

# Creditlines

ISSUE 1 : 2010



## Sale of Callcredit Information Group heralds new opportunities

CALLCREDIT INFORMATION GROUP entered the new decade as an independent business following the management buyout backed by Vitruvian Partners.

Whilst Callcredit continued to grow in 2009 there are ambitious plans to build upon the success to date. John McAndrew, CEO of Callcredit Information Group, was keen to emphasise that the UK market remains the principal focus for the Group where innovations delivered to date have provided a strong basis for growth.

2010 will see continued growth and development of our products and services throughout the customer lifecycle including:

- Merger and acquisition analysis, branch network analysis and revenue prediction solutions (Strategic Planning)
- The Affordability Suite - including Over-Indebtedness Score, Unsecured Affordability Indicator, The Affordability Check and a new Secured Affordability Indicator (Customer Acquisition & Account Management)

- The inclusion of international data into CallValidate allowing users to verify an individual's name, address, age and card details. For some countries, phone numbers and social security/ID numbers (Customer Verification)
- New GeoFraud release scheduled during 2010 (Customer Management and Value Building)
- Further developments and promotion of CallMonitor building on the inclusion of IVA, Debt Relief Orders (DROs), bankruptcies and student loans defaults released in December '09 (Collections and Recoveries)

“ Whilst Callcredit continued to grow in 2009 there are ambitious plans to build upon the success to date ”

### THIS ISSUE

**Page 2**  
*Andy Lloyd; the future of Responsible Lending*

**Page 2**  
*The need for new credit scoring in a recession*

**Page 3**  
*Industry Minute*

**Page 4**  
*Are your customers reaching the limit of their affordability?*

**Page 5**  
*Sainsbury's Finance choose the Over-Indebtedness Score*

**Page 6**  
*CallMonitor is changing the collections landscape*

**Page 7**  
*Align your marketing and credit risk strategies*

**Page 8**  
*Creating a Single Customer View*

**Page 8**  
*Key Contacts*



## Recession Scores identify customers most affected by the recession

Despite positive noises from the media, the full impact of the recession is yet to be felt.

The recovery cannot truly begin until unemployment starts to fall. And the early stages are likely to be too tentative for lasting job creation. With unemployment remaining at 2.5 million and set to stay at a high level throughout 2010, there needs to be a new medium to long term approach to credit scoring.

Credit scores built before the recession are unlikely to function as designed. Supporting this idea are rapidly rising arrears and significantly increased roll rates in early arrears cases. With future payment performance failing to match the original risk assessment, we're seeing the weakness of scores built with criteria that have been significantly altered by the recession.

Fortunately, lenders can get a true insight into their customer's payment performance during these atypical times. By using information from all three credit reference bureaux, DecisionMetrics provide the full picture of a customer using pre-delinquency and early collections scores alongside existing customer management processes. This provides the crucial recession insight that is lacking in pre-recession built behavioural scoring. Now more than ever, companies want to react quickly. So it's further good news that DecisionMetrics' unique Recession Scores can be implemented rapidly. This is a 'quick fix' that could see significant protection or increase in revenue with minimal cost and time implications.

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## Andy Lloyd; The future of Responsible Lending

If full data disclosure helps credit providers lend responsibly, why is it that the USA and UK who are further advanced in this area are experiencing the worst cases of consumer default and over-indebtedness?

This was the challenge I received from a French Banker when working at the European Union and promoting the use of full data sharing as best practice across Europe.

Perhaps she had a point. Without doubt access to full credit history data had allowed the UK credit market to flourish in the last fifteen years.

This had delivered major benefits in an expanding economy and, for the majority of consumers who borrow responsibly, access to great value credit to facilitate improvements in their life. However, recently we may have not been as fast to exploit the new data insight and to ensure we have adequately and constantly assessed not only risk, but a customer's ability to service their

current and future debt burden. As a consequence, we now face the undesirable prospect of a new regulatory regime that risks throwing the baby out with the bathwater.

However, I am confident that the data, skills and opportunities exist for us as an industry to protect our reputation and more importantly keep those who don't know how to lend, out of the way of stifling a recovery. This edition of Creditlines contains some brilliant examples of the credit industry using its insights wisely and responsibly. I hope they inspire all of us to continually improve.

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### ANDY LLOYD BRIEF BIOGRAPHY

Aged 46  
Married to Diane, proud father of 3 and grandfather of 2.

#### Employment History

Andy joined Callcredit as Director of Product Strategy in September following a career in Retail Banking acquiring a vast credit risk management experience gained in a variety of roles over 25 years. He was a founder member of Callcredit's successful Over-Indebtedness Initiative whilst he was head of personal credit risk at RBS. He has recently chaired SCOR, been a member of the European Union's credit expert panel as well as gaining an MBA at Manchester Business School. Andy believes that he is from a rare cohort of lenders, who have spanned the transition from manual face to face credit assessment to fully automated decisions over several economic cycles. He suggests this privileged insight has been the foundation to his commercial success.

"Mortgage lenders will be awaiting the outcome of the FSA Mortgage Market Review following closure of the consultation period,"



# Industry Minute

It's clear 2010 will prove another busy year for regulatory change for all who undertake consumer lending.

Thankful for the postponement of the deadline for Consumer Credit Directive requirements to February 2011, consumer credit lenders now await the final OFT Irresponsible Lending Guidance. Launch of the final Guidance was originally anticipated in January, but is now expected in the next few weeks. This change could be related to the redrafting we have heard is afoot in some key areas. Three sections are apparently being revisited – product explanations, handling of default and arrears and affordability assessment. For the latter it appears the need for proportionality will underpin revisions.

The response to the Review of Credit and Store Cards has recently emerged. BIS's stance was pre signalled in its response to the Pricewaterhouse-Coopers 'Precious Plastic' report last year, where it commented that credit card operators could not use the report's concerns about future viability of some aspects of the market to "argue against change". The range of measures, to be adopted initially under the Lending Code, will as BIS acknowledged make "tough demands" of the industry. However, the ability to offer unsolicited credit limit

increases and to re-price based on changes to customer risk profiles will be retained, with some restrictions.

Mortgage lenders will be awaiting the outcome of the FSA Mortgage Market Review following closure of the consultation period at the end of January. As signalled in the Review, the FSA has already published its proposals on treatment of mortgage arrears, and to create a new category of approved persons for all who deal with customers to arrange mortgages. As well as outlining specific provisions about arrears charges, it expects lenders to consider all available options for dealing with borrowers in distress.

In some cases forbearance could be the best option – while in others delaying repossession can simply prolong distress. By forming a strong understanding of the other commitments a borrower needs to cope with, and whether their financial position is stable or continuing to deteriorate, creditors can make – and evidence – such decisions effectively.

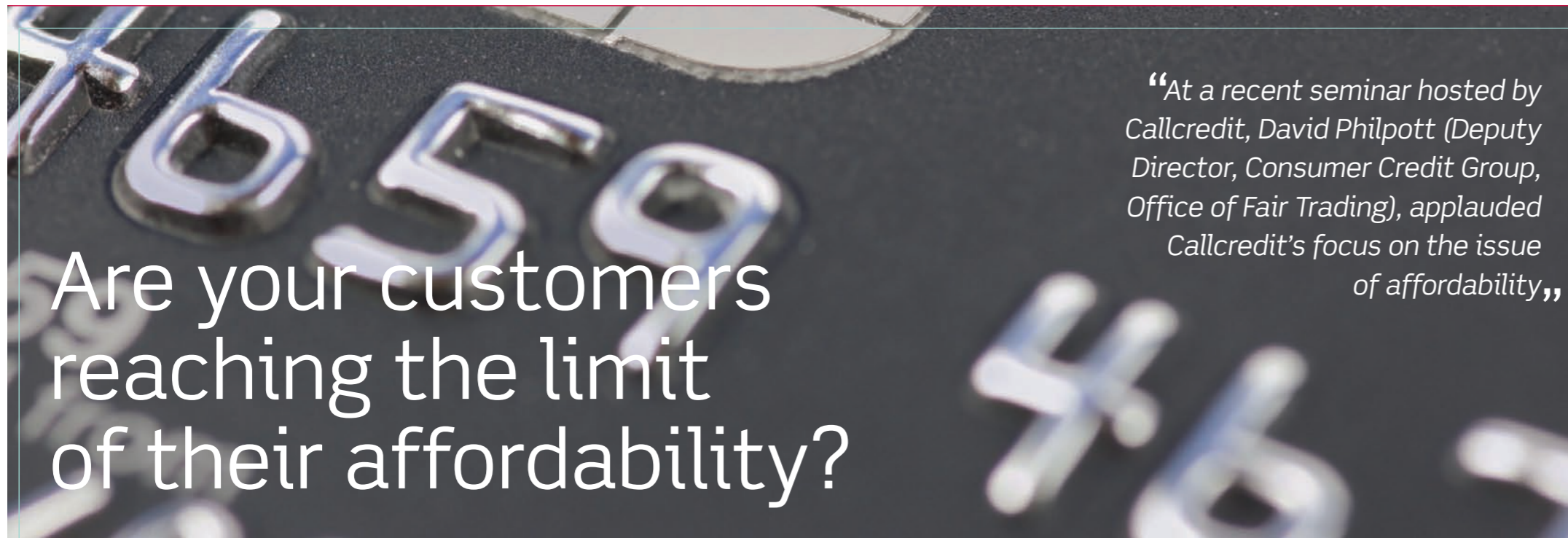
More wide ranging concern centres on proposals for possible withdrawal of the

Edited Electoral Roll, on which consultation has closed. Withdrawal would have wide impacts – beyond account management, the prevention of fraud and debtor tracing, to areas as diverse as employment screening, tenant vetting, and the insurance and utility sectors, as well as direct marketing. Hopes will be widespread that the Ministry of Justice will take the significant consumer detriment which would result into account when deciding the future of this unique source of information.

Louise Galloway  
Head of Industry Relations  
Callcredit

To receive industry updates from Callcredit straight to your inbox visit [www.callcredit.co.uk/industryminute](http://www.callcredit.co.uk/industryminute)

SCOR, The Steering Committee on Reciprocity has a new website containing the most recent copy of The Principles of Reciprocity and details of SCOR's activities: [www.scoronline.co.uk](http://www.scoronline.co.uk)



# Are your customers reaching the limit of their affordability?

“At a recent seminar hosted by Callcredit, David Philpott (Deputy Director, Consumer Credit Group, Office of Fair Trading), applauded Callcredit’s focus on the issue of affordability,”

A recent YouGov survey revealed that of 2,022 adults asked in February last year, 6% said they had paid their rent or mortgage by credit card in the past 12 months. This translated to a national figure of more than 1 million people. Combined with this, 5% of people have stopped paying their credit cards off in full, perhaps an indication of continued financial stress collectively and at the individual level. But how do we identify these consumers who are clearly at the limit of their affordability?

## KEY FINDINGS:

- 7% of adults have three or more personal current bank accounts with an overdraft facility, rising to almost one in ten (9%) 18 - 24 year olds
- Of those people who have more than one current account with overdraft facilities, 14% have more than three providers, rising to 27% among 18 - 24 year olds
- Of those people who have more than one current account with overdraft facilities, one in fifty (2%) 18 - 24 year olds has their accounts with more than five providers
- Almost one in ten adults (9%) have overestimated their income when applying for credit, including 11% of 18 - 24 year olds
- More than one in four (26%) mortgage holders say that a drop of up to £300 in monthly income would mean that they would be unable to meet their monthly mortgage repayments
- One in twenty (5%) people have stopped paying off their bills in full, reverting to minimum/fixed payments

Risk assessment tools will examine a customer’s track record of being trusted with credit but they do not show a clear picture of how consumers are balancing debt across a number of accounts and how close they are to the limit of their affordability. It is certainly possible for over-indebted consumers to appear to have a good profile and have access to further credit. This is because traditional risk assessment tools only identify factors such as stable relationships and no history of arrears which many of these consumers display.

Affordability solutions examine a consumer’s ability to service existing and proposed new debt from their income by overlaying traditional risk assessment tools. These tools identify consumers who are balancing their debt over a number of accounts and are only just keeping their head above water.

Callcredit have worked with the industry to identify those customers who tread a fine line between total debts and their income. Income data is therefore key to affordability assessment and Callcredit are the only credit reference agency in the UK to hold robust and comprehensive income data on consumers. This enables clients to build up a clear picture of customers and make instant, accurate and informed decisions.

Callcredit’s unique database of current account activity collected from all the major retail banks has many applications including the ability to identify where consumers declare income that is inconsistent with reality. This is combined with a view of multiple relationships held with other providers to identify a true level of over-indebtedness. Callcredit’s affordability tools can also identify existing and potential high cost customers who tend to have a higher default balance and bankruptcy outcome.

Callcredit’s Affordability Suite contains four key indicators to meet your specific requirements:

- **Unsecured Affordability Indicator** - Highlights individuals with unsecured debt to income ratio of 20:1 or higher
- **Secured Affordability Indicator** - Highlights individuals with repayments on secured lending taking up 80% or more of their income
- **Over-Indebtedness Score** - Predicts the probability of an individual becoming over-indebted then defaulting
- **The Affordability Check** - On-line delivery system for the Affordability Indicators and Score. In addition, it will give an indication of salary accuracy, summary bureau and single customer view

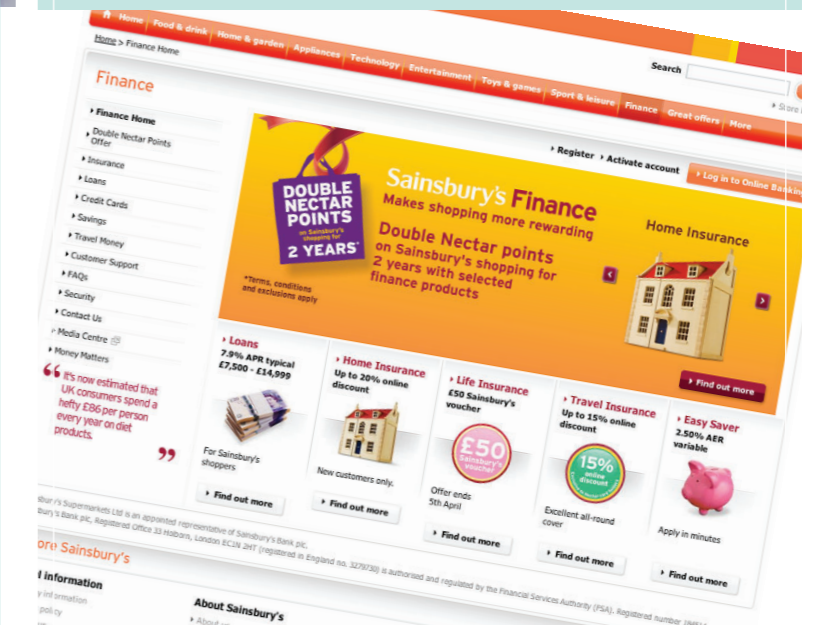
Affordability metrics can be used throughout the customer lifecycle with application in acquisition, customer management, pre-delinquency and collections and recoveries.

To find out more about Callcredit’s Affordability Suite email [creditrisk@callcredit.co.uk](mailto:creditrisk@callcredit.co.uk) or call 0113 244 1555

## Sainsbury’s Finance choose the Over-Indebtedness Score

J Sainsbury’s Finance, a 50/50 joint venture between Lloyds Banking Group and J Sainsbury has announced that it is further enhancing its credit scoring resources with Callcredit’s Over-Indebtedness Score.

Sainsbury’s looks set to lead the way in the credit industry as the first to implement the innovative score, which will supplement current multi-bureau feeds from all three credit reference agencies.



The Over-Indebtedness Score is a generic bureau score which will assess the affordability of Sainsbury’s customers by ranking them against an ‘Affordability Outcome’. This ‘Affordability Outcome’ protects both the bank and the customer by indicating the likelihood of a customer defaulting on their account in the next six months. This score allows Sainsbury’s Finance to manage customers’ credit facilities better, further enhancing the tri-bureau functionality the company employ.

The Over-Indebtedness Score can be utilised within lenders existing application processing, behavioural scoring, customer warehouses and debt recovery systems and can be used for customer acquisition and ongoing customer management throughout the customer lifecycle.

This predictive model complements Callcredit’s unique Over-Indebtedness Initiative and allows lenders to better meet their obligations of responsible lending and treat customers fairly.

Sainsbury’s Finance have been shortlisted for ‘Responsible Lender of the Year’ at the Credit Today Awards for use of Callcredit’s Over-Indebtedness Score. Find out more at [www.credittodayawards.co.uk](http://www.credittodayawards.co.uk)



Richard Brennecker  
Head of Consultancy  
Callcredit

*“CallMonitor has become the industry standard for daily monitoring of customers and many Callcredit clients have seen significant benefit from using the product.”*

## CallMonitor is changing the collections landscape

Over the past two years Callcredit's daily alert product has become the industry standard for daily monitoring of customers and many Callcredit clients have seen significant benefit from using the product to provide early warnings in the current volatile economic situation.

Recently Callcredit has launched version 4 of the CallMonitor product; this new version not only seeks to introduce more triggers but also breaks new ground with a different type of trigger.

This mix of evolution and innovation of the CallMonitor product should ensure that there is something of value to all of the current and prospective users of the award winning product.

The innovation piece sees the introduction of a series of 'count' alerts which record how many times key triggers have been hit in the past 30 days. This gives an increased level of information and reports on areas such as missed payments, account opening, significant balance increases, overlimit

accounts and improving accounts.

This advance will allow users to easily distinguish between customers who have missed one bill or opened one new line of credit and those who have started to miss payments across a number of accounts or have opened a number of facilities recently.

These count triggers have been selected by the Callcredit team based on the experience of working with live clients on the product over the past two years. They seek to address the most common segmentation problems, such as missed payments, where the action taken could be very different if this is the only payment a customer has missed versus the fourth or fifth payment missed this month across different lenders.

The introduction of the count triggers for new facilities is aimed at offering a more robust piece of data than the more traditional search measures for identifying customers who may be over extending themselves now that many

customers who shop around for good deals via price comparison sites can end up with several searches but only one new account.

Version 4 also contains a raft of new triggers that follow the more traditional format of reporting on daily events. These include triggers for recent data changes such as Debt Relief Orders and Student Loan Defaults and those based on feedback from users such as sector level splits on serious arrears and a new flag to show that the customer has made a Payment Protection Insurance claim.

Overall, CallMonitor Version 4 introduces a number of new and exciting triggers which Callcredit are looking forward to helping their expanding CallMonitor user base to benefit from.

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# Align your marketing and credit risk strategies

'Core' is Callcredit Marketing Solutions exciting new consumer prospect and value pool. At approximately **41 million records** it now outstrips the competition, making up an Electoral Roll gap of over 16 million records with new data sourced both on and offline.

Over the last six months Callcredit Marketing Solutions have invested heavily in the development of their Credit Marketing product suite which can help Financial Service organisations more closely align their marketing and credit risk strategies.

We have developed a range of new and enhanced datasets which can be used to improve marketing effectiveness by screening, segmenting and scoring customer and prospect data according to risk, affordability and profitability.

Initial tests have proven the new products to be highly predictive.

## The prospect pool

Callcredit Marketing Solutions have recently developed a highly intuitive prospect pool called Core. It has been built within a brand new operational platform meaning that real-time updates can be made continuously and be delivered to you straight away. Core delivers a full range of multi-channel touch points. From our 41 million records our clients can select from 28 million residential addresses, 4.4 million emails, 3 million mobile numbers and over 7 million landlines. It also provides access to a

great depth of consumer attributes including both actual and newly built modelled variables for targeted selections, enhancement and analysis. Core can be accessed through our range of easy-to-use web tools enabling counts, extracts and models to be run in-house by clients.

*“It provides access to a great depth of consumer attributes including both actual and newly built modelled variables for targeted selections.”*

## KEY COUNTS

- 41 million consumer records
- 15.5m Dates of Birth
- 9.2m Home Insurance Renewals
- 27m Council Tax Bands & House Prices
- 9.2m House Types
- 3m Directors
- 2.8m Shareholders



# Creating a Single Customer View

Creating a Single Customer View (SCV), across all business channels and brands has always been complex and challenging, but in these difficult economic times it has never been more important. That's because a customer's risk profile can look very different from a wider perspective.



Joe Bolser  
Head of Sales Support  
Callcredit

In fact a comprehensive database of Group relationships can provide enormous advantages to lenders, enabling them to make better cross-sell and up-sell decisions, spot early signs of debt stress and improve their management across the customer lifecycle.

The SCV has always been the ultimate customer management goal for large, multi-channel lenders. But it isn't easy. Differing IT systems, platforms and databases can make standardisation and customer matching almost impossible. And for many lenders, IT resource hasn't expanded to meet demand and is as limited and expensive as it has ever been. Because of the recession everybody is looking at the bottom line.

But the Banking Act 2009 has changed the environment, giving greater powers to the Financial Services Compensation Scheme (FSCS). The Scheme has mandated that all UK deposit takers, with more than 5,000 accounts, must build a SCV system to enable their customers to be compensated accurately and

efficiently should that lender fail.

Because Callcredit's bureau uniquely links financial records to individuals, and not the other way round, Callcredit already has a single customer view, encompassing all their financial relationships, including unconsented accounts.

Given the nature of bureau data delivery it is possible for lenders to receive the SCV data in a number of flexible ways. Callcredit has invested in both real time SCV web service delivery and in database hosting, both of which minimise IT integration costs and enables lenders to leverage the benefits of the data without having to rely heavily on scarce internal resources.

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*N.B. This is a redacted version. For further details or to receive a full copy of this article, please contact Joe Bolser.*

“Callcredit has invested in both real time SCV web service delivery and in database hosting, both of which minimise IT integration costs”

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