

INSIGHT

# Making Better Use of Data to Improve Lending to Small Business Owners



Regularly updated information, such as geographical distribution of self-employed workers, their business areas, and survival rates, can help lending institutions design better financial services for small entrepreneurs. Image credit: Korea Institute of Finance. *In the Republic of Korea, there is a need for a consolidated database to provide timely market information on self-employed workers by region and business sector.*

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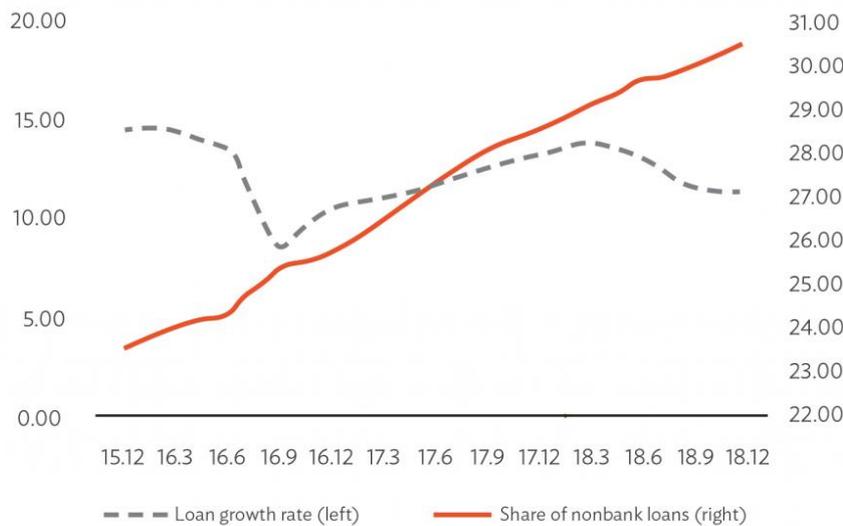
## Introduction

Concerns are rising over deteriorating quality of loans extended to self-employed workers in overcrowded sectors, such as retail/wholesale and dining/accommodation services. To control unprepared entry into these overcrowded markets, there is a need for a consolidated database that can give a clear and timely view of business conditions of self-employed workers by region and business sector.

# Analysis

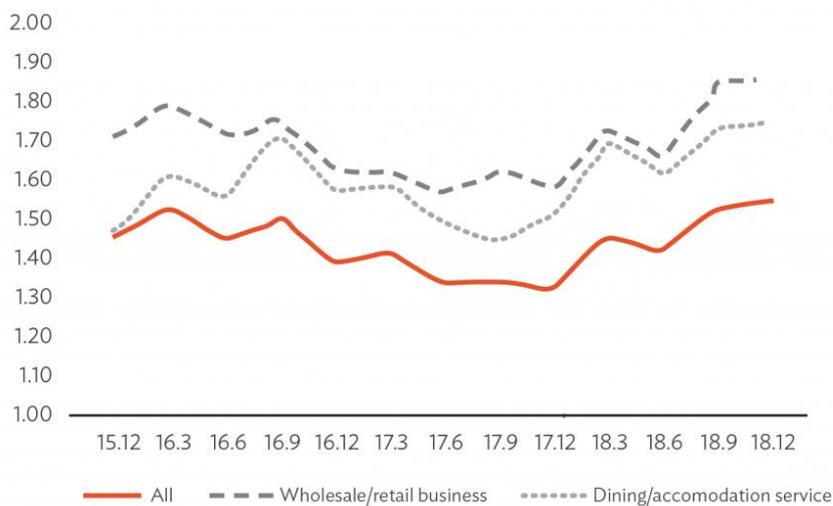
In 2018, the growth of lending to self-employed workers<sup>[1]</sup> has slowed down across the board. The year-on-year growth rate fell from 13.9% in the first quarter to 11.4% in the fourth quarter. However, the share of nonbank loans in all lending to self-employed workers steadily grew to 30.5% at the end of 2018 from 28.6% in 2017. Meanwhile, the share of delinquent borrowers in all lending to self-employed workers stood at 1.54% in 2018, after having fallen to 1.33% a year ago. What's worrisome at this point is that the share of nonbank loans and delinquent borrowers are particularly high in areas such as retail/wholesale and dining/accommodations services,<sup>[2]</sup> which are largely run for livelihood purposes.

**Figure 1: Growth of Lending to Self-Employed Workers and Share of Nonbank Loans**



Source: Korea Credit Bureau (KCB)

**Figure 2: Share of Delinquent Borrowers in Lending to Self-employed Workers**



Source: KCB

Nonbank loans to retail/wholesale business owners account for 32.0% of loans extended to self-

employed workers, while the share of nonbank loans to owners of dining/accommodation services is 38.6% as of end-2018, up by 1.0 and 1.6 percentage points, respectively, from a year ago, reflecting stronger risk management by banks. Nonbank loans represent 30.5% of all loans to self-employed workers.

Meanwhile, more self-employed workers are entering the same business areas. Jeon and Jeong (2018) [3] defined “overcrowdedness” as the level of income according to the intensity of competition. The report showed that 72.3% of small retail/wholesalers in Seoul (68% for dining/accommodation business owners) earned less than average wage workers, and in most *Gudistricts*, the average income of small retail/wholesalers and dining/accommodation business owners was lower than that of businesses with five or more employees, arguing that these business areas are growing overcrowded. (Note: For this article, a distinction is not made between small business owners and self-employed entrepreneurs.)

According to 2017 statistical data on business startup and shutdown, the 5-year survival rates of retail/wholesale businesses and dining/accommodation services was at 25.4% and 18.9%, below the overall average of 28.5%. Dining/accommodation services in particular was the second lowest after finance/insurance at 14.4%. If more self-employed workers enter these already overcrowded areas, the probability of failure would rise higher, and related financing support needs to be provided in consideration of varying market conditions by region and business areas, with a specific target, such as survival rate, after a certain period of time.

[1] Total amount of both corporate and household loans extended to self-employed workers as compiled by Korea Credit Bureau (KCB).

[2] The share of self-employed workers who engage in wholesale/retail businesses, dining/accommodation services each was 20.6% and 11.8% by the number of businesses, and 27.2% and 26.0%, respectively by the number of self-employed workers (including unpaid family members).

[3] Jeon Inwoo and Jeong Wansoo, How Over-crowded Are Markets for Small Business Owners? Korea Small Business Institute (KOSBI), 2018.6.18.

# Implications

Furthermore, a consolidated database needs to be built that can give a clear view of market competition among self-employed workers to promote voluntary debt restructuring and control inflows of underprepared would-be business owners. Currently, market information on self-employed workers are not widely used in formulating government policies nor by lending institutions due to the lack of accuracy and timeliness. This lack of proper information could be one reason business owners still enter overcrowded regions or business areas, resulting in wasteful market competition. To mitigate this problem, local governments need to regularly update related information, such as geographical distribution of self-employed workers, their survival rates, and local traffic, so that prospective business owners fully understand the market condition. Such data should also be used by credit guarantee institutions and financial firms. For instance, the Small Enterprise and Market Service (SEMAS), a government agency that supports microenterprises, can use the data in business consulting and lending review.

Lastly, financial institutions and credit guarantee institutions might share information, such as credit card sales, with the approval of business owners, and receive related information from credit card companies. This information is timely and thus very useful for understanding changing market conditions, business cycles of specific business sectors, and capping credit loans as well as provide early warning signs to better manage lending by not extending too many loans to overheated areas.

# Resources

[Korea Institute of Finance website](#)

I. Jeon and W. Jeong. 2018. How Over-Crowded Are Markets for Small Business Owners? Korea Small Business Institute (KOSBI), 18 June.



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Jeong Ho Suh joined KIF as a research fellow in March 2010. His areas of interest include financial conglomerates, risk management, rating agencies, and convergence. He was an economist at the Bank of Korea and managed the Risk Supervision Team of the Financial Supervisory Service for two years. He earned his master's degree in Information Science & Quantitative Studies and Ph.D. in Finance from the Jerry S. Rawls School of Business at Texas Tech University.

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