

Ongoing innovation proves a great strength in Credit Risk

2007 was a fantastic year for the Credit Risk sector at Callcredit both in terms of growth and customer satisfaction. In order to ensure continued growth in 2008 and to maintain or improve the level of service we provide to our clients, the Credit Risk team has been enhanced by more skilled staff joining the team.

New appointments include Morena Del'Aglio who will be heading a drive to further Callcredit's relationships in the telecoms sector and Graham Odiam who will be similarly involved with the insurance sector.

The Credit Risk team will continue to focus on excellent products and services, which include the Overindebtedness Initiative (OII) and CallMonitor, as well as exciting new vertical markets.

The OII produced excellent results in 2007, with the availability of income data being a key factor. Clients have seen great improvements in measuring

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Matthew Elsom, Head of Credit Risk, Callcredit



affordability, managing limits responsibly and refining marketing campaigns, amongst many other benefits. Andy Lloyd, Head of Strategy Design & Development, Royal Bank of Scotland, comments; “RBS have recently deployed Callcredit's Overindebtedness Initiative and CallMonitor solutions to identify and manage banking customers who are showing signs of financial stress. As a result they are well placed to support these customers with appropriate remedial steps”.

CallMonitor, introduced in 2006, was the first service in the UK to provide daily

customer profile triggers. Historically, 6 weeks may have passed before vital information was getting to lenders. Users of CallMonitor have found, that the difference between 6 weeks and 24 hours has a dramatic effect on their ability to effectively manage such situations.

The combination of a strong team, groundbreaking products and services and an industry desire for different and more intelligent customer management tools, bodes well for Callcredit in 2008.

Matthew Elsom, Head of Credit Risk, Callcredit. ■

Overindebtedness – an update

Tackling overindebtedness will continue to be a key focus within the UK economy in 2008. Continuing evidence of the ‘buy now pay later’ culture means that lenders are under ever increasing pressure to bring in less high risk people for credit.

Callcredit's unique Overindebtedness Initiative (OII) combines a consumer's debt information from the SHARE database with the customer's income data (supplied by the Initiative members) to provide their debt to income position; a factual view of a customer's debt stress and affordability.

These ratios are highly predictive of subsequent defaults and insolvencies; using application income only ratios, the likelihood of insolvency is 70 times higher in the most overindebted percentile than the typical average on a lender's portfolio. Further comparisons with the CCCS customer base confirms that the OII does indeed identify those customers who are financially stressed – 76% of customers on a CCCS debt management plan lie within the worst 12% of customers in the OII. Not only does the Initiative enable lenders to see the financial stress, it will also allow them to lend more responsibly

to those with good credit histories.

Current members of the Initiative have integrated this data into the credit life cycle. Whether used to prevent further lending or if the data is used proactively to contact the customer to offer counselling, the OII data has proved to be invaluable when targeting overindebtedness, providing the lender with key data on less high risk people, allowing them to react quickly to the pressure from the British ‘buy now pay later society’.

Paul Gott, Business Consultant, Callcredit. ■

HSBC puts monthly overindebtedness data directly into risk decisioning operation

The first stage of Multi-bureau Link Development with Callcredit is complete!

The 'Business Case' document was signed-off, and a talented, comprehensive project team comprising specialists from both HSBC and Callcredit was established. Due to the technical sophistication involved in this major development it was agreed that a 'phased' approach was required. Phase 1 was designed to ensure that some of the identified business benefits could be realised by HSBC during the 2007 financial year.

Concurrently through the development period of Phase 1 the project team resolved many of the complex technical developmental requirements of the full project solution paving the way for early 2008 completion of the full Multi-bureau Link for the bank to include Callcredit.

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bureau project, commented on this development:

“This is a first step in an important journey towards genuine Multi-bureau capability. We believe the best decisions are made by understanding as much as possible about our customers and what they need from a relationship with HSBC. The Phase 1 solution has given us a quick win without deviation from the development path to full capability.”

Richard Stothert, Strategic Account Director for the HSBC Group at Callcredit said; “The completion of this

first phase of the Multi-bureau Project reflects the combined efforts of all members of the project team under the guidance of Phil Whitehouse at HSBC. We can all feel proud of this step forward both in terms of technical achievement and our on going business partnership.” He further added; “The encouragement and the support for Callcredit, its services and delivery within the HSBC Group have been excellent. We look forward to developing this partnership in the coming years.” ■

HBOS proactive with overindebtedness

HBOS, the UK's largest mortgage lender, is making use of Callcredit's unique solutions to help prevent overindebtedness as part of its ongoing commitment to responsible lending.

A key goal for HBOS is providing support to customers who may be experiencing financial difficulties. By creating a specialist team, HBOS is able to offer proactive financial advice and review the affordability of payments before a customer's financial position becomes unmanageable.

Mandy Foster, Head of Customer Risk at HBOS, said:

“A growing number of customers are approaching HBOS to notify us of potential hardship issues. Our challenge was to extend the support and flexibility we offer these customers to those who may not yet be in financial

difficulties but were showing signs of debt strain.”

“A critical factor in the process was the account selection criteria. Internal customer level data, augmented with bureau data, has played a key role. Working with Callcredit through their Overindebtedness Initiative (OII) has helped select the right accounts and focus effort where it is most needed.”

Callcredit's OII gives a view of a customer's affordability by comparing their debts to their income and identifying those customers who are extending their debts to fund existing credit commitments, something not typically reflected in the customer's credit score.

Graham Lund, Deputy Managing Director at Callcredit, commented; “The Overindebtedness Service is a prime example of how Callcredit is

working in partnership with the industry to tackle industry issues such as Overindebtedness. As the Credit Crunch continues to bite, the service is set to become a key tool for lenders in the early identification of customers who have a good credit score but are demonstrating early affordability problems”.

HBOS continues to investigate new innovative products such as Callcredit's CallMonitor, of which it is an early adopter. CallMonitor provides daily customer profile triggers, such as new bankruptcies, CCJs, Goneaways and defaulted accounts. By integrating CallMonitor into its proactive money management strategy, HBOS now ensures its selections are truly dynamic. Ian Howe, Strategic Account Manager, Callcredit. ■

Case Study: Microsoft

In the development of its credit reference solution, Callcredit needed a database that could handle massive, and ever expanding, data volumes. Once in the database, information has to be available 24 hours a day, 365 days a year. Using Microsoft technology, Callcredit achieved a rapid arrival in the marketplace. Its credit system runs at a constant level of high performance, providing comprehensive, real-time information to client organisations.

Situation

“Our competitors with mainframe-based solutions have taken 20 years to establish the type of system that, through our choice of technology, we’ve created in seven years” says Mark Davison – Technology Development Director at Callcredit.

Since its foundation in 2000, Callcredit has worked to develop a credit reference system based on stringent requirements, with each individual data item having to be loaded, cleared, and live on the system within two days.

Solution

In the past seven years, Callcredit has developed credit reporting, risk analysis, collections tools and anti-money laundering products from a single data warehouse. This was originally based on the Microsoft® application platform, using Microsoft SQL Server™ version 7.0. Davison says: “We evaluated a number of systems based on performance, cost of development and the levels of user support required. Compared to other

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Mark Davison – Technology Development Director, Callcredit.

database systems, SQL Server came out on top across these three areas.”

The final database was migrated to SQL Server 2005 during October 2007. The Callcredit product implementation team consists of developers and business analysts, with a separate quality assurance team that tests functionality and performance. A systems and network team concentrate on the operating systems and hardware. Members from the different teams work on the same phases of product development at the same time. Davison says: “We have agile working methods. These methods fit perfectly within the Microsoft development environment because it means we can retain our flexibility and remain highly innovative.”

Benefits

Using SQL Server as its enterprise data software, Callcredit has been able to develop its products well ahead of the milestone dates in its business plans.

GOLD CERTIFIED

Partner

The powerful system delivers a comprehensive real-time credit rating service online. Additional features in the software save time in data handling and increase overall performance, bringing improved customer service for Callcredit clients and the services its clients offer their customers.

The company has turned a profit for the first time in 2007, 2½ years ahead of its business plan. Davison explains: “A large part of that is due to our server-based infrastructure that means we can develop products faster.

Looking to the future, Callcredit is keen to take advantage of the analysis services within SQL Server. “This will give us further key strategic insight into the data,” says Davison.

Microsoft Server Product Portfolio

For more information about the Microsoft server product portfolio, go to: www.microsoft.com/servers/default.mspx

RBS deploy Callcredit's Overindebtedness Initiative (OI)

RBS have recently deployed Callcredit's Overindebtedness Initiative and CallMonitor solutions to identify and manage banking customers who are showing signs of financial stress. As a result they are well placed to support

these customers with appropriate remedial steps.

Andy Lloyd, Head of Strategy Design & Development, Royal Bank of Scotland ■

“ Identifying and helping customers who are showing signs of financial stress is an important component of our responsible lending strategy. ”

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The Credit Crunch and the timely use of data



“ The Credit Crunch makes the job of lending profitably to the right customers even more crucial. ”

Richard Brennecker, Senior Strategy Consultant, Callcredit

A year ago, the term ‘Credit Crunch’ was a phrase that very few people knew. Yet after the events of past months it seems to be in almost daily use. Technically, a credit crunch is a constriction in the supply and an increase in the price of short term lending between institutions, but it has had a far more widespread impact than this definition would suggest.

What started out as a loss of confidence in the securitised products underpinning US sub-prime mortgage debt, soon spread to the UK, and the impact of the Crunch was felt most keenly by institutions that rely on short term money markets and securitisation to fund their lending. At Northern Rock the pressure on funding and the media impact on customer confidence lead to a run on the bank, an occurrence few of us thought we would ever see.

The Credit Crunch makes the job of

lending profitably to the right customers even more crucial.

Application processing

Whether it is a new relationship or an existing customer requesting additional facilities this process has historically been based around credit bureau data integrated into a lender’s scoring system, to arrive at an accept/decline decision. The impact of account origination puts a significant onus on risk professionals to optimise the risk/reward balance not just by accepting the right customers but by pricing them appropriately.

Against a backdrop of overindebtedness, many lenders are finding that traditional methods of credit scoring are not effectively identifying a sub-set of the population that are becoming, or is already overindebted, with the crucial missing element being the affordability of the debt to individual customers.

Lenders are increasingly using new tools to identify customers with high levels of

unsecured debt with what would traditionally be considered ‘good’ credit risk profiles (i.e. up to date with their credit commitments). In extreme cases of indebtedness, where the ratio of unsecured debt to net monthly income is in excess of 25 to 1, it can be seen that more than 50% of consumers are up-to-date on their credit facilities with multiple lenders, and 75% have been no more than one payment down on any product in the last 12 months.

Recent analysis has shown that some overindebted customers have improved their position by releasing equity in their property via a remortgage or second charge mortgage.

Given the tightening in lending criteria following the Crunch, it may be difficult for customers to restructure their debt in the same way in 2008.

Richard Brennecker, Senior Strategy Consultant, Callcredit. ■

What do you think?

Send your comments to info@callcredit.co.uk