

CREDIT SCORING AND CREDIT CONTROL IX EDINBURGH 2005

Over-indebtedness and Responsible Lending in the UK

Abstract

Since the Government set up its Task Force on Tackling Over-indebtedness, in 2003, the Credit Industry and the Credit Reference Agencies have been under increasing pressure to improve the way the granting of consumer credit is controlled. Further scrutiny by the UK Government's Treasury Select Committee and recent, high-profile cases in the national press have further increased the pressure on the credit industry to take steps to prevent individuals from getting into such dire straits.

Analytics has played a crucial role in credit risk management in the UK for more than two decades but recent experience has shown that using credit bureau data for creating credit scores alone is seriously limiting in its usefulness. Furthermore, any serious attempt to measure indebtedness is hampered by the absence of reliable income data.

In this paper we review the available data on the extent of over-indebtedness in the UK and present results illustrating the limitations of previous approaches to assessing credit risk. We describe recent work to develop a range of indices that go beyond the reliance on past arrears as an indicator of future performance and look at ways in which the credit bureau data can be used to predict future indebtedness and assess affordability.

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