IMK Position Paper – Definition of Default (EBA/CP/2025/09)

Institute for Small and Medium-Sized Enterprises (IMK)
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Who we are

Founded by the **Dutch Government in 1954**, IMK is the national institute for assessing the **viability of small and micro-businesses**.
We operate independently between entrepreneurs, financiers and government.
Over seventy years we have built a dataset of more than **100,000 SME viability assessments**, capturing real-life patterns of **stress, distress and recovery**.

What we observe

For micro and small businesses, *default is rarely a single event* – it is a process.
Temporary liquidity stress, slow client payments or seasonal turnover dips often trigger an administrative "default" long before real insolvency risk arises.
Our data show that:

- Models using only financial ratios predict outcomes poorly (**AUC = 0.515**).
- When we include behavioural and managerial variables, predictive accuracy rises to **0.706**.
- **52 %** of firms labelled "non-viable" were still active three years later.

Behind every data point sits an entrepreneur whose **resilience and cash discipline** determine recovery far more than static balance-sheet figures.

Why this matters for the EBA framework

The current Definition of Default works for large portfolios but is **too coarse for small enterprises**.
It often turns *temporary stress* into *permanent exclusion*.
A proportional interpretation is therefore not about relaxing risk standards, but about recognising **the dynamics of small-business recovery**.

What IMK can contribute

IMK has already operationalised proportionality through the **IMK Portal**:

- open-banking integration for 13-week cash-flow forecasting;
- uniform NPV-calculation template (original EIR, fees, timing);
- automated DSCR/ICR checks and light covenants;
- behavioural and resilience indicators captured during counselling.

Together with **Moody's Credit Passport**, IMK is developing an **EU-wide SME Health Indicator**, allowing small businesses to demonstrate financial health in a standardised, comparable way.

Proposal: a European pilot on proportional default assessment

IMK proposes a **joint pilot** with the EBA, national supervisors and selected banks to test proportional default handling for micro and small enterprises.

Objectives

1. Measure how shorter probation periods (3 months) affect cure-rates and capital outcomes.
2. Validate how behavioural and cash-flow variables improve default prediction.
3. Provide evidence for an EU-compatible **SME Standard** based on real-world data.

Scope

- 100–300 SME cases across several sectors;
- Live monitoring through the IMK Portal (open-banking data);
- Reporting aligned with Article 178 CRR and IFRS 9.

Expected results

- Clear evidence that earlier recovery identification reduces non-performing exposure time without raising loss rates.
- Practical templates for uniform NPV calculations and proportional covenant setting.
- A scalable model for SME default management that other Member States can adopt.

Conclusion

IMK understands from daily practice **how small-business stress unfolds** and has the data infrastructure to translate that understanding into measurable, auditable outcomes.
By partnering in a European pilot, the EBA can ground the next phase of the Definition-of-Default framework in **real SME behaviour**, not assumptions.

We would be pleased to present the dataset and pilot design in detail to the EBA's credit-risk and supervision teams.

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