

# CSCC XVI EDINBURGH 2019

## Incorporating Trended Performance data within generic bureau scores for assessing credit risk

### Abstract

Traditional bureau scores rank consumer credit risk by referencing a snapshot of an individual's credit profile. Lenders capture the name and address history for a given applicant which is subsequently used to retrieve their credit bureau data, the returned information is then summarised in a large suite of summary variables that mostly report on the current credit position, such as "total outstanding debt", or "total credit limit utilisation".

As consumer credit products evolve, and lending practices come under ever greater scrutiny, there is more emphasis placed on understanding the stability of consumers credit profiles. After the global credit crunch underwriters wanted to see a more granular level of credit information with respect to how consumers managed repayments over time. Additionally there is increased accountability placed upon lenders by regulators to understand the early signs of customer financial stress and take reasonable action to prevent this, or at least to better support financial recovery.

Even without these challenges it is becoming harder to attract the best customers, as product choice widens and competitors adapt to an increasingly varied and complex data world. New techniques and improving processing capability allow lenders to draw on larger quantities of data to build that understanding. How though should this data be harnessed, and when is it appropriate? Certain types of data such as demographic information may be permissible to use but can unintentionally reflect poorly for consumers, (consider a young adult moving out of their parent's home, previously having benefitted from their geographic risk profile).

So what trended insights can be generated from this type of data and why is that beneficial. What problem does it solve?

CRA's hold a lot of data in relation to a consumers credit history (this paper focusses on payment/spend information specifically), but not all of it has been used historically within the credit decision. Much of the history is archived as it is needed to support queries on previous credit assessments or for lenders to revisit credit strategy off-line in an analytical environment, (with the ultimate aim of providing better service to consumers).

This paper discussed the impact/gains from incorporating trended data into the scoring process as we look to identify patterns in the data which highlight how much financial control a consumer is showing, how stable that control is, whether we can see early signs of stress via diminished re-payment capability.

Also considered are how these trended characteristics provide benefit outside of credit scoring/underwriting, i.e. how a lender may choose to monitor and report on the evolving risk within their expanding portfolio's.

Kind Regards

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