

## **Australasian Consumer Credit Bureaus: Where to from here?**

The credit bureau market within Australia and New Zealand is undergoing change. The two major players, Veda Advantage (Veda) and Dun and Bradstreet (D&B) are both held by private equity players and are in about the same time window in terms of a return to their owners. This being said, each bureau has its own unique and distinct challenges. Veda's credit bureaus originated from the old CRAA in Australia and CRA in New Zealand. These have moved through a number of organisations including the merger with Baycorp. Up to 4 years ago Veda Advantage was the only real player in the consumer credit bureau market. Dun and Bradstreet's aggressive and successful entry into this space creates a difficult issue for Veda Advantage, the shift from a monopoly position to competitive player, while still dominant, can only have a negative effect on overall revenue. Veda has previously been able to cover any potential loss in market share through increased prices and an overall growth in the credit reporting market. 2008 poses a tougher problem as a combination of the credit crisis and higher living costs will result in potentially a reduction in the overall credit volume. Maintaining consumer revenue, let alone growth, may become a problem for Veda.

D&B's entry into the consumer space in 2004 was the result of many years of hard work building their database. The cost spent building up the database is most likely yet to be recovered and will be something that D&B's owners will be keen to see a return for. While the D&B consumer database is still smaller than Veda's, they have been able to pick up market share through two distinct areas. The first is an aggressive value based pricing model which bundles in many D&B services. The second is probably much less planned in that the data returned by D&B is not a subset of Veda's data but in fact adds complimentary data not returned by Veda. This provides D&B with a value adding proposition on top of Veda's offering. This second option is really a win-win for both D&B and Veda Advantage as it effectively increases the market volume for credit enquires rather than eroding market share for either company. The reasons for this variation in data held is not fully understood however it is most likely due to differences in data quality and matching processes and will be impacted by the organisations contributing the data to each of the bureaus.

Both bureaus will know that the current situation is only temporary. Providing D&B continue to gain market acceptance then eventually they will continue to build up the value of their offering to a point where their data depth is equivalent to that provided by Veda. This would provide financial providers with a switching alternative and a return to the use of a single bureau that best meets that organisation's requirements. The end result of this may be industry specific bureaus, regional bureaus (as in the US) or maybe it will be relationships, service, and product offerings driving bureau selection.

Where does this place Veda? Veda's position is an extremely difficult one. As incumbent provider their market share can only go down, the question is how they can limit the loss. Having a large fixed cost base means that any

revenue loss will directly impact the bottom line. Some cost pruning can be achieved however the scale of this compared to the potential revenue reduction is minimal. A price war is not something that either bureau would be keen on. Cutting unit prices when unit volume is decreasing would impact Veda revenue streams further. D&B will also be under pressure to get the revenue returns for the many years investment in building their database. Any reduction in revenue will not be seen positively for them either.

Both bureaus will be keen on locking in forward revenues through fixed customer contracts. This is likely to be a big focus for them however it would be unwise for any financial provider to lock into an exclusive agreement with the market conditions and product offerings currently available. This may only assist the bureaus to tie up future revenues for the next 12 months or so. Another approach would be to get their products and services into as many systems as possible. This reduces the barrier to entry making the choice of bureau provider much more about product, unit price and service rather than the cost to implement. This approach has been used successfully by D&B in getting their services into the Transact, DecisionPoint and Inteflow decisioning products. Veda has recognised this and have their products supported within these systems also. Their appreciation of the importance of these links is highlighted in their recent decision to change the functionality within DecisionPoint to make it harder for these clients to use D&B.

The most likely option for both bureaus is to drastically increase the level of innovation in the products they bring to the market. This way they can add product differentiation to their offerings. The current credit products are vastly the same as what has been offered for the last 10 years. There have been some updates to scorecards, some variations to the identification products, and the addition of AML support however, in general, a financial provider is using much the same products as they always have. If either of the bureaus can add new products that provide significant value to financial providers, they would not only win that new business but would also be likely to win the core enquiry business.

## **Australasian Commercial Credit Bureaus: Where to from here?**

The story is different in the commercial credit reporting sector. Up until recently this market was serviced through three main providers. Veda Advantage (Veda), Dun and Bradstreet (D&B) and Australian Business Research (ABR). D&B and ABR provided high end commercial services where in-depth analysis and review of companies where undertaken by credit analysis. This highly manual service provided companies with detailed financial and trading reviews of companies and gave the organisation as clear view of the financial stability of a company prior to undertaking any business with them.

This resource intensive business model did not fit with Veda and as such they concentrated on the database driven transactions which are heavily focused on enquiry and default activity. Veda's purchase of ABR in 2007 highlighted a desire to increase market share. This may have been an attempt to offset foreseen potential revenue issues with D&B's entry in the consumer space or possibly an option for revenue growth through only having a smaller share of the lucrative commercial market. The purchase is significant in that it provides Veda with a full suite of services in which to compete fully against D&B.

D&B have been able to grow their commercial business on the strength of the data they hold, their trade references program, and through the strength of their collection business. The D&B commercial dataset does not rely on default information from credit providers, as is the case for Veda, preferring to rely on trade payment data and collection activity. A historical weakness in the D&B commercial database has been slowness in the uptake of B2B interfaces. Credit providers looking to automate their decisioning process, especially for small medium enterprises, could only get data online from Veda. As such Veda has built up a strong hold on the automated B2B space. ABR were reasonably successful in attracting clients to their eCaps offering and until recently D&B have not had the offerings to compete in this space. They have addressed this through the establishment of their D&B Direct channel and ongoing relationships and time will tell if they will be able to grow market share.

Veda's purchase of ABR is an interesting move. Many of ABR's products resell Veda services and ABR was itself a significant Veda customer. Veda may see this as an opportunity to cut out the middle man. This however, ignores the fact that the two businesses are very different. A significant amount of ABR's business was based on margin revenue through selling Veda products. As such it had to be dynamic, extremely customer focused and solution based in order to win customers. Many of ABR's customers chose to access Veda data through them because of this. By folding ABR into the Veda business these customers may become disenfranchised which is something Veda will be very conscious of. ABR's success with its eCaps product will create product questions where there are overlaps with Veda's DecisionStream product.

D&B and ABR are historically the major competitors in the bigger end of this market. How Veda approach the integration of ABR may largely shape how the market share is split. Veda has the size and resources to expand the ABR model and seriously impact on D&B. Alternatively if the purchase is to remove ABR from the market it could enable D&B to pick up ex ABR customers and take a dominant share of the bigger end of the market. In the short term Veda will most likely maintain a large share of the SME space due to their existing links into automated systems. However this space will no doubt be a focus for both bureaus as they strengthen their offerings to attract and maintain the high value commercial bureau revenue.

Unless either organisation drops the focus on their key products, future changes in this market are most likely to be less significant than in the consumer space. Keep in mind this is already a competitive market with options for customers to choose between either of the bureaus. We would expect to see continued product development as each bureau increases their offerings.

## **Credit Bureau Supporting Businesses: Are they core?**

While the credit bureaus are a core part of both businesses the approach to associated businesses is interesting. Both Veda and D&B have changed their operating models over the last few years, however both still retain a key strength on their historical businesses. For Veda this is the consumer bureau and for D&B this is their commercial bureau.

### **Identification and Fraud Services**

A major difficulty for both bureaus in the identity verification area is government regulation. While documents such as drivers licence provide significant identification in that both bureaus use this as a key match item for matching the bureau file there is no way to verify that the drivers licence is actually correct. While both bureaus have lobbied hard to get access to validate driver's licences this is still something that eludes either bureau. Similarly the use of electoral roll data is sometimes questioned. Both bureaus offer similar functionality when including D&B's partnership with FCS Online. The finer details of the offerings vary and will be suited to different companies depending on their requirements. Veda currently holds the upper hand by coupling their verification products with their fraud database.

### **Debt Collection**

The most interesting development was the establishment of a debt collection business by Veda in 2000. This was initially established as a joint venture between Baycorp in New Zealand and Data Advantage in Australia prior to them merging to form Baycorp Advantage (now Veda Advantage). Significant effort went into the creation of the collection business and the link between the credit bureau and the collection bureau should provide significant competitive advantage to this business. Unfortunately for Veda, this business never reached its potential which came to a head when Allco Finance made a hostile takeover attempt for Veda in 2005. The potential belief was that the sum of the businesses separately was worth more than the then combined share price. Following a successful defeat of the takeover Veda management then split off the collection business and sold it independently.

D&B's model is diagonally opposed to Veda's, where D&B's commercial collection business provides the significant share of value to its commercial credit database. The collection business is seen as a key business unit within the D&B organisation. It will be interesting to see if Veda moves back into this area especially as we head into what looks like lower credit enquiry volumes. Given the background of the management team now at Veda it is more likely that they will leave this space to other players.

## **Marketing Services**

Both organisations provide marketing services. Once again, Veda's is closely aligned to their consumer business. Their Marketing Solutions business has been a shining light for Veda over the last 8 years as they use analytical techniques and bureau data to provide solutions to customers. The recent departure of David Sharp, who initially founded this business, to be replaced by Chris Iacovou as GM of Decision Analytics and Marketing solutions may point to where this area may be heading. Chris was previously at Experian.

D&B provide a marketing service also however it is strongly commercial focused. This business continues to be an important part of D&B's offerings.

The marketing services add incremental value to the credit bureaus. Unlike collections, where they can enrich the database, these services build value on top of the bureau data. They are highly profitable parts of the business.

## **Decisioning Solutions**

Veda purchased the decisioning company, Equigen back in 1997. This provided them with bureau score revenue and also the application processing product DecisionPoint. Veda was able to make this product the largest used decisioning product in New Zealand and Australia with over 80 customers using it. This provided Veda with automated links into the decisioning process and maximised use of their credit products. DecisionPoint customers made up a significant number of Veda's top clients. The last 4 years has seen very little activity in the decisioning space by Veda with general uncertainty in relation to their commitment to this business. The recent management changes have provided some direction in this area and they have begun the rebuilding process. Time will tell to as to how successful this will be.

D&B does not have a decisioning unit and currently works with vendors to provide the marketplace with comprehensive decisioning solutions. It will no doubt recognise the importance of decisioning solutions from the inroads that were able to be made in the consumer space and will most likely look to grow its capabilities.

These are some of the challenges facing the CEO's of both organisations. Rory Matthews at Veda will be very much aware of the dynamics within a credit bureau, having been involved in setting up of Experian's competitive bureau in South Africa before moving on to run Experian's bureau in Netherlands. He will be bringing to Veda significant knowledge and drive and will have a vision of where Veda will have to be in the next few years. Christine Christen at D&B will be keen to make further inroads into Veda's consumer business as well as focusing on continuing to grow the commercial business. She will use her experience from the commercial space and has shown a willingness to recruit senior resources with consumer experience to build her team further. She too will be on a similar timeline to Ray.

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