Driving growth through flexible multi-bureau strategies

Designing a multi-bureau capability

The benefit to an organisation from applying bureau independent credit strategies is widely accepted across the banking and finance sector. Lenders have long recognised that consuming credit information from more than one credit reporting body leads to

01. optimised credit decisions by leveraging the unique credit data available from each credit reporting body

02. lower cost of credit acquisition by promoting greater competition in credit reporting

03. better service levels and product design by credit reporting bodies by ensuring that competition leads to greater innovation

04. better risk compliance through data redundancy and operational resilience to bureau downtime and falls in bureau service levels.

Credit providers are currently at various stages of development with their multi-bureau consumption strategies. With this in mind, we have prepared this document, which we trust will help lenders determine a valid approach to developing bureau strategies that are both robust and truly bureau independent.

Bureau Evaluation Philosophy

Credit bureaus hold data that they consider to be the 'source of truth' for evaluating the credit worthiness of a consumer. But, to varying degrees, bureaus generally provide a partial view of the consumer's credit standing. This applies equally to those bureaus that have been operating for many decades as to those that have more recently entered the credit reporting domain.

A lender therefore needs to look beyond superficial metrics when evaluating the value of credit reporting data. So, rather than just focusing on 'bureau matching rates', which is commonly used as a naive approach to assessing a bureau's value, an effective evaluation needs to focus on more insightful attributes, such as the

- depth, breadth and recency of credit data across credit industries

- uniqueness of credit data across industries

- pertinence of the bureau data to evaluating the credit standing of an applicant and to predicting their future behaviour

- relevance of this credit data to the lender's specific credit population profile

This evaluation should appraise the data coverage across all bureaus as well as analyse the effectiveness of this data in predicting the prospective risk of the lender's credit applicants. Once completed, it should enable the development of credit bureau strategies that augment the credit approval process; both in terms of risk mitigation and cost management across all key customer segments.

Implementing a Multi-Bureau Strategy

When developing multi-bureau credit strategies lenders will need to carefully consider whether their bureau strategy will be embedded in their broader customer decision strategy or whether the bureau strategy is de-coupled from the decision strategy.

Embedding the Bureau Strategy in the Credit Decision Strategy

A naive approach to strategy design would involve making subjective assessments of each credit reporting body's value and to apply strategies that prioritise the use of one credit bureau over another across the entire credit applicant base.

Although there are many ways to apply a decision strategy our example has chosen to follow a matrix approach as this is consistent with the current day one CCR strategy development approach being adopted by many credit providers in New Zealand. It is also the simplest design of a 2-dimensional strategy supported by popular bureau/data connectivity systems.

As such, where a credit provider implements a strategy that combines both the bureau strategy and credit decision strategy in the one process this will need to be implemented by a series of decision matrices that are applied sequentially in the order from primary 'bureau X' onwards.

This type of design is illustrated as follows.

		Credit score		
		High risk	Medium risk	Low risk
Bureau X score	High risk			
	Medium risk			
	Low risk			
▼				
Bureau Y score	High risk			
	Medium risk			
	Low risk			
▼				
Bureau Z score	High risk			
	Medium risk			
	Low risk			

Building this type of process is, at best, inefficient, in that more matrices need to be developed and maintained than is reasonably necessary and, at worst, makes change management of both bureau services and credit decisions difficult when, say, Bureau Y or Z is found to provide superior credit reporting data.

Any changes in bureau strategy would need to be implemented in all three matrices and could include changes to positioning in the decision process flow, changes to bureau risk bands and changes to decision risk bands (both number of bands and size of each band).

Add to this the further design complexity from implementing unique matrix strategies across multiple customer segments. Many multiples of these 3 matrices shown above may need to be implemented in this case, which may lead to costly management of the decisioning process.

To avoid high strategy management costs this design may inadvertently tie a lender to one bureau service provider (Bureau X) as its primary provider rather than enable a flexible, customer driven approach to bureau strategy implementation; thereby significantly diluting the value of a multi bureau approach to credit decisioning.

An Alternative Approach – Decoupling the Bureau Strategy from the Decision Strategy

An efficient strategy design involves the development of self-contained business strategies that achieve their specific and unique business objective. For example, the lender could define a strategy for each of the following credit processes

- obtaining, validating and verifying applicant/customer information,
- applying credit policy,
- determining a pre-bureau credit decision,
- determining which bureaus and 3rd party data will be sourced / ie. the sequence and process for obtaining bureaus data
- making a post-bureau credit decision
- obtaining and verifying financial details
- making serviceability and affordability decisions
- apply further offers / pricing / business terms

Each of these strategies would be individually defined at a customer segment level and each strategy would be linked by an over-arching process flow that sequentially implements these various activities. By designing the credit process in this way the lender is better able to manage each credit process and strategy individually without inadvertently affecting the remaining processes.

In particular, we emphasise that the bureau strategy should be defined separately from the credit decision strategy. This enables the credit decision strategy to be designed on a bureau independent basis, where the bureau strategy has already determined the applicant's credit risk, according to their 'total' external credit position.

Defining the Bureau Strategy

A number of factors need to be considered when defining the optimal bureau strategy:

01. Understand the power of bureau data for each relevant customer segment – don't assume that one bureau will provide the primary service across all customer segments. In particular, note that Telecommunications credit data is more effective in predicting credit risk on banking and finance customers that are pre-banked (eg. young applicants) or 'new to country' (eg. within 2 years of arrival).

02. Discuss with each bureau where they hold unique data and where their data is particularly predictive of credit risk – this can be done both through discussions with the bureaus and by empirical data validation.

03. Determine where data uniqueness is evident and also where there is a material data overlap

04. Understand whether the various business services – eg. bureau risk scores – are calibrated. If these scores can be calibrated, the implementation of multi-bureau strategies can be applied by simple rules (eg. worst scores); where they are not calibrated, a bureau risk matrix may need to be implemented to standardise these scores and define a bureau independent strategy.

05. For each relevant customer segment (eg. Young Applicants, New to Country Applicants, No Banking History Proffered, Sub-Prime History Proffered) apply strategies that are consistent with each bureau's value proposition – that could mean a single bureau strategy in some populations, a cascading strategy in other populations (ie. from main bureau to secondary bureau); or a head to head champion/challenger strategy across multiple bureaus.

06. For each relevant sub-population apply a strategy that best summarises the bureau information available and is able to quantify the risk of the individual.

07. Don't get locked into financial terms with a bureau until the respective value (absolute and relative to peers) is understood as this will compromise the implementation of a bureau independent decisioning strategy.

Once the relative value of each bureau's service has been determined the lender will be able to apply the appropriate bureau strategy. Where only one bureau is used the strategy is very straightforward; where multiple bureaus are used, in most cases, the lender will take the worst score (ie. the score predicting the highest risk).

However, in some cases, it may be worthwhile to consider the 'credibility' of the bureau score. So, for instance, where the applicant's various bureau scores are not based on adverse credit history, payment delinquency or sub-prime credit demand and behaviour, there may be further value in assessing the depth of information that led to each bureau's score. In this case, the lender may opt to take the lower risk score (highest bureau score) if it is based on deeper and more recent credit enquiry and account information.

Alternatively, where the various bureau scores are not easily calibrated to each other it may be simpler to apply a bureau risk matrix that ranks the risk of the credit applicant according to the information obtained from multiple bureaus. In the illustration below we depict the situation across two bureaus (Bureau Y and Bureau Z).

		Bureau Y score		
		High risk	Medium risk	Low risk
Bureau Z score	High risk	Very high risk	Very high risk	High risk
	Medium risk	Very high risk	Medium risk	Low risk
	Low risk	High risk	Low risk	Very low risk

For illustrative purposes, from the above matrix we can define a bureau decision strategy that categorises applicants into bureau independent risk groups – these risk groups would typically be based on each bureau's risk score, each, jointly validated against the lender's credit risk population. In this example, there are 5 bureau independent risk grades available for credit decisioning. Furthermore, this bureau strategy matrix is clearly de-coupled from the credit decision strategy. As such, it can be modified and enhanced separately from the credit decisioning matrix.

Defining the Credit Decision Strategy

De-coupling the bureau strategy from the credit decision strategy enables the lender to modify the credit decision strategy without having to make modifications to the various bureau strategies and also without having to manage multiple, integrated bureau and decision strategy matrices.

To illustrate this point, having defined a bureau independent risk grade or risk score we have a simple decision matrix below that enables the lender to approve, decline and refer credit applications based on the internally derived credit risk score and the bureau independent score and risk grade.

In this case only one matrix needs to be managed where changes to the credit score risk grade or the bureau risk grade are developed. This contrasts to the three matrices that would need to be managed in the integrated strategy approach.

This de-coupling also better enables the lender to deploy dedicated analytical teams that can separately design and manage the organisations bureau strategy and credit risk strategy.

Conclusion

Multi-bureau services are now an integral part of the New Zealand credit reporting domain. They provide significant opportunities for lenders to optimise the credit approvals process and to attain realisable benefits from better risk mitigation, increased approval volumes and lower acquisition costs.

Multi-bureau connectivity systems have further simplified the adoption of multi-bureau consumption strategies. Nevertheless, care will need to be taken to fully realise the benefits from a multi-bureau environment. D&B's Inteflow Decisioning and Bureau Connectivity Solution is New Zealand's most mature and widely implemented credit origination system, having connectors to the most up to date CCR and negative bureau products available from each bureau. D&B would be pleased to support your organisation's adoption of multi-bureau services and to validate the value each bureau services provider offers the New Zealand credit sector.

We would also be pleased to further discuss strategies and tools your organisation can deploy to create a fully bureau independent process and also to gain the optimal value from integrating D&B's unique credit information into your multi bureau implementation strategy.

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