



**ANNUAL REPORT
2018/2019**

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Innovative and yet secure

Digitalisation presents itself to us as a continent that offers ever new opportunities and discoveries, but that also raises fears of some dangers. We have already opened up fresh territories but boundaries are not in sight. As an information service-provider and in receivables management, Creditreform is under a particular obligation to make its way into the digital future. We are a knowledge- and data-based company, so digitalisation impacts on our services at their core. Our systems are geared to providing process support for our customers. So a wealth of services has formed around the traditional pillars of business information and debt collection, accompanying our customers throughout the entire process of their market activities and at all times.

What is decisive for us in this respect is a platform strategy with which a digital ecosystem can be created. This platform, embodied by *Meine Creditreform* (My Creditreform), enables us to launch new services, especially in cooperation with other providers. When identifying potential collaborations, we attach great importance to judiciously rounding out our portfolio with services that bring a real innovation to the market and guarantee functioning in a way that is as uncomplicated as possible. Examples of such new services are the CrefoEVA credit-insured commercial report, or, in the future, the financial analysis cockpit. With CrefoPay, we already offer our own payment platform and – with our associated debt collection – provide help if payment problems arise in e-commerce.

Digitalisation and operating with a platform incorporating additional services in collaboration with other enterprises are not the only ways to innovate. What is involved is not just product innovation but also process innovation. Artificial intelligence helps us to go on tapping our potential both in debt collection and in the field of our commercial reports. In debt collection, a new procedural model determines how to address debtors; AI guides both the addressing media

and the tonality of the content. Artificial intelligence is particularly valuable when it comes to processing large amounts of data. PSD 2 requires banks to establish interfaces through which third-party service-providers can access bank customers' payment accounts. With regard to credit appraisal, completely new possibilities for screening relevant information arise. Here, we are working on determining the general conditions. We are al-



Christian Wolfram,
President and Chairman of the Joint Board of
Verband der Vereine Creditreform e.V.

ready experienced in the automated processing of corporate balance sheets – something which has led to Germany's largest balance sheet database – and are also building expertise in creating supplementary key ratios derived from the account data.

However, the new possibilities offered by the Creditreform platform, an ecosystem and the application of artificial intelligence are not limitless. Legislators are studying the developments and creating frameworks for data protection and data security. And our customers also have very precise ideas about the cooperation that has to be calibrated within the context of compliance. The Creditreform organisation has committed itself to gradually establishing an internal control and risk management system to meet all regulatory

requirements. This has enabled us to respond to all member enquiries and on-site audits both in terms of content and on time, even though the enquiries are becoming increasingly individualised and more extensive.

Almost every day we read about data leaks and data losses. With its highly sensitive business information and debt collection data, Creditreform has to take exceptional care to safeguard itself against hacking. That is one reason why our members demand an emergency management system from us that minimizes the impact on a company's core processes and supports the timely resumption of normal activities. In the context of information security, numerous guidelines have been – and are being – drawn up to take this into account. This also includes the associated document control and information classification, and fostering employee awareness for the problem spectrum. We have accelerated the development of our IT security in accordance with the ISO 27001 standard and in January 2019 received official certification.

In connection with all these developments, it is important to highlight the fact that in this age of digitalisation our work continues to focus on the customer; it is based on closeness to the customer thanks to decentralization. In 128 cities we have a personal relationship with our nearly 128,000 members. It is the kind of relationship which we have been promoting for 140 years now. Creditreform operates within a triangle of legal regulations, the demands of the market and our customers, and the developments of digital transformation. Within this field we are successful – just as we have been for decades.

Yours,

AI in debt collection – we're working on it

In the 2018/2019 financial year, Creditreform Receivables Management and Debt Collection continued the positive trend of recent years. The number of cases submitted by creditors increased and so, too, did the successful debt collection volume. At first glance, the economic environment, which is characterised by a good economy and declines in late payments and insolvencies, does not appear to be especially favourable for debt collection services. But overall, rising sales and thus a greater number of business transactions generate a higher number of "bad debtors" and impending payment defaults. More than ever, companies need to focus on their core business and leave the management of their receivables to specialists.

Debt-free after three years

Another factor is that creditors and receivables managements are confronted with legislative changes geared more to consumer-friendliness than to creditors' rights. The European Commission has put forward a proposal for a Directive reducing the debt relief period for consumer insolvencies to a maximum of three years. This ruling is in line with what is already common practice in many European countries and also reflects the fundamental political will of the main players. The Directive is expected to be adopted in summer 2019. This will be followed by an implementation period of two years. However, the Directive leaves law-makers in the individual member countries some scope for interpretation. So Creditreform will approach the Federal Ministry of Justice and Consumer Protection at an early stage and push for the creation of appropriate creditor-friendly regulations.

In view of the debtor-friendliness of legislation and jurisdiction, Creditreform is increasingly relying on efficient methods of debt recovery. By

drawing on artificial intelligence (AI), machine learning, existence and behavioural economics, we are working to improve traditional approaches. The basic idea behind this is not new: For years, artificial intelligence has been used to better evaluate data from prospective customers for marketing purposes and then to address these potential customers on an interest-specific basis. This approach to customer acquisition is



not only more targeted and more efficient, because the customer receives exactly the communication he or she is interested in, but also significantly cheaper, because it avoids cost-intensive wastage.

Every debtor is different

By using AI in receivables management, it is possible, for example, to make addressing a debtor a more targeted process, adapted to his or her individual needs. This individual approach aims to heighten the probability of success in receivables management. In addition, it avoids the chance of annoying an existing

customer about a collection procedure, with the possibility of a termination of the business relationship; the debtor thus remains a customer.

The starting question is: Can an individualised form of addressing a debtor optimise the dunning strategy and step up debt recovery success? In order to answer this question adequately and in a well-founded manner, a field test has been initiated. In three very different regions – a large city, a conurbation and a rural area – incoming claims files of selected members are divided into two groups: a group with a debtor-oriented approach and a control group whose files are handled at the same time in line with the previously established procedure. At the end of the test, a comparison is made between the two groups in order to measure the success of the debtor-specific approach.

The field test is currently in the active phase, with the selected files always being processed in one of the two comparison groups. The wish to extend the test to other regions and members is also being implemented in this active phase. In view of the number of files required and the duration of each case, an initial evaluation of the test results of both groups will be carried out in the fourth quarter of 2019.

To ensure that the incoming claims files could actually be processed on a debtor-specific basis in the field test, a segmentation of the debtors was already conducted in 2018: artificial intelligence was used to check the debtor data for correlations, and 17 decision-relevant criteria were filtered out. These criteria helped to identify the differences between individual debtors and then to divide

them into four main segments: forgetful, over-indebted, expressing doubt, and uncontrolled.

Letter or text?

In a further step, different “forms of treatment” tailored to individual requirements were developed for each of these types of debtor. The “forms of treatment” are individual dunning procedures, with three main points of focus:

- The time: when, how often and at what intervals the debtor is approached.
- The medium: which channels are used to address the debtor; this can be a letter, an e-mail or a text message.
- The tonality: which style of language is used to approach the debtor.

With the established process up to now, the approach to debtors and the reminder strategy were usually carried out in a “standardized” manner and individual, “softer” factors relating to the debtor were not taken into account. With the debtor-specific approach, the preferred communication channels, appropriate times and frequencies, and the appropriate choice of words and visual design are applied in a targeted manner.

Since the approach to the debtor – above all in terms of tonality and media selection – takes place “at eye level” as it were, his or her attention and willingness to cooperate increase, and so, accordingly, does the probability of debt collection success. Because inhibiting barriers are dismantled, the debtor is more accommodating about finding a joint solution and ultimately remains a customer.

An answer to the initial question of the “debtor-specific approach” project will already be possible by the end of 2019. We are confident that the results of the project and the integration of AI into the existing collection processes will increase the

recovery rate and reduce the duration of the procedures involved. At the end of the day, this also heightens efficiency in receivables management.

Our goal of meeting the requirements of our debt collection customers even better is also served by a number of innovative features in the debt collection area of the Creditreform portal, such as the debt collection upload and the new timeline, which presents our services transparently and understandably for each individual order. In this way, the portal informs the customer that the processing was started immediately and that he is being kept up to date at all times.

Communication with the creditor

User-friendliness plays a central role in the further development of *Meine Creditreform*, especially in order to meet the needs of smaller companies, too. For this reason, our future updates are governed by the principle that each release also contains added value for the user. When developing new features, it is important to bear in mind that functions and offers must also be tested by the creditors. If new functions and offers are accepted, it makes sense to expand them further. However, if they are not used, it is equally sensible to remove these functions or offers from the portal. We are developing access and communication in many small steps using modern methods – in an agile way that offers short time horizons.

The fact that Creditreform Debt Collection remains on a good course not only as a digital workshop but also overall, is shown not just by the figures on developments in Germany, but also by Debt Collection International and by Creditreform Factoring.



In international debt collection, we again registered an increase in the volume of orders and receivables in 2018. Year-on-year, the number of orders in the core business area grew by 10 percent, while the volume of receivables actually expanded by all of 18 percent.

And Creditreform Factoring contributes to the upward trend, especially among small and medium-sized enterprises. Germany still has some catching up to do in the field of new factoring business internationally. But this is definitely underway, as shown by the good progress made by the Crefo Factoring companies, which were able to continue their prior-year positive development. In 2018, the buy-in volume was increased by more than 7 percent. And 2019 can be expected to bring a further increase in demand among SMEs for receivables financing.

More than commercial reports

Collecting and structuring information and evaluating it in respect of creditworthiness: this is the commercial report. While this is still fundamentally true, the digital revolution has changed the landscape. The large online service-providers in the e-commerce or social media sectors possess huge amounts of data that also allow conclusions to be drawn, for example, about payment behaviour. In view of new offerings from the fintech sector or the digitalisation of public registers, Creditreform, as a leading provider, is looking to expand its database and differentiate its range of commercial reports on a customer-specific basis.

The most important addition for Creditreform members – and potential members – is the new *Meine Creditreform* (My Creditreform) portal. It represents the electronic space where any wishes regarding the safeguarding of the interests of creditors, whatever these may be, can be realised. In this way, Creditreform is providing a platform that also enables partners to offer their services. The most recent example is CrefoEVA, a collaboration between Creditreform and Atradius, the renowned credit insurer. Anyone calling up business information or a commercial report in the *Meine Creditreform* customer portal is offered the opportunity to insure their business directly through this company – all very simply. An online premium calculator provides cost transparency; the sum insured and the term can be individually selected. All the insurance documents are deposited in *Meine Creditreform*.

Payment with security

CrefoPay is also about providing greater security for a claim. With this service, Creditreform is responding to changes in the retail sector as it increasingly evolves into e-commerce. The focus is not just on consumers,

but also on the purchase of goods by business companies. Whether B2C or B2B – customers prefer to pay on account; on the other hand, merchants need a payment system that gives them security. This is where Crefo Pay's offer comes into play: the customer and his shopping basket are appraised in the background at the electronic checkout and forwarded to a payment method based on the customer's creditworthiness and the merchant's attitude to risk. This gives online retailers control over identity and solvency – in the shortest possible



time. In the consumer sector, the key data is provided by Creditreform Boniversum; in the case of orders placed by business customers it comes from the Creditreform company database. And with Creditreform, another service is added to CrefoPay: if there is no progress on the payment front, Creditreform takes over dunning and receivables management. It goes without saying that all processes from appraisal to payment reminder are documented, so that the e-commerce merchant using CrefoPay always has an overview.

Creditreform Boniversum, as the information and risk management supplier in the consumer sector, is enlarging its spectrum of solutions,

and is doing so not only in the field of e-commerce. The Boniversum CUBE platform, a fully automated and dynamic solution for process control and decision-making in credit management, was successfully established in 2018 and is being developed further. CUBE's product range has been extended, making it interesting for SMEs as well. These can now conduct risk assessments easily, cost-effectively and automatically, and also manage and optimize the associated processes. Next steps for Boniversum: the internationalization of CUBE and the development of new possibilities for AI.

For Creditreform Boniversum in particular, but also for Creditreform as a whole, the introduction of the new EU General Data Protection Regulation (GDPR) played an important role, as it provides citizens with more means than before to find out which data business companies are storing about them. We have met the requirements of the GDPR and have provided and communicated a large number of sample letters, work instructions and training courses. With the implementation of the GDPR, a deletion concept has become indispensable for every company in order to

comply with the principle of data minimization. We have implemented this requirement in our IT systems; the deletion period for negative creditworthiness features is exactly three years to the day. Boniversum has also accompanied and supported its customers (in particular the online trade) with its own webinars, information material and its own information site during the changeover. Above all, it has given customers the re-assurance that they can continue to conduct credit appraisals within the new legal framework.

Consumers are open-minded

Contrary to what is sometimes suggested in connection with the intro-

duction of the new data protection rules, ordinary citizens have an unprejudiced attitude to credit agencies and their work. The vast majority of consumers are open-minded about credit checks. 93 percent of those surveyed by Boniversum are aware that their creditworthiness is assessed, and most of them tend to regard such procedures positively. When consumers request disclosure of the data held on them, a large proportion confirm the correctness of this data, while two-thirds of all respondents are prepared to voluntarily submit data to the credit agency if this can have a positive influence on their credit-standing. These statements gain additional weight through the introduction of account information services (AIS) on the basis of the new Payment Services Directive. The aim is to enable not only banks but also other financial service-providers to inspect accounts. Of course, this is only done at the express request of the account holder. In this way, consumers and business companies provide account access that permits "account scoring" and thus creates new, much more far-reaching information for (supplier) credit and risk management. Following initial scepticism about whether those affected would make such an insight possible, there is now greater optimism. For large customers in the financial services sector, such as leasing companies, Creditreform will provide valuable additional information via an instant account check. Work is underway regarding the use of account data for general credit assessment purposes. The financial analysis cockpit of our cooperation partner fino digital is another example. Small and medium-sized enterprises can obtain a clear overview of all income and expenditure on the basis of account information by means of so-called financial checks. In addition, Creditreform members with an online corporate account and a B2B customer base can obtain a simple risk analysis of their active accounts receivable.

Balance sheets and more

Creditreform Rating AG has also found new ways to fuel the digital transformation, with additional services for credit and risk management. The Digital Financial Report (DiFin) provides the German credit industry with a process for the digital transmission of annual financial statements. Via their accountants,

gap for financial documents and other creditworthiness-relevant financial information that is not supported by the DiFin process.

Digitalisation and globalisation are mutually driving each other. Creditreform customers can now access globally standardized and structured products and order monitoring worldwide.



companies can transmit commercial balance sheets or net income statements electronically to credit institutions, leasing or factoring firms and interested businesses. The standardized digital format saves time and money in risk classification and minimizes the risk of errors in manual input. Creditreform Rating has developed the web-based portal FortDocs for other creditworthiness-relevant documents such as business analyses, financial statements in accordance with international accounting standards, foreign annual financial statements, digital account statements or information on corporate interconnections. Once registered, users can submit documents for their business partners in just three steps or simply take photos of the documents via a smartphone. The submission portal closes the

In Germany, too, monitoring – the continuous observation of existing customers with regard to default risk – grew by 5.3 percent in 2018. Internationally, monitoring is even more widespread. One international commercial report in every ten in 2018 was already sold together with Monitoring International.

Between yesterday and tomorrow



In 2019, Creditreform celebrates its 140th birthday. The first credit agency on German soil was founded in Mainz in 1879 as an association of merchants. In the period of rapid industrial growth in the 19th century, the organisation “to protect against the injurious granting of credit” expanded swiftly in Germany and then worldwide. Protecting creditors through the provision of commercial reports and



through debt collection has remained Creditreform’s most important task down to the present day.

There are not many companies in Germany with such a long history as Creditreform. Only just on 10,000 are as old or older, as the table shows (an analysis, incidentally, that only the Creditreform database enables to be this comprehensive). By far the largest proportion comprises companies founded after reunification:

| Year of founding | Number | % share |
|------------------|------------------|---------------|
| 1000 – 1878 | 9,988 | 0.32 |
| 1879 – 1918 | 28,174 | 0.90 |
| 1919 – 1945 | 29,832 | 0.95 |
| 1946 – 1988 | 411,198 | 13.14 |
| 1989 – 2000 | 835,330 | 26.69 |
| 2001 – 2018 | 1.815,090 | 58.00 |
| Total: | 3.129,612 | 100.00 |

When those merchants in Mainz joined forces 140 years ago, their aim was to avoid losses by warning one other of insolvent customers. This took place on the basis of mutuality, in partnership within the solidarity of an association.

The cooperation between Creditreform and its member companies in a spirit of partnership remains decisive for the fulfilment of creditor protection. Even after almost a century and a half, what is involved is more than just providing a service for a customer, it is about cooperation to ensure the security of business companies and

their liquidity, indeed their very stability. The entire economy has changed fundamentally since then, and in the age of digital transformation we are witnessing another profound change. However, these technically, legally and politically new paths do not change the fact that we continue to meet personally and at eye level. This is guaranteed by the proximity of the 128 Creditreform business offices and their historical presence. In a survey we carried out to analyse member satisfaction, the foremost positive comment concerned the availability of “a personal contact”.

Together into the future

The idea of partnership gains a whole new facet with the new *Meine Creditreform* portal. This provides a convenient, low-threshold entry into the Creditreform world. The interactive platform is a central path to our service spectrum.

Meine Creditreform is being steadily developed further – with an intuitive user interface and a simplified log-in through to an expansion of self-care functionalities and above all individualised design using widgets, i.e. small symbols that lead directly to the special applications. In the area of business information and credit appraisal, for example, it can be a matter of accessing one’s most important business partners directly. Created on the start page via a link, this enables the user to spring immediately to the matter concerned.

One of the new central features is the Watchlist. Up to one hundred companies can be on a watchlist, and any changes in them can be observed free of charge. The member receives a notification as soon as a signal is received, e.g. regarding the address or creditworthiness. The user is informed via new messages in his personal inbox. Important in the business information/commercial report area is the maintenance of one’s own profile in the new central area “My Profile”. Here, users can view and edit

their personal and company master data. The self-disclosure thus remains up-to-date and coordinated with the customer.

However, change is experienced not only in the technical application, but also in the new external identity – most conspicuously with the new logo.



However, the definition of a new logo for the Creditreform umbrella brand represented just one single milestone; the project goes far beyond that. The modernization of the visual identity is based on the assumption that companies are perceived as social systems like individuals and can act similarly. The “personality” of a company can only be conveyed as a whole and uniformly through consistent action, communication and visual appearance. If these parts result in a coherent whole, a stable perception of the company with a specific character, the corporate identity, is created.

So the repositioning of the Creditreform brand also required formulating the essential foundations of its corporate identity: Creditreform’s identity, uniqueness and strength are best expressed in one word: “together”. The derivation of “together” as brand core results both from the mutual protection of creditors and from the community of Creditreform associations and their bodies.

The external appearance, the new digital possibilities for information provision and debt collection, and finally our long years of experience and tradition therefor form the continuing and yet new basis for the partnership between Creditreform and its more than 128,000 member companies.

Creditreform stands for business information, receivables management, marketing services, and systems and consulting. 128 independent business offices in Germany, organised in the umbrella association Verband der Vereine Creditreform e.V., serve around 128,000 member companies of all sizes and from all business sectors.

The spectrum on offer ranges from the creditworthiness-based selection and targeting of new customers and the provision of credit-standing data on business enterprises and private individuals through to complete system platforms for company-internal risk management and sophisticated receivables management tools. Each

single service, applied at the appropriate point in the customer relations chain, is aimed at preventing payment defaults or minimizing their impact. This applies also – and in particular – in the field of e-commerce.

The extensive range provided in the field of business information comprises products to appraise the credit-standing of firms or consumers, and products offering data on business companies without a credit-status assessment. The business company credit-appraisal portfolio includes solutions to assist in credit decisions in the medium and high-risk area, and also commercial report formats which facilitate swift creditworthiness

assessments in the low-risk sector. Then there are also balance-sheet analyses with various depths of evaluation.

In the sphere of receivables management, Creditreform offers a full service for recovering outstanding moneys: from handling commercial dunning and accompanying judicial default summons proceedings through to the long-term monitoring of titled receivables. In addition, there are specialised offers such as buying-in receivables within the framework of factoring and the purchase of distressed debts.

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Management Verband der Vereine Creditreform e. V.:

- Attorney Volker Ulbricht (Senior Managing Director)
- Dipl.-Inf. Bernd Bütow
- Dr. Hans-Jürgen Walbrück
- Verband der Vereine Creditreform e. V.
- Hellersbergstrasse 12, 41460 Neuss
- Telephone: (02131)109-0
- Telefax: (02131)109-8000
- E-mail: kontakt@creditreform.de
- Internet: www.creditreform.de

