

Multi Bureau Environments



2006 saw a significant change in the credit assessment environment within Australia and New Zealand. During the year we moved from a single provider of consumer credit data, Baycorp Advantage (soon to be Veda Advantage), to an environment where credit providers now have a choice of consumer credit bureaus. This has come from the introduction of the Dun & Bradstreet Consumer bureau and the increasing acceptance that it is now providing valuable credit information.

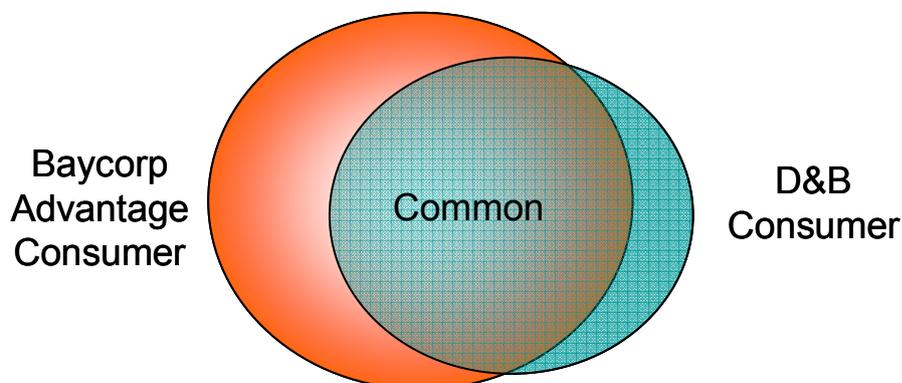
Baycorp Advantage's consumer bureau remains the dominant credit database in Australia due to its long history and established links to existing credit providers. The ongoing use of their bureau, in turn, continues to grow the amount and value of data held. Baycorp Advantage have historically had a strong focus on the quality of the consumer data held and, through its publicised B³ program, looks to be trying to consolidate the number of credit bureau platforms and channels currently supported.

Dun & Bradstreet have rapidly established a user base for their Consumer bureau, and have been able to demonstrate that they can return additional value to credit providers. This occurs through the identification of some unique adverse data not picked up when sourcing files from Baycorp Advantage only. They have positioned themselves as either a complementary service provider or as a viable replacement option for organisations.

Data Coverage

Our experience with credit providers that are sourcing data from both bureaus has highlighted an interesting pattern. While there is a common set of data across both credit bureaus, there is a subset of credit data held only on the Baycorp Advantage bureau and, similarly, there is a subset of data unique to the Dun and Bradstreet bureau.

Australian Consumer Credit Bureau Coverage



The extent to which there are differences between the content of an individual's file on Baycorp Advantage and Dun & Bradstreet could be attributable to a number of causes. Possibilities include:

- 1) While defaults are commonly lodged with both bureaus, many credit providers use only one bureau for enquiries, so the content of the bureaus will differ, dependent on whom the current users of the system are.
- 2) As credit providers switch between bureaus to retrieve their credit reports the profile of the credit data held on each credit bureau may be more complete for certain industries.
- 3) Differences in the matching algorithms used by Baycorp Advantage and Dun & Bradstreet mean that identification of the correct applicant file could vary.
- 4) The vast number of files on the Baycorp Advantage database can potentially "hide" the real customer profile as several identities may exist for the same individual.

Benefits to Customers:

Having a choice of bureau providers can provide significant benefits to credit lenders. A number of these are outlined below:

- 1) Product Offerings: Having competitive offerings in the market place provides an environment where each provider is attempting to distinguish their offering through product variations and data quality. This is highlighted by the number of different consumer bureau reports that can now be obtained and also the different options available for customer identification and verification.

Public Record enquiries (public record information only)

Adverse enquiries (default and public record data)

Standard Credit Enquiry (enquiry, default and public record data)

Consumer Bureau Scores (scores based on enquiry, default and public record data plus the raw data)

Consumer Application Scores (scores based on application, enquiry, default and public record data)

VeriCheck

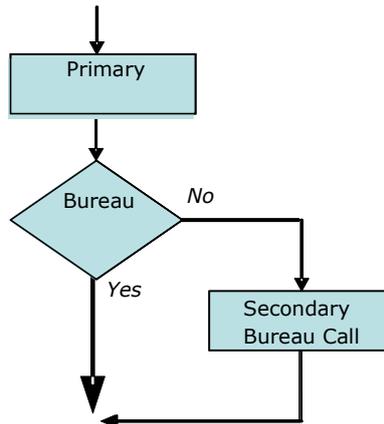
IdentiCheck (FCS Online)

FraudCheck

- 2) Service: As we now operate in a competitive consumer bureau environment, each provider will be aware that customer service can now have an impact on which bureau a credit provider uses.
- 3) Pricing: As a result of the two bureaus trying to gain and/or maintain the number of users, it is expected that competitive pricing structures and products will be offered to encourage the use of one or both bureaus.
- 4) Data Profile: The type of product offered by the credit provider may attract a specific profile of customer. One or other of the bureaus may hold more in-depth and complete data for that profile of customer. This means that a user could go to one bureau for specific product offerings, and the alternative bureau for other

products or customer profiles. This means that the credit provider will be getting the best possible total solution.

- 5) **System Redundancy:** With most high volume users having the bureau call integrated into their business process, the unavailability of the credit bureau service can have a major impact on a customer's business. By setting up a secondary bureau, customers can remove any impact caused through bureau outages. From our recent experience, this configuration has provided significant benefits for customers. In the event of bureau unavailability, the customer's system can automatically switch to the other bureau, preventing any down time or disruption to business.



Dual Bureau Implementation:

Our experience with customers shows that there are many factors impacting on how a dual bureau strategy can be successfully incorporated into the application processing environment. Whilst at first glance it might seem like a simple process to switch to another bureau or use two bureaus to assess an application, there are many potential complexities.

Firstly, what strategy should the credit provider employ? There are several options:

- 1) Utilise the services of one bureau exclusively, based on who can give the best price or the best data coverage
- 2) Use both bureaus for all applications
- 3) Only call the second bureau when the first is unavailable
- 4) Only call the second bureau when no match is obtained at the first or the customer details cannot be verified
- 5) Utilise one bureau for a (random) subset of applications and the other bureau for the remainder. This is akin to running a champion/challenger strategy to determine which bureau identifies the greatest proportion of adverse events
- 6) Make a call to the second bureau only for a subset of applications where the decision could be affected, i.e. customers falling near the scorecard cut-off. If this strategy was employed by enough users, and assuming roughly the same subset was always affected, this could have long-term effects on the credit

market in Australia. Potentially, it could create a segment of the population with high hit rates on both bureaus and a large amount of duplicate information which could incorrectly affect their ability to obtain credit

- 7) Variations on this theme, such using an alternative bureau for younger applicants, or only for certain products. There are many possibilities.

Secondly, when using data from two bureaus, how should this information best be utilised? Some of the issues to consider are:

- 1) How to avoid double counting duplicate information? With credit providers increasingly using two bureaus to make enquiries and lodge defaults, an individual could be unfairly penalised if these enquiries and defaults were not identified as belonging to the same application or adverse event.
- 2) How do underwriters and reviewers interpret the information to make their decision? Fortunately in Australia, the credit bureau reports are very similar in their look and interpretation is not that different. However, they do need to be aware of the duplication issue mentioned above.
- 3) How should multi-bureau information be incorporated into automated scoring solutions? Most scorecards are set up to deal with raw bureau data or bureau scores from one provider only. Should a scorecard be altered to combine data from both bureaus, or to use only one? It might not be as simple as adding together the two results. An enquiry or default at one bureau might not be equivalent to the other in terms of risk. Also, additional processing might be required to remove duplicate information prior to scoring.

A strategy that includes usage of more than one bureau requires some thought and careful planning to ensure that the value of both bureaus is maximised. The solution to the use of multi-bureau data will likely be different for each user. The way in which the information is utilised will most likely depend on the strategy used to decide when the call to the second bureau is made.

Customer Solutions:

At Decision Intellect, we see these as the common scenarios:

- 1) The credit provider checks both bureaus to get a "full picture" of the applicant's credit history. This provides the best coverage in relation to credit history however does impact on cost as potentially two reports are retrieved for each applicant. Logic can be added to this to only retrieve the second bureau file if the first file is "clean" therefore reducing the total number of reports retrieved. This is a very easy strategy to implement and monitor.
- 2) The credit provider only calls the second bureau for a subset of (usually high-risk) applicants. Essentially, the purpose of going to the second bureau for these high-risk customers is to identify any extra adverse information that would tip them from being a marginal accept to a decline. In this case, it is easiest to utilise this additional information in policy rules, rather than trying to adjust a scorecard.
- 3) The credit provider uses one bureau for a particular product set and the other bureau for an alternative product set. In this instance, the customer would need

to use decisioning strategies specific to each bureau. It would be possible to have the same base scorecard and appropriate points awarded for bureau data according to the source of the bureau data. This strategy may be used when:

- a) the profile of customers attracted to these products are better suited to different bureaus
- b) a product is low value and the customer is prepared to use cheaper bureau services as the risk/exposure is less for the customer. This allows them to save significantly on the total cost of bureau enquiries.
- 4) The credit provider uses the second bureau in a champion/challenger strategy. For this to work effectively, monitoring must be in place to measure the effectiveness of one bureau versus the other. It is realistically only an option for high-volume users.
- 5) The credit provider only uses the second bureau to cover outages. In this situation, the volume of second bureau enquiries is likely to be very small. Depending on how the bureau data is used, these could be referred for manual review, processed as normal or automatically approved. The processing option depends on the interchangeability of the bureau services being used. (For example, Baycorp Advantage's FraudCheck doesn't have an equivalent at Dun and Bradstreet). In order to achieve automation, customers using the Baycorp Advantage bureau score within their scoring solution, may need to substitute this with raw bureau details.

After Implementation:

Once a dual bureau strategy has been implemented, it is important that this is closely monitored to ensure that the strategy is meeting the business objectives (this goes for all systems, not just dual bureau systems). Applicants that are decisioned using different strategies may need to be monitored independently. The final score of one applicant may not be directly comparable with the final score of another, if they have utilised data from alternative bureaus. When monitoring the performance of the portfolios it is important to understand when all applicants can be reviewed together, and when separate analysis is going to be required for groups of applicants.

The ongoing monitoring of portfolios and decisioning strategies may be more complex depending on the strategy applied. It should be noted however, that a systematic approach to testing dual bureau data can bear excellent results and should be included in any scorecard review.

For further information regarding the strategy, implementation and monitoring of multiple bureau solutions you should contact your local bureau representative or Decision Intellect to assist with the transition.