

# Business risks amid the pandemic: How to assess them first

*Analysis of specific pandemic-related risks for businesses*

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## Ranking data sources

Risks in the current crisis appear to be new to a large extent, but despite the novelty of some changes, in general they have only confirmed the importance of data and the services that SPARK-Interfax has been consistently pursuing in recent years. We have sought to collect and process the latest indications of the condition of businesses, including data from online cash registers, payment discipline, and information about activity on the Internet, in order to respond faster to changes and better understand interconnections. It is on this basis that we created better forecast analytics and services for solving specific problems in the SPARK system.

Now we can judge what data proved to be most useful in the crisis as a tool to monitor changing risks as quickly as possible.

The list includes:

- Payment discipline indicators
- Online cash register data
- Credit history data
- Court rulings, enforcement proceedings, lawsuit burden indicator (SPARK system index showing potential amount of liabilities that a company might face)
- Website activity and registration data
- Information about participation in purchases and changes in structure of purchases
- News and reports from social media
- Financial statements, data on employees, analysts of tax burden and productivity

- Data on real estate, intellectual property...

Separate mention should be made about the role that information about a company's area of business played during the pandemic.

For many years, we have clarified the actual field of activity of each business with the aid of all possible indirect sources, such as purchases, licenses, certificates, industry permit lists and corporate websites. During the pandemic, when all businesses were split into those that were officially "affected" and "not affected," this precision turned out to be very useful.

To pay or not to pay?

SPARK now has information about the payments of 800,000 Russian companies and individual entrepreneurs. The largest providers of goods and services post data on the timeliness of invoice payments by counterparties in the system on a monthly basis. This information is then aggregated using a unified international method in order to analyse the level of credit risk and calculate scores.

And SPARK was the first to discover that non-payments between companies during "nonworking" April grew to the highest level since the crisis of 2015: 54.6% of all bills were paid on time while 26.1% were overdue by more than 60 days, compared to over 65% and 6-8%, respectively, in 2019.

In May, as lockdown restrictions eased, settlements with suppliers began to recover and this trend continued in June-August, when payment discipline began to near the pre-crisis level, but then it started to deteriorate again in October. Through the example of a specific company, one can see how the spring lockdown affected its payment discipline.

Credit histories are also a rapid indicator. However, they cannot be requested through SPARK without the consent of the company being checked. The recently launched SPARK-UCB business scoring service, which among other things factors in information from companies' credit histories, including their directors and owners, might offer a solution.

The overall share of small and medium enterprises using loans has virtually doubled since the beginning of 2020 due to government programs to support businesses, but the share of overdue loans, surprisingly, shrank. Furthermore, the quality of debt servicing continued to improve in the third quarter, the latest data from the SPARK system and United Credit Bureau (UCB) show.

However, it appears that in this case we are looking at deferred risks related to the moratorium on bankruptcies, the credit holidays and subsidized lending rates.

Government support programs were the key factor in the growth of lending to businesses in 2020, and if these programs are wound down before the economic situation improves, there could be a surge in the number of defaults by small businesses as early as in the first or second quarter of 2021. So it is important to monitor hidden risks and not miss the point when your counterparty starts to have problems.

The moratorium on bankruptcies has created similar deferred risks. It applied to 1.6 million companies at the end of 2020.

Gauging legal outlook

Non-payments and overdue bills, as we know, are inevitably followed by lawsuits. Just before the pandemic SPARK launched a special analytical model that makes it possible to assess actual risks for companies from such lawsuits.

This is the calculation process used:

- Legal disputes involving the company are analysed in order to identify individual factors: specific article of the Russian Tax Code; regular transfers to unethical counterparties; violation of supply contract and so on
- The assets or liabilities that the company will have as the amount won or lost, discounted for the duration of the legal proceedings, are calculated
- The likely outcome of the case is estimated based on similar lawsuits in the same court with the same subject of dispute

Data on the pair of plaintiffs and defendants are used as predictors that help forecast the result of the case; factors such as revenue, area of business, region and age of company are analysed for each party, and the likelihood of victory is then estimated taking into account information about the arbitration court and judge and the amount of the claims.

Online store with no visitors?

As we have said before, the forced move of businesses to working online has given rise to various fraudulent schemes using websites. Bogus sites post contact information for frontmen (for example, in order to confirm 2-NDFL personal income tax forms when issuing a loan), sell cheap or substandard goods under the guise of high quality products, and so on.

For example, at the height of the pandemic, dozens of bogus sites were created supposedly on behalf of CJSC Synthetic Alcohol Plant. These sites “sold” alcohol for making sanitizers that was very much in-demand amid the lockdown. Naturally, after receiving an advance payment, the fraudsters evaporated.

It is often very difficult to tell a real site from a fake one, as bad actors skilfully copy the corporate styles of well-known companies or create a website from scratch without the real company even suspecting its existence. As a rule, in order to mimic the sites of well-known companies, fake sites post these companies' details, such as name, address and Taxpayer Identification Number (INN).

Therefore, in order to reduce potential risks, the SPARK system lists sites that, for one reason or another, provide someone else's details in a separate table:

Of course, there are cases where a company's real website is just registered to a private individual, such as its director or head of information technology.

A more complex form of fraud is when criminals, in the name of the target company, create an account on the site of the domain registrar and then quite officially hitch a fake domain to the unsuspecting real company. After this, the fraudulent site ends up on a domain that is included among those clearly identified and belonging to the real company.

The SPARK system has several ways to see such dangerous domains. First of all, there are a site's visitor traffic and activity indicators, indicators of confidence in it. After all, a popular site with a substantial audience is less likely to be fraudulent, as this would have been discovered already (if there were many deceived visitors).

Low popularity, though, is typical for recently created or very narrowly specialized sites, which are genuinely rarely visited and this is normal.

Another possibility is date comparison. The SPARK system has two dates that are important in this case: the date of domain creation, meaning when this domain was registered for the first time; and the date of domain registration, meaning when this company acquired the domain.

If the dates differ significantly and the "former owners" field is empty (indicating that the domain belonged to a private individual prior to the date of registration), this means the site at this domain might not have any relation to the company.

One man's crisis is another's opportunity

SPARK has been studying the phenomenon of fly-by-night firms and the typology of fraud for a decade already. While ten years ago this was the order based on importance, the pandemic has brought fraudulent schemes to the forefront. Unethical vendors offer miracle cures for the coronavirus, and social engineers come up with ever new ways to con people out of their money. For example, bad actors recently registered more than 1,500 clones of the website of a prominent media company in order to draw users to the site of a "broker" and get them to part with their personal data and money. In order to identify untrustworthy companies, we use the Due Diligence Index, which

now separately factors in signs of a fly-by-night firm or fraudulent business.

The graph shows how companies are currently distributed by segment. While the number of fly-by-night firms has fallen to the level of the statistical margin of error, below 75,000, the number of potential frauds is stable.

The amount of questionable transactions in the banking sector fell by a third in the first half of 2020. Money cashing activity using tourism businesses, trade companies, and payment agencies decreased dramatically. Settlements with individuals make up 72% of questionable transactions, while settlements between companies account for just 24%.

So “tax” fly-by-night firms are indeed dying out, but there are still plenty of untrustworthy companies, the Due Diligence Index shows.

Our other scoring product, the Financial Risk Index, has also not lost its relevance in the pandemic. It now puts more emphasis on dynamic factors such as information on payments, transaction activity with customers and legal claims, and less on indicators from the past, such as financial statements for no longer relevant 2019.

Therefore, SPARK has reconfigured its analytical models taking into account the indicators that make it possible to understand the current, actual state of a business. Precisely those sources that we talked about proved useful in this.

We described some of the quickest sources in detail in this article and other, more traditional ones, we only mentioned, but they also remain relevant, of course.

In general, rapid assessment of counterparties and borrowers is more important than ever now. Unlike previous crises, when all companies were down on their luck, just to varying degrees, today businesses’ fates can differ radically and even be completely opposite. Transport companies, for example, saw their revenues tumble by 90% or more in a matter of weeks, while online retailers and digital platforms are seeing unprecedented growth...

In this situation, a proper and rapid assessment of counterparties could not just save money but also open up fundamentally new and promising opportunities for business development.

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