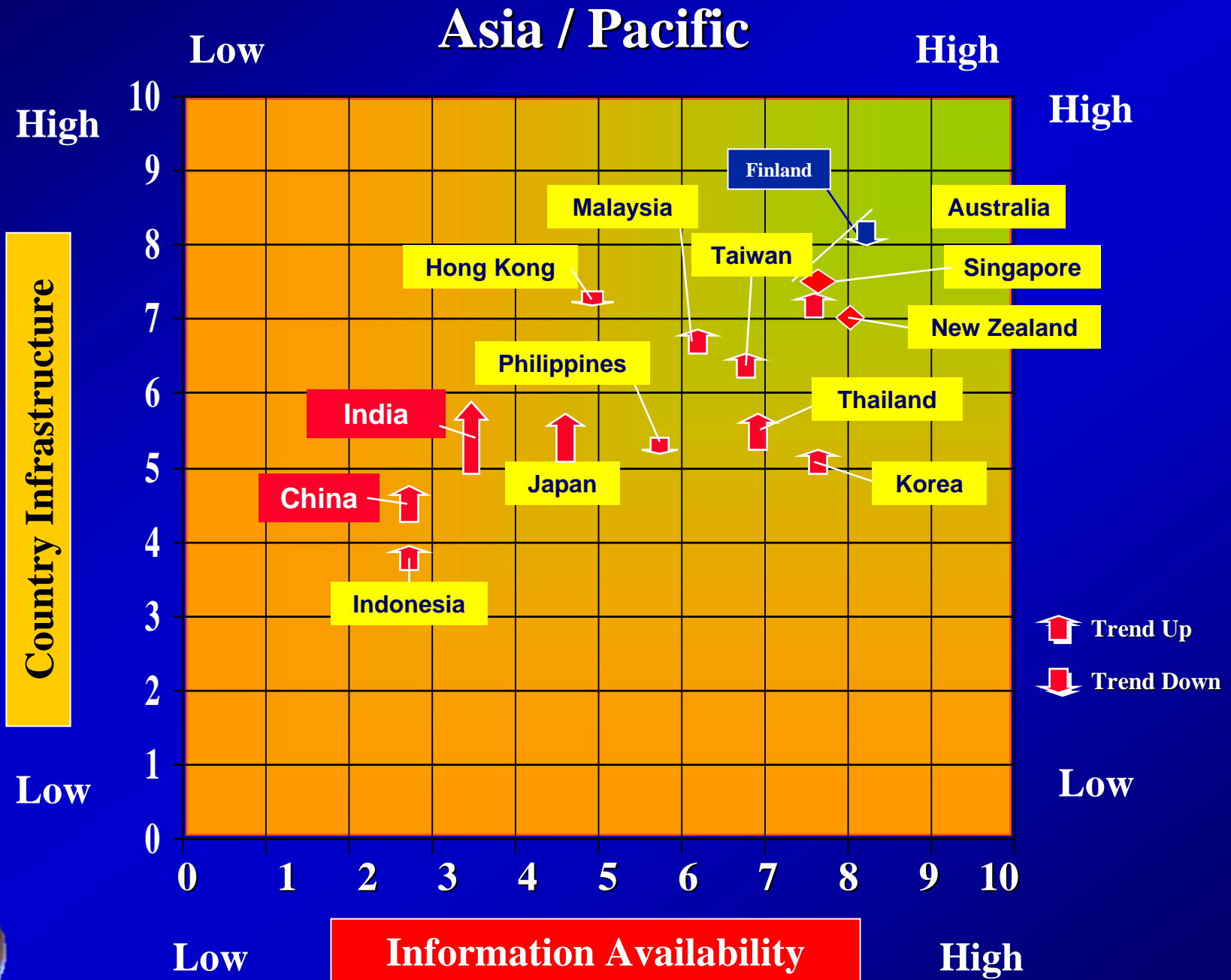
- Voluntary Disclosure



The Americas







India and China: Centers of Globalization?



**The Services Capital
of the World**



**The Manufacturing
Capital of the World**



What will the Rest of the World Do?

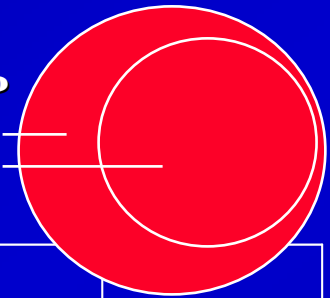


Asia - Relative Size and Country Risk

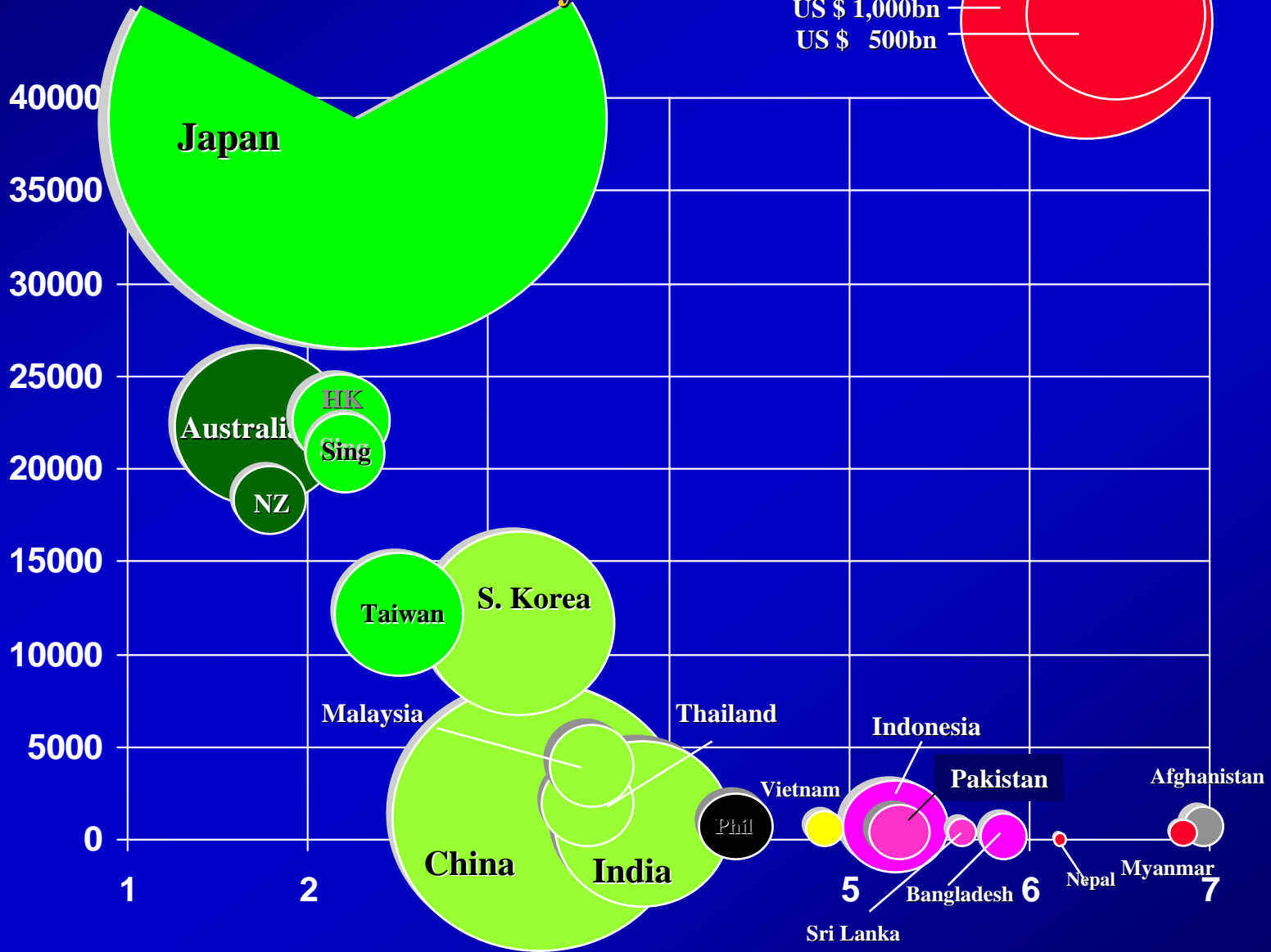
Scale: GDP

US \$ 1,000bn

US \$ 500bn



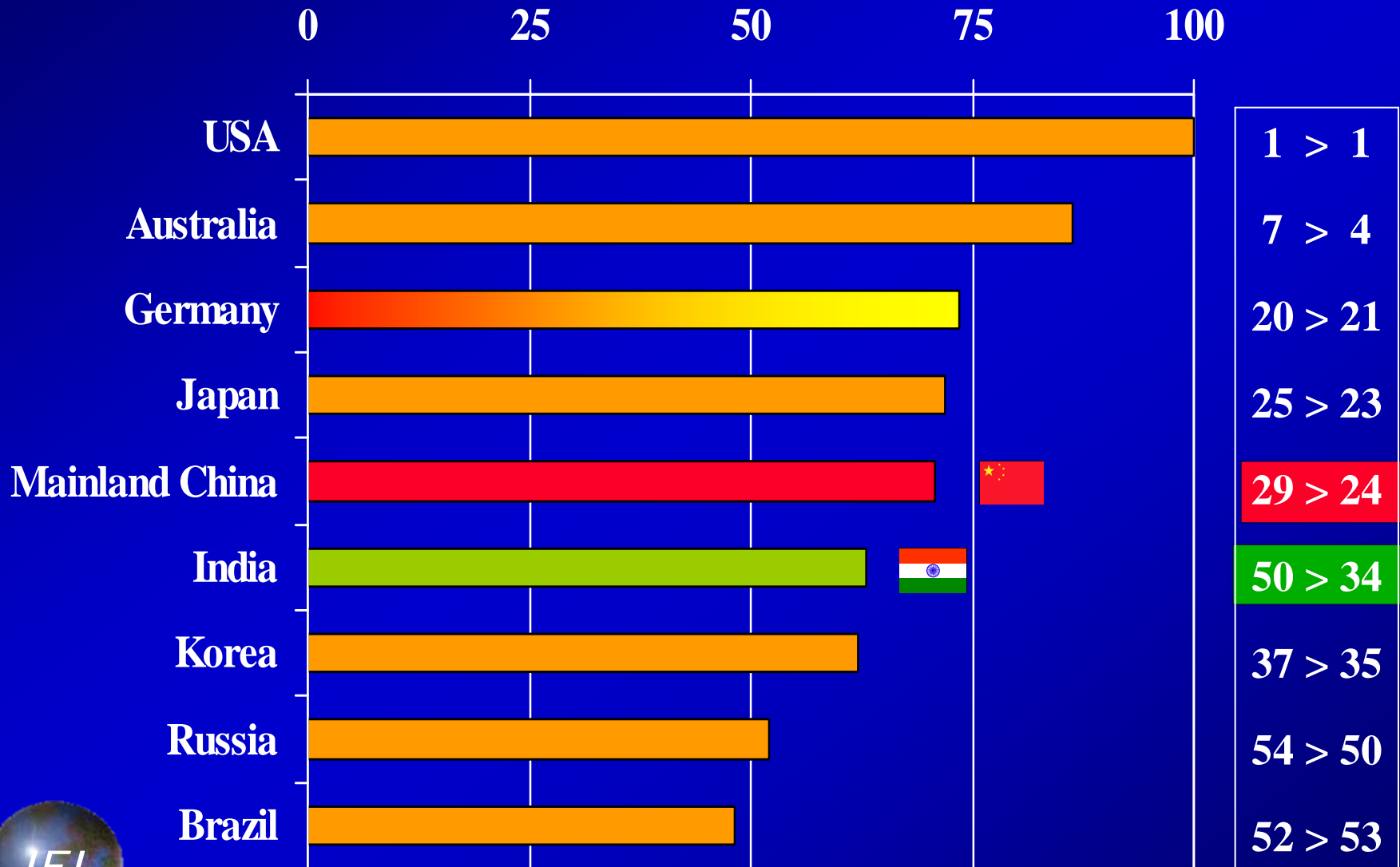
GDP Per Capita in US \$



Sources:
 GDP Data: IMD 2004 Edition
 Country Risk Data: D&B IRPR 2004

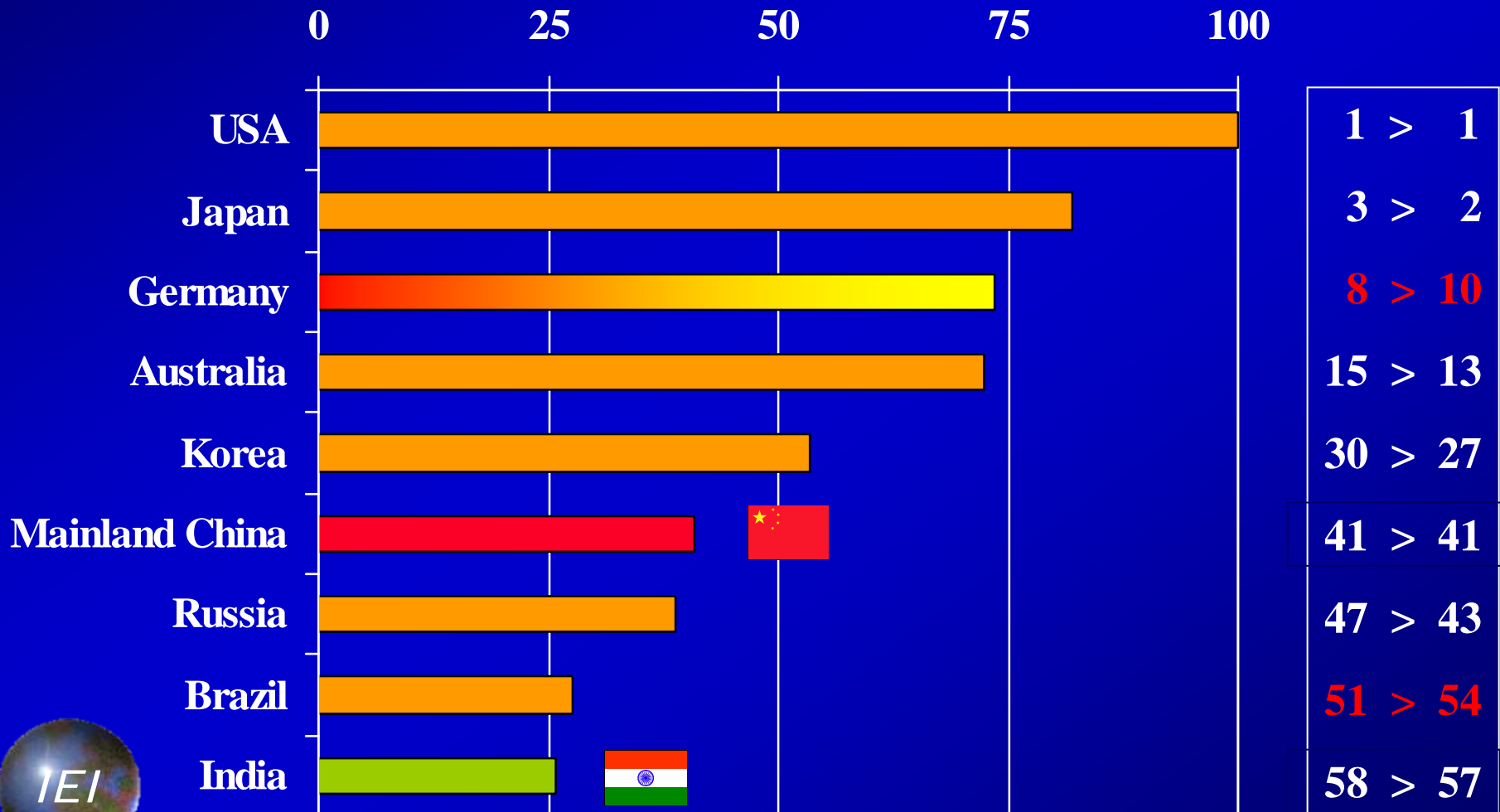
Country Risk Indicator

World Competitive Scoreboard - IMD Ranking 2004



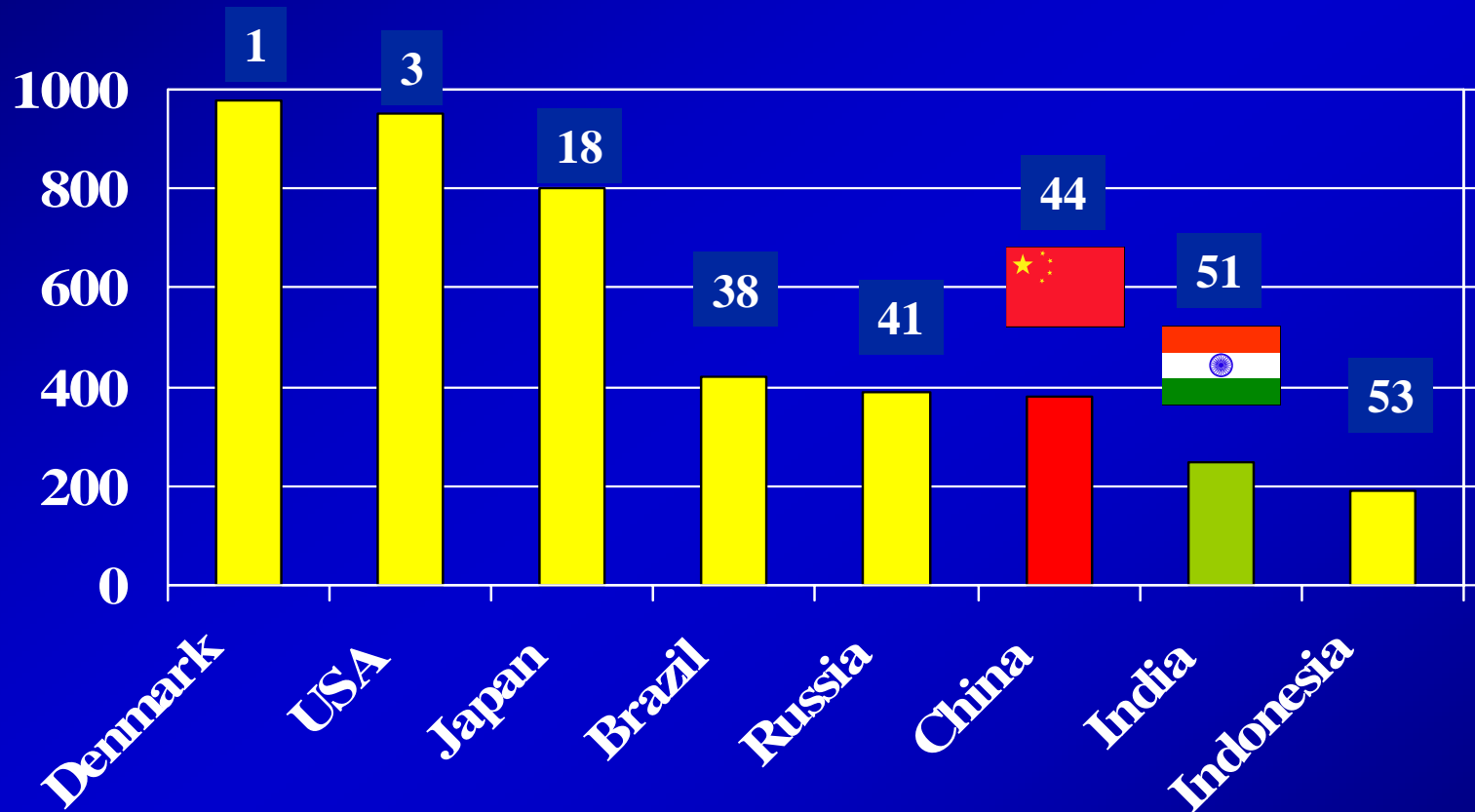
Infrastructure - IMD Ranking 2004

- Extent of which Basic, Technological, Scientific and Human Resources Meet Business Needs



Information-Society Index

Index Score
2004



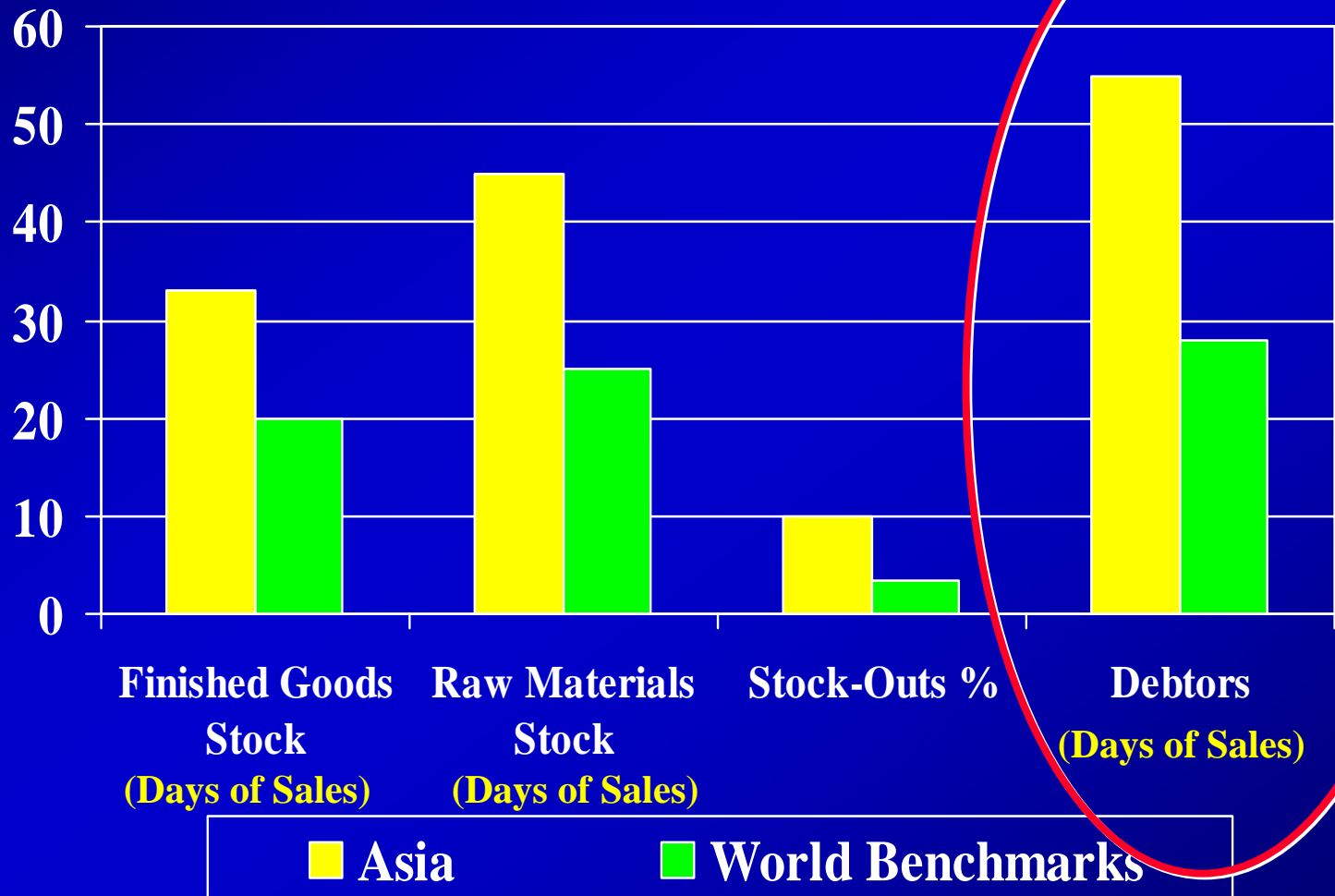
Source: IDC



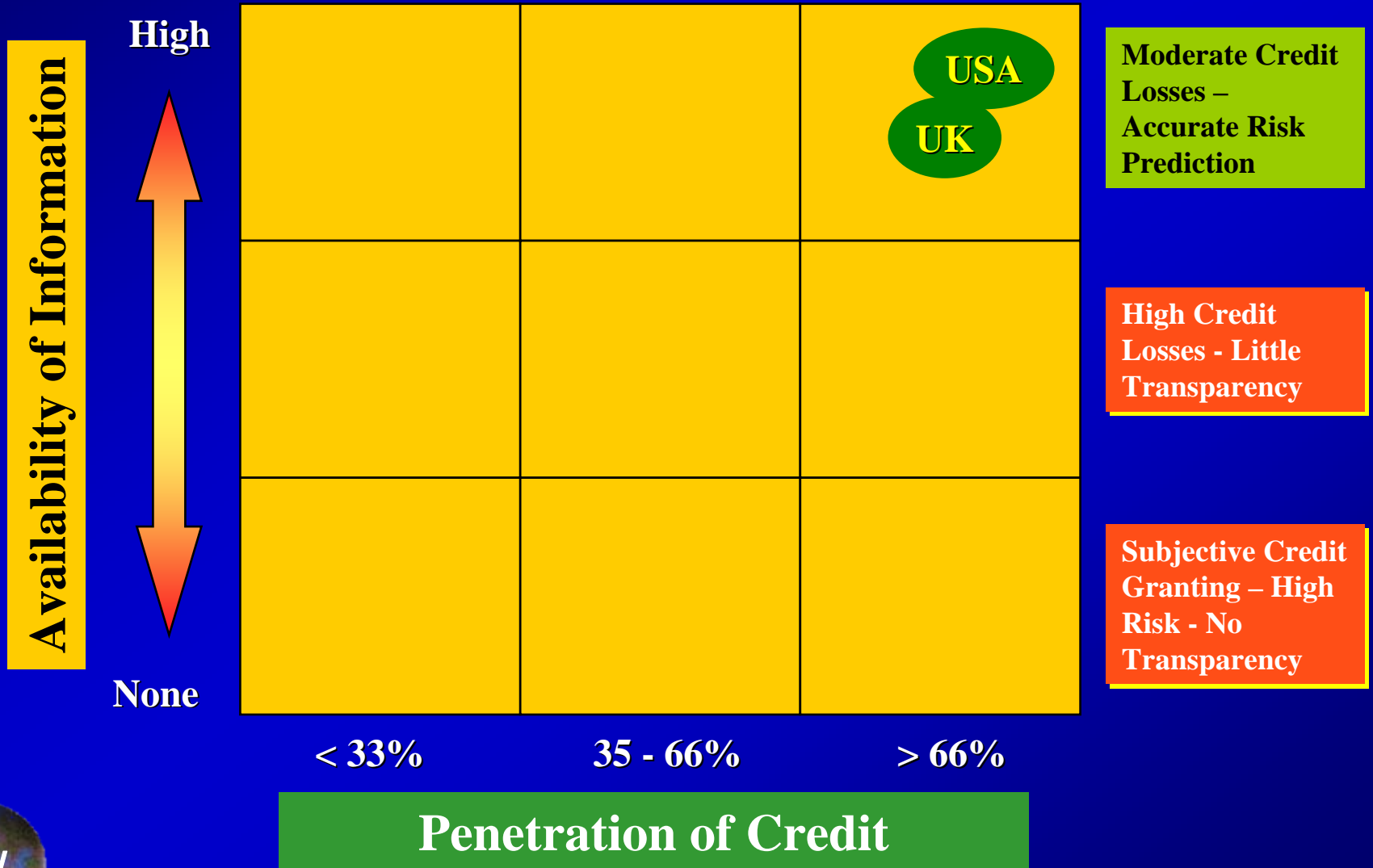
Ranking in Terms of Use of Computers, the Internet and Telecommunication; including Social Factors that Make Countries open to IT

Asian Supply Chain Pains

Source: Estimates by McKinsey Global Institute



Impact on Availability of Credit



China The Lack of Information

**Lack of Adequate
Decision Support**

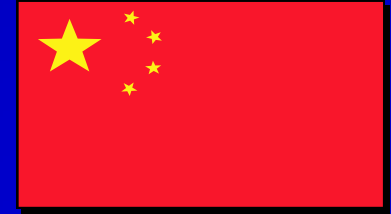
**Lack of Timely &
Accurate External
Information**

**Underdeveloped
Public Records
Infrastructure**

**China
Credit Manager**



China Discovers the Gains & Pains of Credit



“Imperfect Credit System”

- 50% of Credit Transactions are Settled
- 20% are Disputed and Eventually Settled
- 30% are Never Settled

World Bank Beijing Conference Oct. 2004

Credit Culture in Transition

- Personal Contacts / Ethics
- Information Obtained through Face to Face Contact



Credit Culture in Transition



- **Personal Contacts / Ethics**
- **Information Obtained through Face to Face Contact**



- **Ethics, Legal, Institutional Rules**
- **Analytics and Judgment by a Third Party**



Credit Culture in Transition



- **Vendor Finance not Permitted – Strictly in the Domain of Banks**
- **Lack of any Type of Central Credit Reporting by Government**
 - **Balance Sheets Filing - UCC Filing**
 - **Unreliable Public Records**
- **Widespread Distrust of Financial Statements**
- **Corruption Exacerbates Lack of Transparency**
- **Opacity Index Places China behind Nigeria***



* Economist

Credit Culture in Transition



- **Commercial Credit Information Fragmented**
 - **D&B Longest Experience in Operating in China**
 - **D&B Trade Program**
 - **Peoples Bank of China Operates a Central Loan Register – Access for Banks only**
 - **Consumer Credit Bureau State Operated**
- **Timing of Transition Unclear!**



China Discovers the Gains & Pains of Credit



“Imperfect Credit System”

Credit Information

- Legal Framework for Information Pooling
- Emphasis on Information Usage

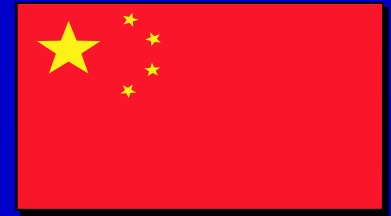
Institutionalizing Credit Management

Government Edict: Develop “Social Credit System”

- Legal Framework
- Educating Population in the Use of Credit
- Punishment for Violations



Country Scorecard Comparison



Economic Size

Trailing

Leading

Competitiveness

Trailing

Leading

Infrastructure

Poor

Improving

Value Added

Trailing

Trailing

IT Exports / Skills

Leading

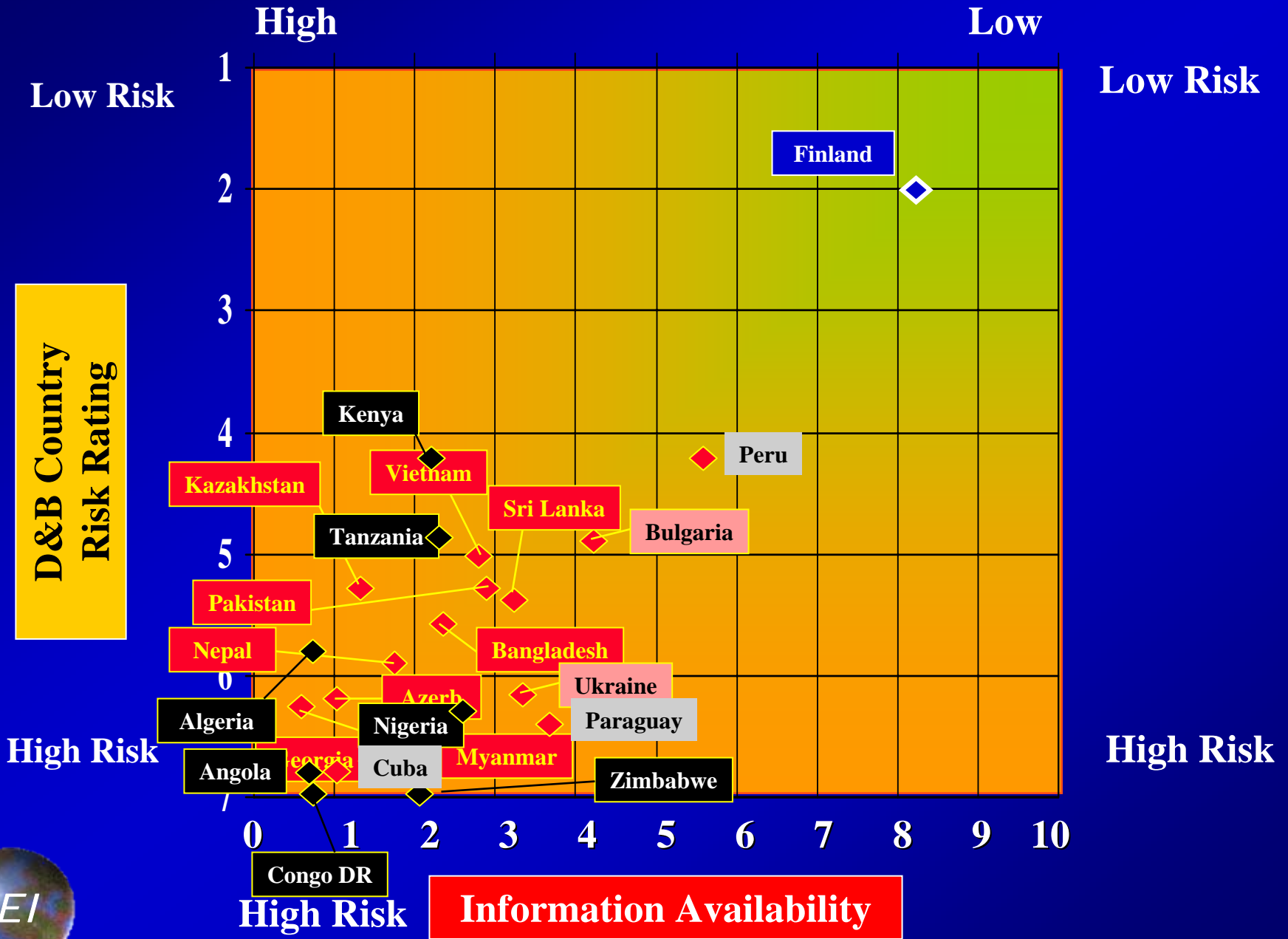
Trailing

Credit & Information

Ineffective

Ineffective





Key Discussion Points

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Transparency: The Three Essentials ...

Credit



Credit Information

Credit Management



Relevance of Credit and Credit Information

Credit

**Credit
Information**

**Credit
Management**

- **Strong Positive Linkages between Financial Sector and Economic Growth***
- **A Well-functioning Financial Sector Provides Individuals, SMEs and Companies with Access to Credit**
- **Strong Linkage between Greater Access to Credit / Higher Bank Borrowings and Existence of Credit Bureaus***

* Source: World Bank www.econ.worldbank.org/programs/credit_reporting



Relevance of Credit Information

Credit

**Credit
Information**

Credit
Management

“One of the Most Institutional Elements Supporting a Well-functioning Credit Market are Credit Reporting Firms, which Provide Rapid Access to Accurate and Reliable Standardized Information on Potential Borrowers, Be they Individuals or Businesses”

World Bank Research – Credit Reporting Systems

* Source: World Bank www.econ.worldbank.org/programs/credit_reporting



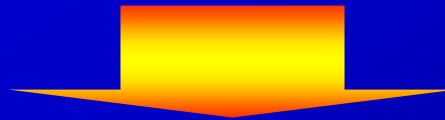
The Relevance of Credit Management

Credit

Credit
Information

Credit
Management

- **Trade Credit: Largest Source for Short Term Capital**
- **Accounts Receivables are often the Largest Uninsured Asset of a Company**



- **Competent Credit Management is Essential for the Survival of a Company**



Regulators Promote Use of Credit Bureaus

World Bank*		EBRD**	BIS***	Central Banks
IMF	IFC		Basel II	

- **Asian Financial Crisis – Mandating Credit Bureaus**
- **Combating Fraud and Identity Theft**
- **SME Support Programs – Improve Credit Situation**
- **Initiates Changes in Legislation**
- **Seminars – Conferences – Standards Committees**
- **Empirical Studies on Benefits of Credit Bureaus**

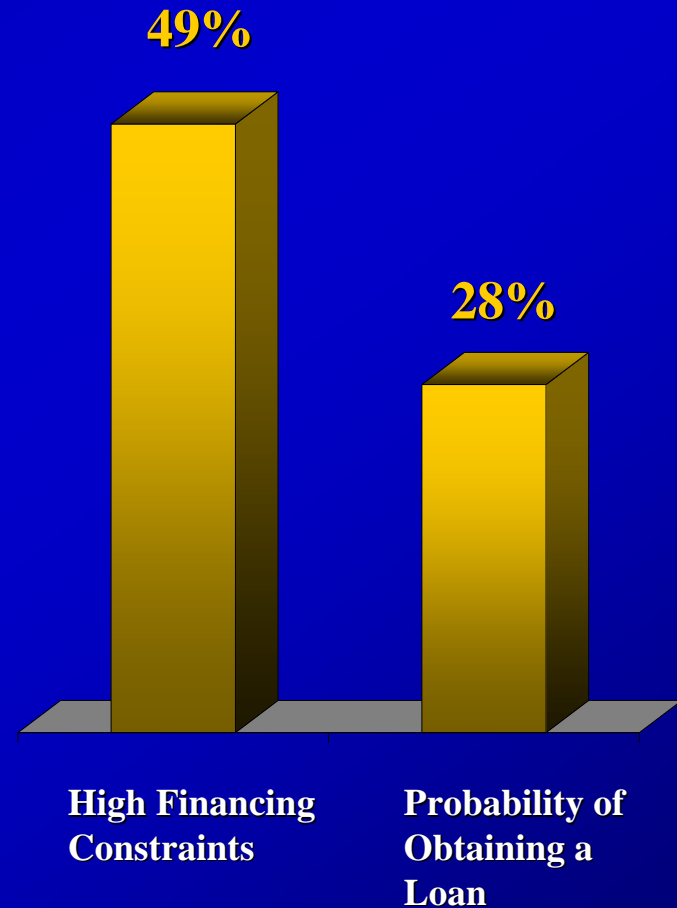
- **World Bank** www.econ.worldbank.org/programs/credit_reporting
- **** European Bank for Reconstruction and Development (London UK)**
- ***** Bank for International Settlements (Basel Switzerland)**



The Problem of Obtaining Credit

- “The Difficulty of Obtaining Credit is Consistently Rated by SMEs as one of the Greatest Barriers to Operation and Growth”

World Bank 2003 Study on Credit Reporting
Estimates Based on Data on 5000 Firms in 51 Countries

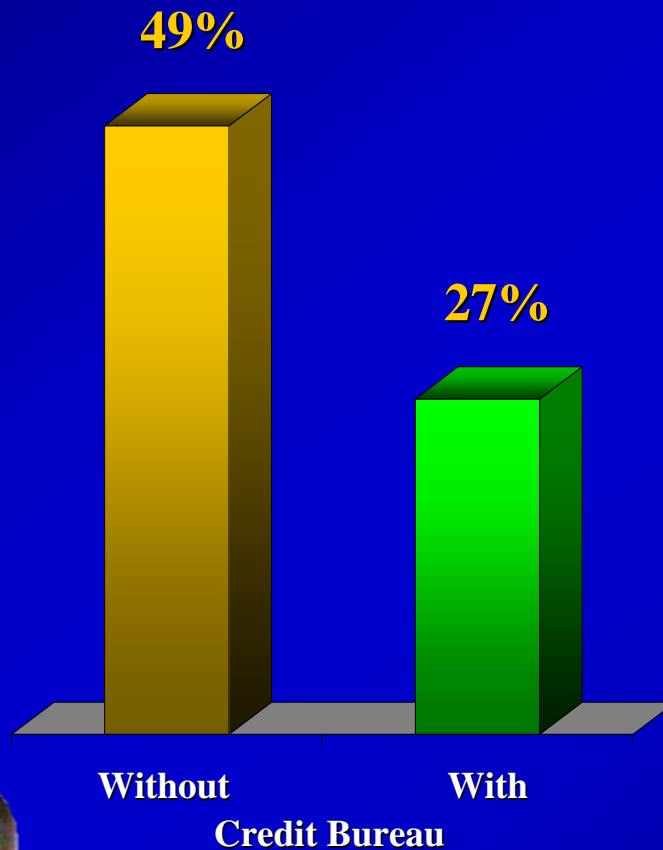


* Source: World Bank www.econ.worldbank.org/programs/credit_reporting

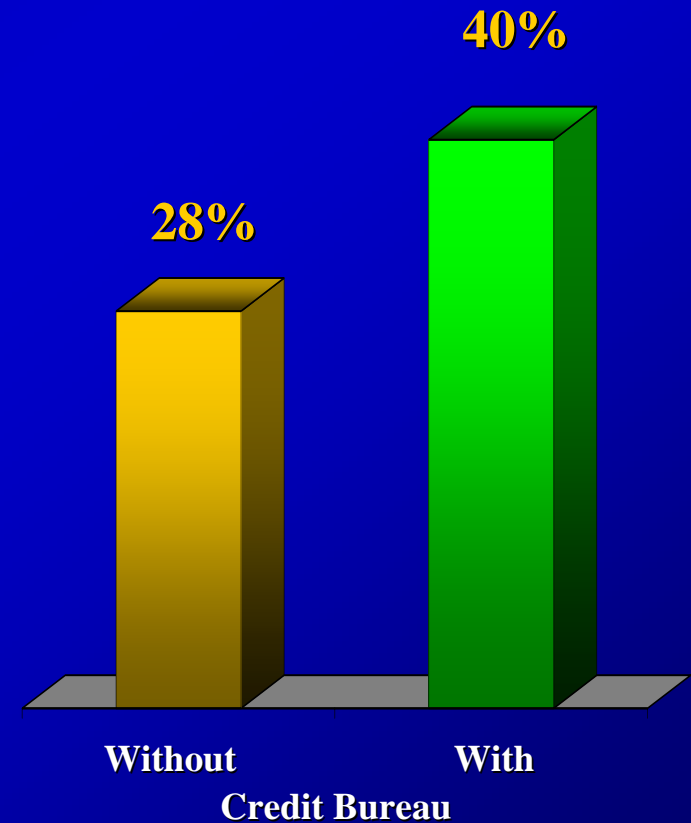


Relevance of Credit Information

**% of Firms Reporting
High Financing Constraints**



**Probability of Obtaining
a Bank Loan**



Source: World Bank

SME Characteristics in Regard to Credit

[Small and Medium Size Enterprises]

- **Very Diverse in Nature**
- **Owners Mingle Business and Personal Finances**
- **Difficult to Identify Clear Success Factors**
- **Independent Analysis (Ratings) Not Available**
- **High Cost of Traditional Risk Assessment Methods Make Lending to SMEs too Costly**
- **SMEs are More Vulnerable to Credit Losses**



SMEs and Credit

**Bank and Supplier
Credit Policy and
Credit Processes**

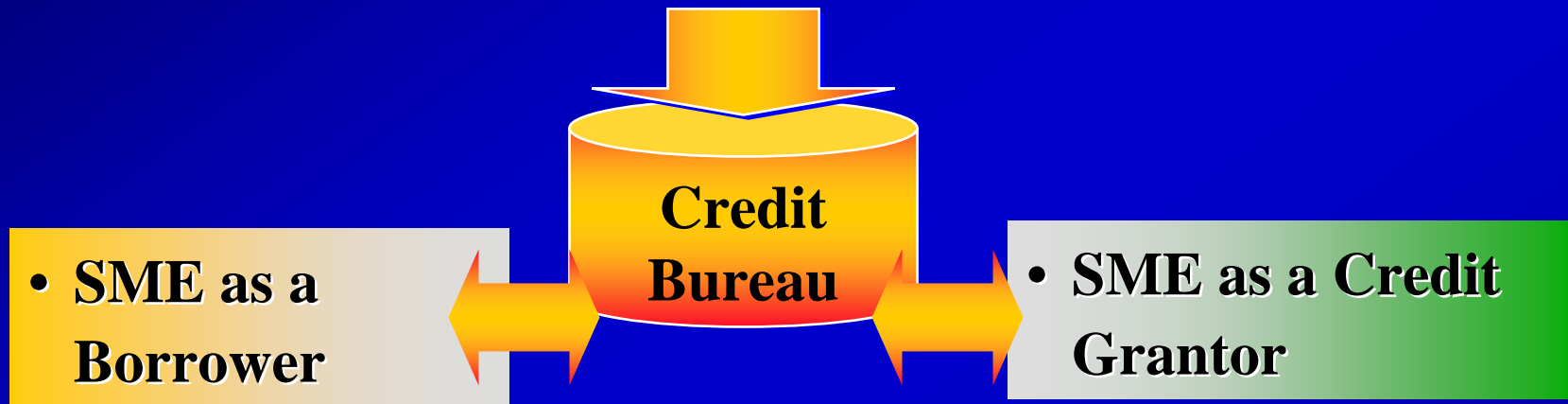


**SME Customers
Demand for Liberal
Credit Terms**

Cash Flow?



The SME and Credit Bureaus



- Objective Credit Process
- Better Access to Credit
- Lower Cost of Borrowing
- Faster Decision Process

- Access to Accurate, Reliable and Timely Information
- Availability of Decision Support
- Accurate Loss and Fraud Prevention

SME: Small and Medium Size Enterprises

SME Credit Bureau: Data Pool of Loan Performance, Trade and Public Record Information

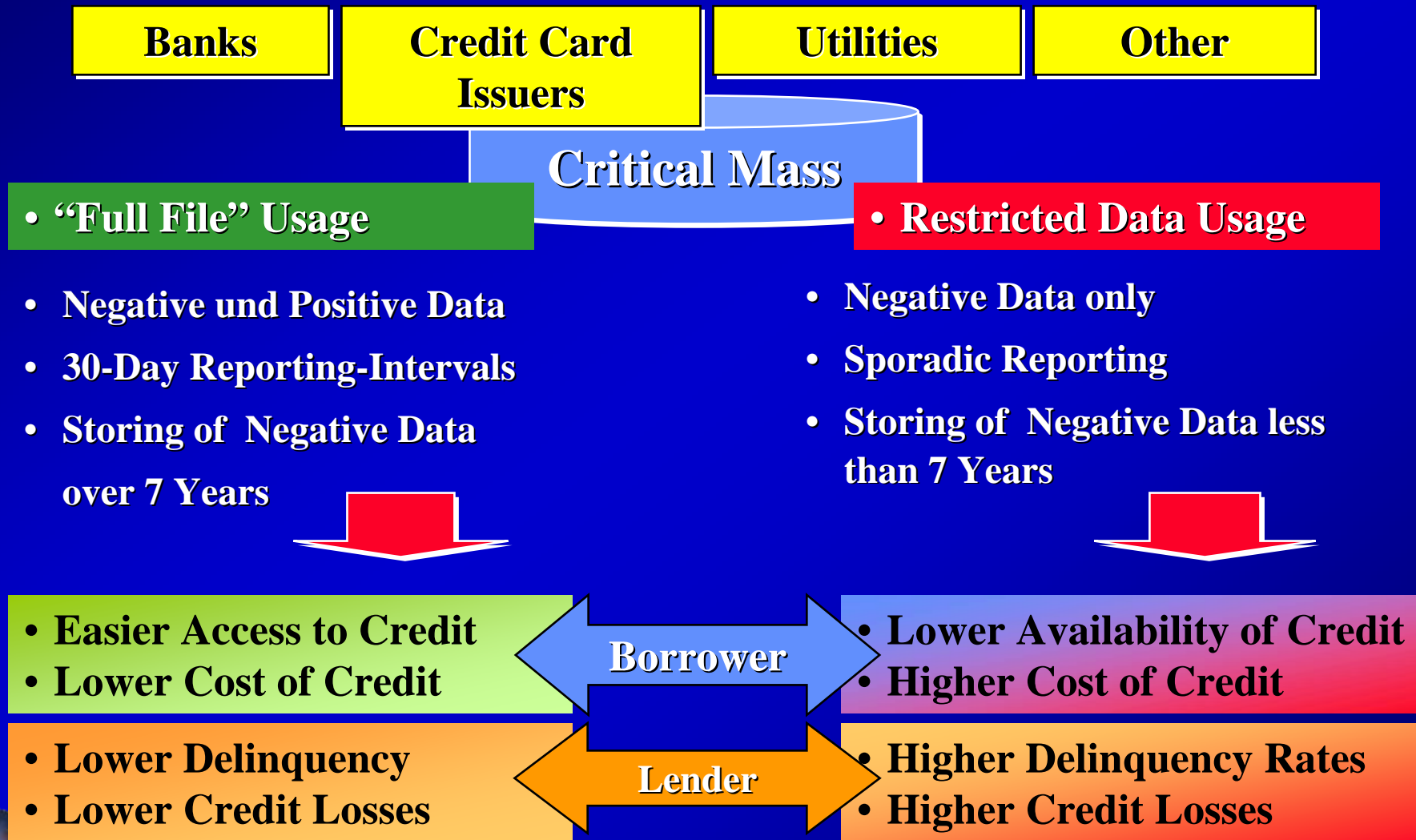


World Bank Initiative

- **Data Pooling in 55 Countries**
- **No Legal Framework**
- **Resistance by Credit Sector**
- **Large Banks Refuse to Cooperate**
- **145 Countries still to Go**
- **Inertia of Legal Systems Retards Implementation**
- ***World Bank* urges Cooperation**
- ***World Bank* pushes Central Banks to Mandate Cooperation**

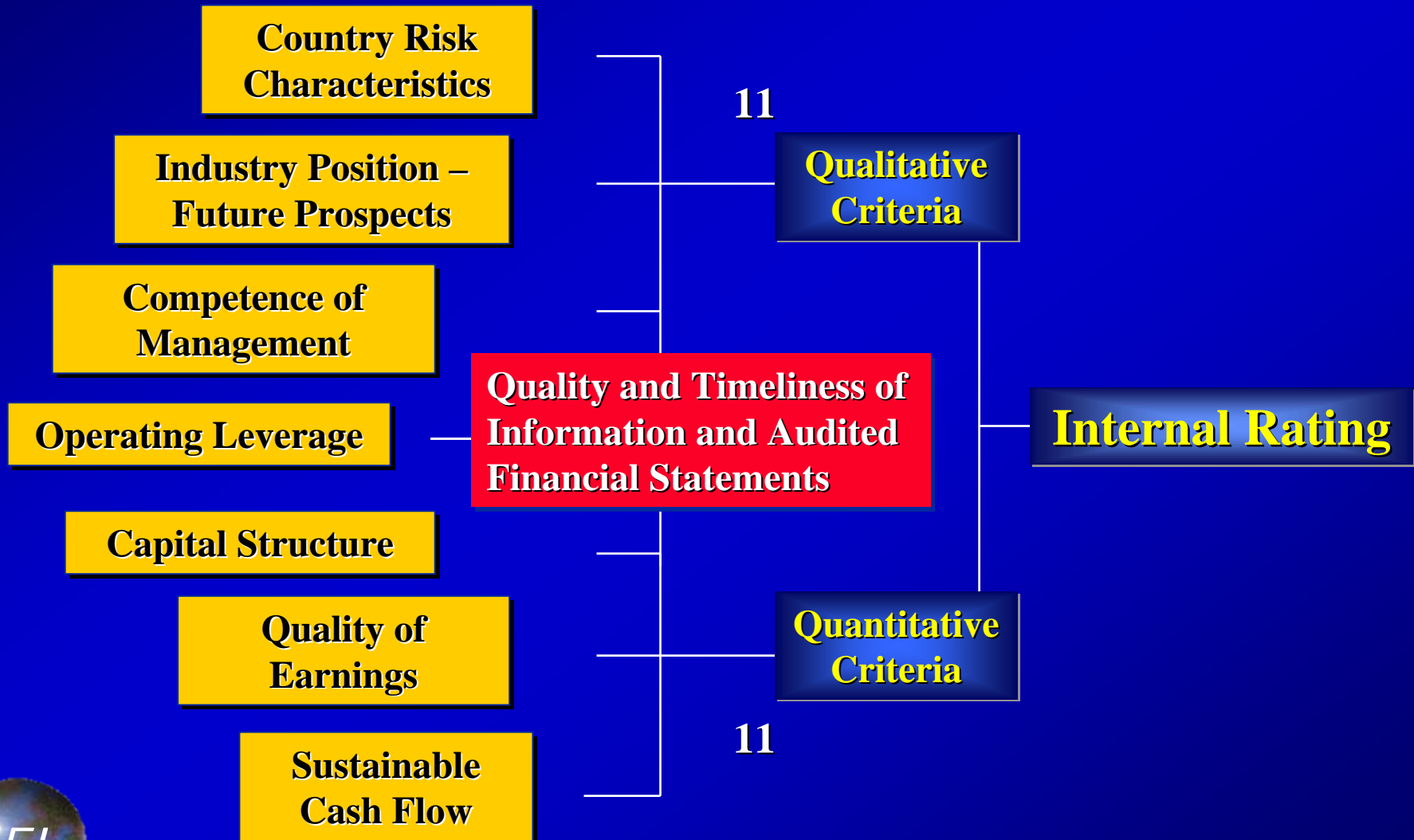


Empirical Studies: “Full File Data-Pooling”



Source: Information Policy Institute

The Impact of Regulators: Basel II



More Rigorous Information Gathering

Industry Position
Future Prospects

Competence of
Management

Operating Leverage

Capital Structure

Quality of
Earnings

Sustainable Cash
Flow

• World-Wide Reaction:

- Many Countries Demanding Special Conditions in Regard to SMEs

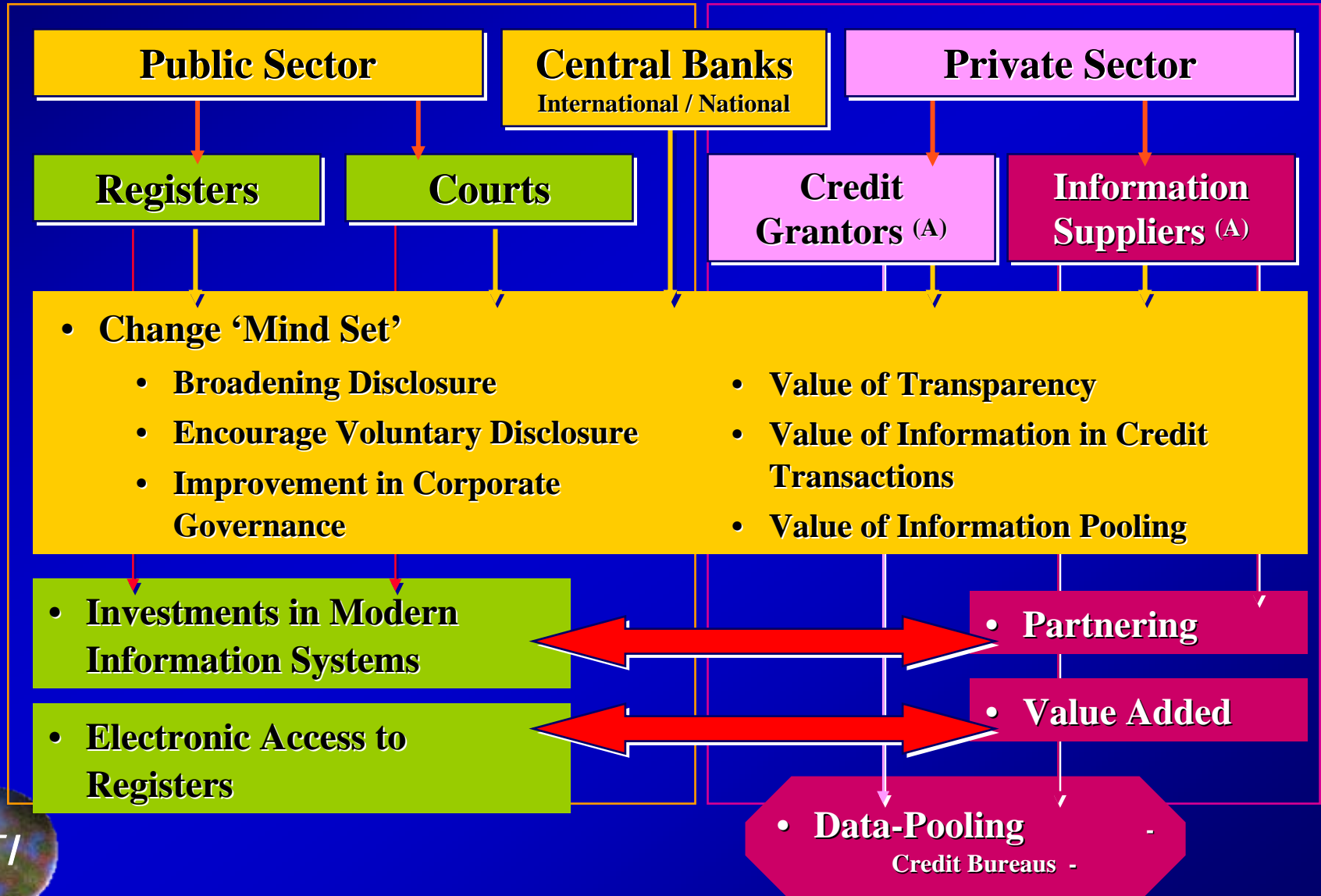


• Outcome:

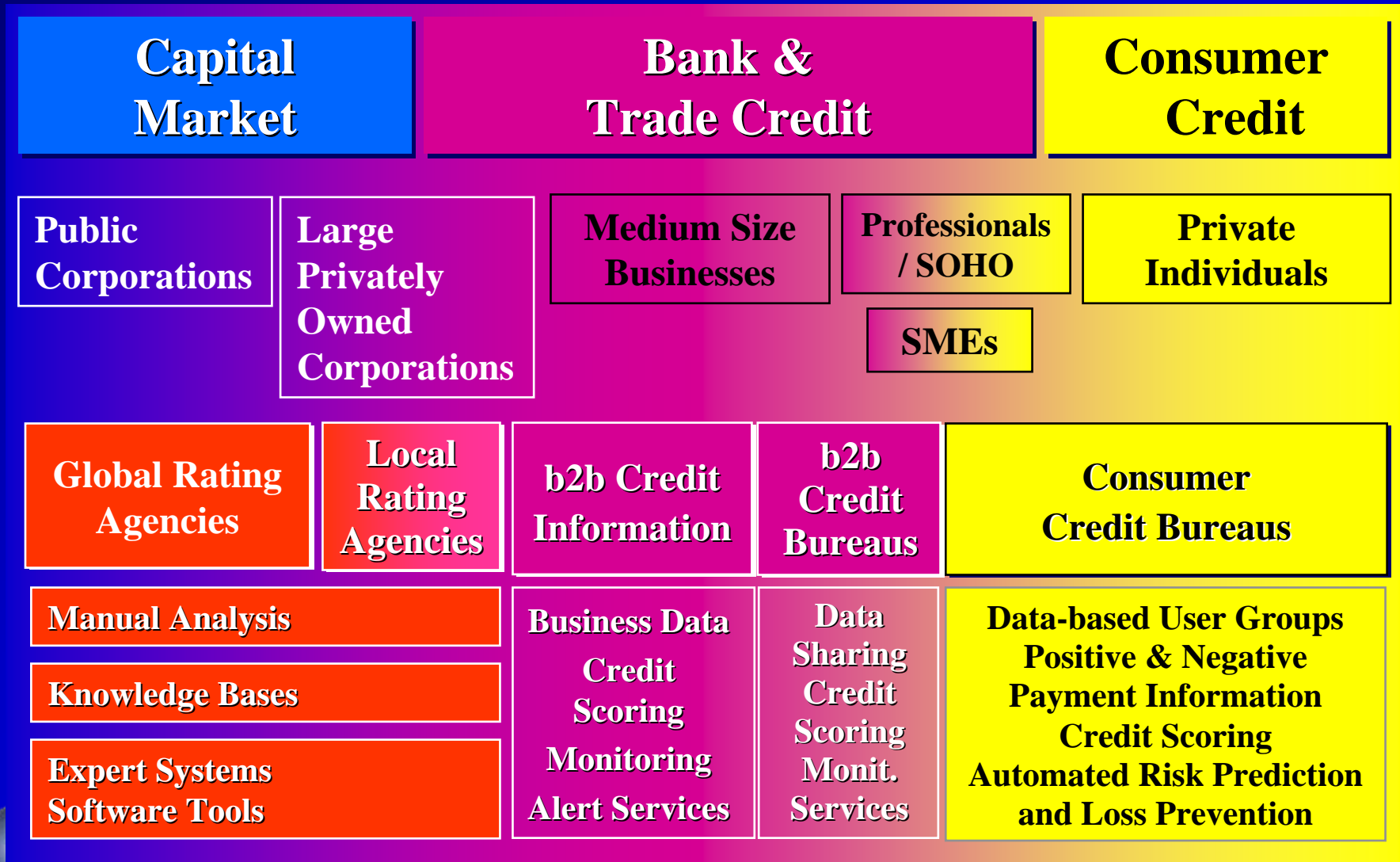
- 85 Exceptions Now Written into the Basel II Accord
- SMEs with Exposures of less than \$ 1 Million Will be Treated as a Pooled Exposure
- Central Banks Expects Banks to Implement Rigorous Information Gathering and Timely Updating



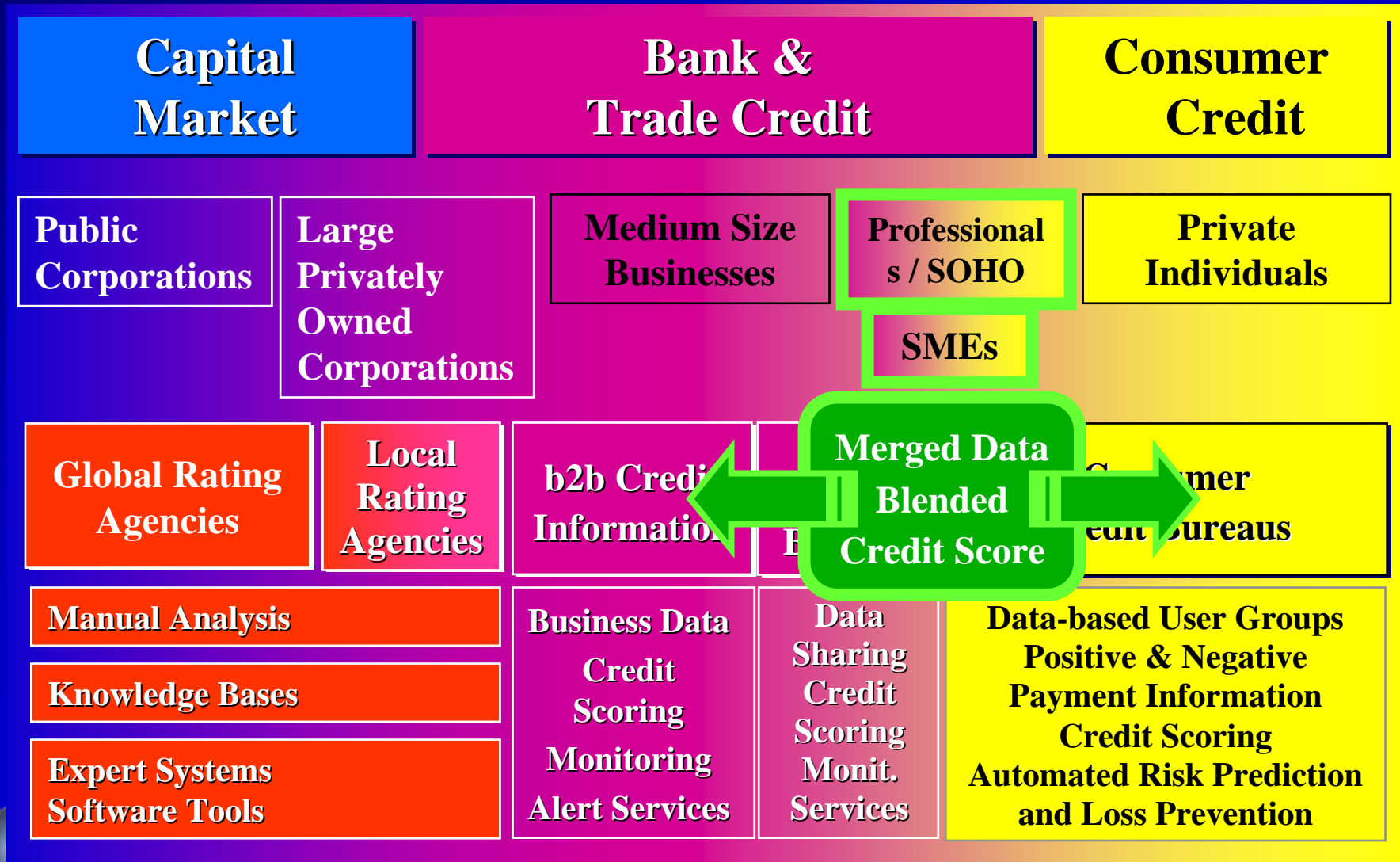
Overcoming Information Deficit



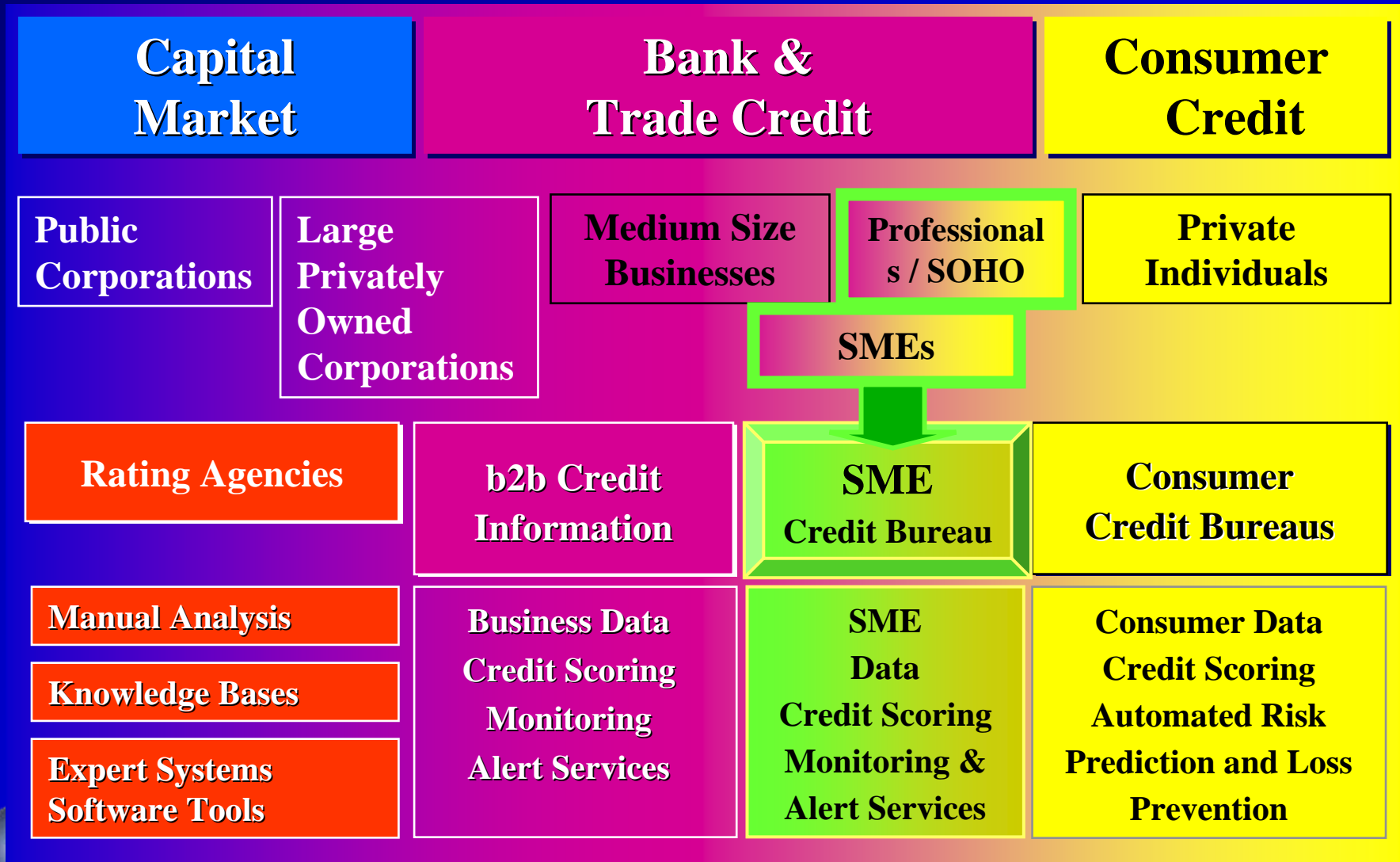
The Business of Credit Information



SME Credit Assessment



SME Credit Information



The Three Essentials ...

Credit

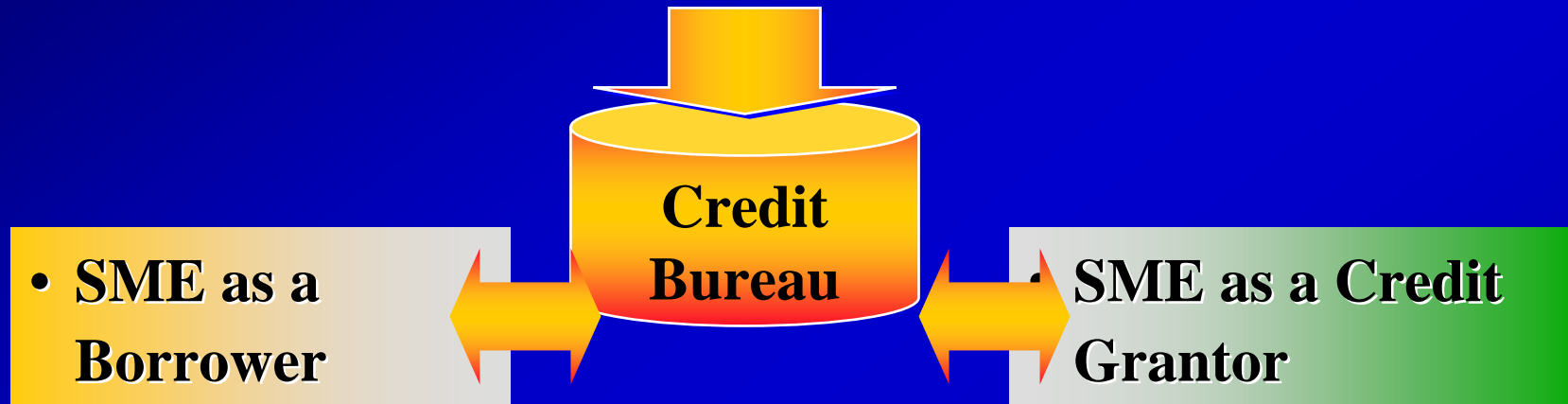
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Information**

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Credit Information Serves Lender and Borrower



- Objective Credit Process
- Better Access to Credit
- Lower Cost of Borrowing
- Faster Decision Process

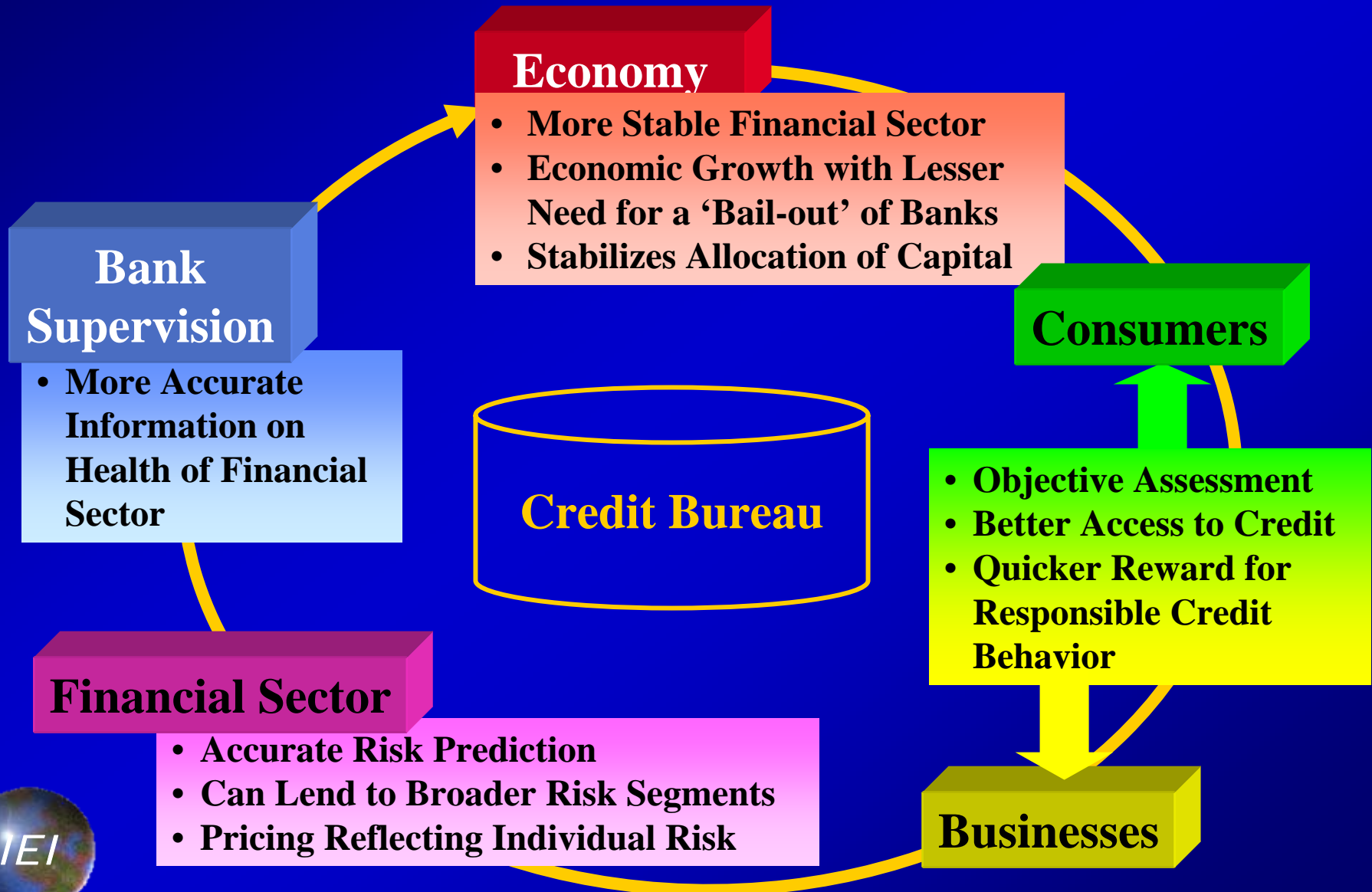
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Economic Benefits of Credit Information



State of Information in World Markets

Thank You

The logo for Intrepid Explorers, Inc. (IEI) is a circular globe with the letters 'IEI' in white, positioned in the bottom left corner of the slide.

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Presented by Joachim C. Bartels, CEO
Intrepid Explorers, Inc.
Chicago 2005