

# Knowing your customers

With Credit Bureau Information and Scores



# Invest in your greatest asset: your customer

The recent financial crisis has changed the way the credit market works. Identifying and acquiring good customers has become harder. Keeping them has become even more difficult. Your competitors target the best and most profitable potential new customers through smarter, more-sophisticated technology. Unfortunately for you, this targeting includes **your** best customers.

In this environment, being able to understand the situation of each customer at each moment and then act on it with foresight has become a definitive source of competitive advantage. Knowing for example when your customer is at risk of seeking out new products or vendors is very important.

## Know your customers' external credit profile

The advent of the Internet era and the explosion of storage capacity has created the illusion that the huge amounts of data collected by companies about their customers is enough to understand their behaviour and predict their future situation. The reality is that internal information is not enough for one simple reason: borrowers typically have credits with more than one institution and the odds are that the signals for important changes (such as an eventual default or interest in new products) will show-up externally - outside the reach of your internal information.

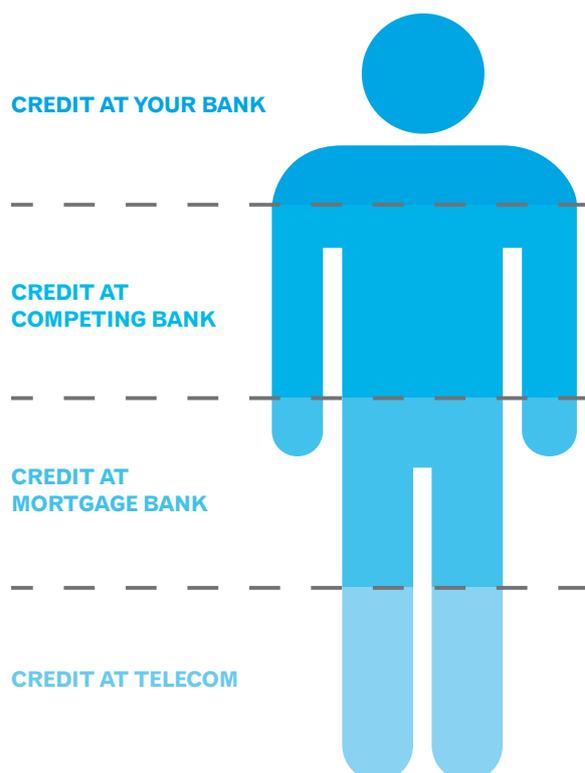
## The importance of external information

The information on a person's global debt exposures and status is held at Credit Bureaux like Experian. Understanding the external and global debt position help credit providers identify people on the road to default, and not only that, it also enables them to find potential Gold customers that are likely to be approached

by competitors with attractive offers. Below are some examples where you could lose both good customers and profit opportunities, because you are not engaging customers in a proactively attentive way:

- You lost contact with your client so you don't **engage** with him/her - it is not possible to foster good relationships with clients if you have lost track of their whereabouts. You want to be aware of any changes in contact details or else you will lose good customers
- You are unable to **maintain and grow** the relationship with your client because you are not aware of his/her credit needs - You will miss up-sell and cross-sell opportunities if you don't know when a customer is actively shopping for credit in the market. If you don't know, then you don't participate in the race!

Figure 1 - Most credit exposures of your customer are held outside your firm





- You fail to **control existing credit risks** because you don't have visibility for when a good customer is turning bad. Customers in financial trouble will usually start showing distress signals well in advance. If these are not on your account then you will not be aware of them. Knowing about a worsening situation on an existing client will enable you to take proactive actions with hindsight to minimise the probability of loss by allowing a constructive conversation with your client
- You are not in **control of new credit risk** acquisition because you don't know when a good customer has turned delinquent. Even if you are not aware of distress signals shown by a customer, or where these signals have not appeared, you must know when a customer has stopped honouring debt

responsibilities. If you don't know about these cases then you run the risk of granting more credit to people who are most likely to default even at the time of grant

### Losses from not knowing your customers

Whilst the importance of understanding a customer's external debt profile is clear, it is also evident that it is not enough, in the same way that a still photo of a person is not an indication of where that person is going. Understanding the evolution of the debt profile is equally important and understanding it in a timely manner is paramount to keep ahead of the competition.

## PHASE 1 OF 3

### Losses caused by not reacting

Below are some examples of losses caused by not reacting on events that occur in your customers' lives:



These losses could have been avoided if only you were informed about the relevant events affecting your own customers. The costs and risks of ignoring or not understanding your customers can be very high.

# Know your customers through Credit Bureau information

## PHASE 2 OF 3

### Be an insider to your customers' external events

The illustration below shows the previous examples of customer losses and how these losses can be mitigated by leveraging the right external Credit Bureau information:





# Know your customers with Experian’s credit intelligence

Experian holds an enormous wealth of information about consumers and businesses, both large and small. Together with your internal information, this external information will enable you to create a complete customer view, which in turn enables customer focus and centrality.

Examples of Experian Bureau Information that you can benefit from in EMEA countries are:

- Credit exposures of all registered credits and their credit statuses
- Credit searches (which indicate your consumers credit activity and changes in risk of default)
- Consumer contact info (where allowed by law)
- Company owner information such as company credit bureau info, trade credit reference data, firmographics, financials as well as information about linkages between companies and owners

## Value added services and products

The wealth of Experian Bureau information is highly beneficial for handling customers, although taking full advantage of it can be difficult due to its scale, complexity and variety. This is why Experian spends large amounts of R & D effort to develop intelligent systems and solutions that provide dynamically updated, actionable, profitable insights ready for you to use to improve customer profitability and engagement.

### Delphi Summary Block

This is the most basic form of summarising the information about a credit subject contained in a Credit Bureau. It delivers a high level view of the most important variables influencing credit behaviour. Its contents are used as a foundation to create scores, triggers and other more sophisticated services relevant to consumer and commercial credit.

## Credit Bureau Scores

Credit Bureau Scores are sophisticated scientific prediction models that summarise all bureau information available about your customers into a single number: a “score”. Such scores measure the probability of specific events depending on the customer lifecycle stage where they apply. For example:

SCORE EXAMPLE	WHAT IT MEASURES
DELPHI FOR CUSTOMER MANAGEMENT	Probability of an existing customer becoming delinquent on any of its accounts within the next 6 months
DELPHI FOR COLLECTIONS	Probability of an existing customer going into default within 12 months due to a high load of unsecured debt. Used to identify and manage highly indebted customers
DELPHI FOR COLLECTIONS	Probability of recovery on a delinquent account happening in the short term
GEO DELPHI	Existing account becoming default in the next 12 months based on consumers address area. Used for prospecting purposes

Credit Bureau Scores are highly beneficial for the management of portfolio risk, pre-delinquency strategies and also for up-sell and cross-sell purposes. They are typically used within periodic portfolio risk review processes, but also after an important event happens in order to assess and monitor that specific customer’s risk. As a result, relevant actions are defined that are in line with the lender’s risk appetite and strategy.

**BASEL AND REGULATORY COMPLIANCE WITH CREDIT BUREAU SCORES**

Credit bureau information is also useful as important inputs for measuring and achieving goals set externally by ratings agencies and the national financial regulator. Some financial institutions use Experian credit bureau information as input in their internal Basel risk models. Other financial institutions use credit bureau bench marking services to compare their performance to other financial institutions. Please contact Experian for more information on how credit bureau information can be used for initiatives driven by regulatory compliance.

## BUSINESS CASE

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### The value of credit bureau information for managing retail banking portfolio

A major Italian retail bank asked Experian for help in improving the profitability of their existing customer portfolio with the use of credit bureau information and scores. This was made possible by giving the bank better, more complete knowledge of its customers through external information from Experian.

Experian was able to provide additional information for 75.34% of all bank customers since these had at least one credit line or credit request. This means that for more than 75% of bank customers, the use of Experian Credit Bureau information contributed with a more complete view of the bank's customers. This more accurate view allowed the bank to define and execute more profitable customer strategies and actions.

The following are some examples of how bureau information and scores immediately enabled new, profitable actions on existing customers (these customers were **not** delinquent on the banks portfolio):

- Experian Credit Bureau Scores revealed that 14% of clients in the portfolio represented a very high risk of default due to delinquencies with other credit providers. These customers were the target for credit collections and credit restrictions
- Experian Credit Bureau Scores revealed that another 2% of clients in the portfolio were over-indebted and therefore at a heightened risk of default. These customers were the target for credit reviews and credit restrictions
- Additionally, Experian Credit Bureau Scores identified another 10% to be very low risk due to having other up-to-date bureau exposures. These customers were the target for cross sell and up sell campaigns allowing the bank to gain new and very profitable business due to the customer's very low risk levels

The bank gained the significant opportunities described above to protect their portfolio from losses on 16% of the portfolio. These opportunities were gained through the use of Experian bureau solutions.

Similarly, customers that were already delinquent on the banks' portfolio were segmented using Credit Bureau data and Scores. This increased the effectiveness of the collection strategy to reduce loss:

- 43% of delinquent customers showed negative information in the Credit Bureau in terms of probability of default and exposure. Such cases should be subject to "hard" collection strategies or sold off to DCAs as early as possible to reduce the final loss value
- The other 57% of delinquent customers were "easier" to collect on. Such cases includes self-cure strategies or light collection strategies that leads to a reduction of the collection costs

This case showed that the use of external bureau information can significantly improve profitability by providing a deeper knowledge of your existing customers.

### Batch customer analysis

Batch customer analysis is a service provided by Experian either periodically or on demand by the customer, where a Credit Bureau score will be appended to each client record in an input file. Using Batch Analysis for portfolio management is a powerful tool to know and understand customers. Batch Analysis gives valuable insight on the changes to customer circumstances that have an incidence in their credit behaviour. It highlights the opportunities where you can proactively manage to mitigate risk and up-sell / cross-sell.

### Customer events notifications - Triggers

Experian's Triggers services proactively "listen" to your customers on your behalf, monitoring in almost real time for important events or changes affecting each customer. When an

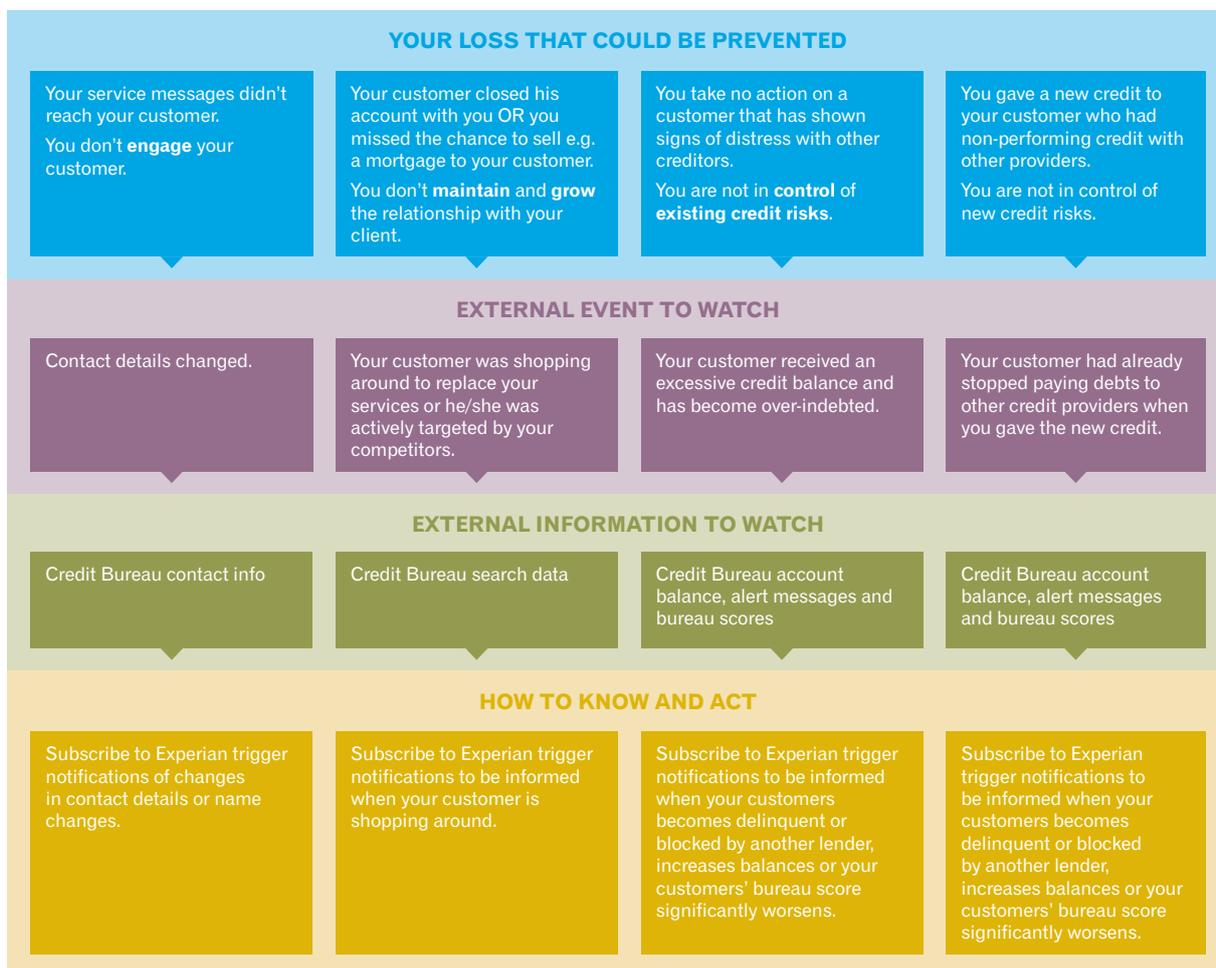
important event occurs, Experian sends you a notification so you can take appropriate action (e.g. reducing the credit limit or engage to improve your customer relationship. This allows you to manage your customer relationships based on their situation and predicted evolution. Triggers help not only control credit risk; they enable you to keep good customers and develop profitable relationships with them, by understanding their needs and expectations based on their credit behaviour.

In combination with Credit Bureau Scores and Batch Customer Analysis, Triggers enable you to monitor your customer throughout the life of the relationship. They act as health diagnostics on your portfolio and help improve your customer decisioning process across the customer management and collections areas.

## PHASE 3 OF 3

### How to mitigated losses

The illustration below expands on the previous examples of customer losses and how these can be mitigated by using the right Credit Bureau solutions:



## BUSINESS CASE

### How to benefit from Experian triggers

Experian maintains literally hundreds of different triggers that help you know your customer situation in almost real time. Experian's triggers cover the four customer management points:

- Engage
- Maintain and grow
- Control existing credit risks
- Control new credit risks

These customer management points are handled through the use of a multitude of Experian triggers. Just a few examples of triggers are:

- New credit account trigger
- Credit account closed trigger
- Default account trigger
- Significant balance change (higher) trigger
- Individual reported as deceased trigger
- Change of current residential address trigger

### How triggers work with a new credit activity

*You have signed up for Experian triggers and get notified by Experian that one of your customers has searched for new credit. After you check the customer's Delphi score and see that the customer is low risk you decide to give your client an offer for better credit terms and hence prevent a good customer leaving you.*

**SIGN UP FOR  
EXPERIAN  
TRIGGERS**

**GET NOTIFIED ON  
YOUR CUSTOMERS  
IMPORTANT  
EVENTS AND  
ACTIVITIES**

**TAKE PROFITABLE  
ACTION ON THE  
NOTIFICATIONS**



# Being safe with Experian Credit Bureau Scores

Experian Credit Bureau Scores help you control compliance and operation risks.

- Operations risk: Experian delivers credit bureau scores with consistently high performance ensuring optimal results for your business
- Compliance risk: Experian Credit Bureau Scores are always legally compliant ensuring peace of mind during regulatory reviews

Using Experian Credit Bureau Scores alleviate compliance and operations risks because they are constantly maintained to be legally compliant and perform at a guaranteed high level. Experian can make this compromise based on policies of adhering to strict compliance and operations standards.

## Experian compliance and operations standards

### Regulatory compliance

Ensures that your scores use compliant data

and processes. This area is key for credit providers who want to be assured of complying with regulations.

### Regular monitoring and management of the Credit Bureau Scores performance

Ensures that your scores are kept permanently at a high performance level leading to more profitable decisions for your business.

### Consistent world class methodology

Ensures that your scores deliver the business outcomes you expect, is free of design errors and is easily understood and used by your business users in a straightforward way across countries and departments.

Experian's compliance and operations standard are enforced via regional and global monitoring personnel using a highly structured approach for credit bureau scores standards. Experian values its partner relationships with clients and manages credit bureau scores performance and compliance as a key success criterion.



## Profit through a complete view of your customers

The complete customer view that is needed to manage each of your customers requires the combination of internal and external (Credit Bureau) information. A complete view of your customers gives you knowledge of your customers' needs to help serve them better and more profitably.

- Having up-to-date, accurate information of your customers allows you to **engage** better with your customers
- Awareness of your customer credit needs and up-sell and cross-sell opportunities allows you to **maintain and grow** the relationship with your customers
- Knowing when a good customer is turning bad outside your business help you **control existing credit risks** and **control new credit risks** from existing customers

Using Experian Credit Bureau information enables credit providers become fully customer centric by enabling actions to be taken in response to specific customer events at the moment they occur.

Get in touch with Experian so we can help you reap the benefits from using credit bureau information, Scores and Triggers to gain a fuller understanding of your customers!

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