

Time to restart your engine?

_by Murray Bailey

Third Party Data Compliance - or TPD as it is usually shortened to – was a painful experience for many lenders. For some it was a major task; not just impacting scorecards and policy rules, but requiring a virtual rebuild of decision systems. Where the credit bureau link purely provided a block of bureau data, lenders with an in-house decision system, modified their application processing and scoring routines to cope with the changed data. However, lenders relying on credit bureau to provide this service, had to have the bureau make changes to the system and modify their internal systems to cope with the changes to the bureau link. It was not only more effort, but more complicated and the testing more time consuming.

Smaller lenders often prefer to use the credit bureau's application or scoring system because it requires less IT support by the lender. However, the lesson of TPD was that this can prove costly when significant changes are made. Now, I'm not warning that another such change is coming down the line, but the rate of change in the decision system arena has become more rapid. Whilst Basel II does not impose rules on how you use your decision system, the companies that can modify their scoring routines and MI quickly, can obtain a competitive advantage. This is just one example of an imminent regulatory change. Who knows what else will occur over the next three years?

So the advice is this: if you haven't got one today, start planning to bring your decision system in-house. You will be confronted by the arguments against. It will be a risk and an expense.

Financially, the change will need to be cost justified. There is the argument that the speed of response and flexibility will give your company a competitive edge, however this is difficult to quantify. The solution is often to view the move in-house as the road to obtaining a multi-bureau solution. Multi-bureau – the ability to access more than one credit reference agency - produces three benefits in the areas of: AML, Fraud and Underwriting.

The AML benefit is reduced referrals for proof of ID or address, since a second bureau can provide identity evidence that a single bureau failed to do. One company found that an quarter of manual checks could be removed by a second bureau AML search.

The Fraud benefit is an improved false: positive rate and most Fraud managers would agree that you can never have too many fraud detection tools. However, one major bank recently discovered that being smarter about when to use a tool could save significant amounts. Rather than send everything to a fraud bureau service, the cost was cut by 40% by using GeoFraud as a screening service.

In Underwriting, the business may make smarter decisions on marginal applications for example. Since there are differences in the data held and the address matching algorithms, a second bureau can provide information that strengthens a case in the same way that the AML search can. In a previous role I found that the acceptance rate was increased by more than 5% by selectively searching a second bureau.

If you are still struggling to justify the cost, look at the system charges over the past year and convert those into the cost of in-house development instead of more expensive bureau developers.

The risk is an IT operational risk. Bringing the system in-house will require on-going IT support. This may also be perceived by some IT departments as increasing their responsibility for the bureau link, since hitherto they may have relied on the bureau. They may have taken the tack that it is the bureau's system and their role was more about monitoring the bureau's service level than maintaining a system.

Let's not forget that we are in a risk business. This risk needs to be sized and costed and mitigants put in place to make it acceptable. However, a multi-bureau solution reduces a dependency on one supplier. It can also be more cost effective. In addition it will strengthening your position and improve your ability to negotiate bureau prices.

Finally, if there is still a problem convincing the business, consider a standalone solution. A low tech approach can both demonstrate the opportunity to make big savings in Fraud and AML costs, and enable the transition to a multi-bureau solution smoother from an IT perspective.

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