

CCR

- Can multi-bureau decisioning help fight fraud? ◆
- Structure your data capture ◆
- Errors in personal data ◆

## COMPLETE THE PICTURE

For lenders to help combat fraud and overindebtedness, they need the best access to information possible. Is multi-bureau decisioning the way to achieve this?  
By Peter Constance

The film *Catch Me If You Can* showed Leonardo DiCaprio playing Frank Abagnale, a maverick fraudster who, between the ages of 16 and 21, cashed \$2.5m worth of fraudulent cheques in every US state and 26 other countries. Mr Abagnale successfully posed as an airline pilot, a college professor, a lawyer and a paediatrician, before being tracked down by the French authorities and imprisoned.

He now works for the FBI – a poacher turned gamekeeper – and gives speeches all over the world, helping companies and governments catch fraudsters. Talking about the ease of fraud and money laundering, he says: "What I did 40 years ago is 4,000 times easier to do today. For me to have replicated a cheque 40 years ago I needed a \$1m printing press. Now I can do it on my laptop in minutes."

How times have changed. Within the consumer finance industry, we are all aware of the risks of fraud and money laundering. While there is no quick fix answer, lenders are more conscious now than ever before about addressing this issue.

In addition, there is the issue of responsible lending. Levels of consumer debt are at an all time high in the UK at over £1tr, equating to £17,000 per head, according to the Bank of England. Although research from Experian shows that three-quarters of British borrowers claim to be 'comfortable' with their current level of borrowing, it is true to say that loan companies are under the spotlight, when it comes to being seen as acting responsibly.

### The role of credit reference agencies

Credit reference agencies (CRAs) play a key role in ensuring that loan applicants are who they claim to be and uncovering if they have had financial problems in the past.

The three main consumer agencies – Experian, Equifax and Callcredit – all store their information in different ways, but between them hold details on most adults in the UK. This information is a combination of public records, such as the electoral roll and county court judgments; what loans people have outstanding; and search information based on how many loan applications are made over a period of time.

Consumer finance companies will invariably check with a CRA before they process a loan application. As well as ensuring an applicant's identity, the information provided populates scorecards to assess the risk of default, and may be used in other models, for example to assess the likely profitability of a loan or determine the applicant's indebtedness.

The problem is that it is almost impossible to get the full picture by only checking with one CRA. Research that we conducted with Windsor Consulting found that 48% of lenders questioned were looking to implement a multi-bureau solution to help them run more effective credit checks on their customers.

Our survey found that around half of companies currently search a second agency – usually as a backup or in marginal decisions – but that it is generally a manual task. Rules can be established to decide when to use secondary agencies, for example when a search fails or if the primary agency has returned 'grey' or limited data.

Searching multiple CRAs helps in the event of marginal cases by providing the additional intelligence that lenders are looking for. According to research from Datamonitor, almost 8 million adults of working age in the UK would be refused credit by mainstream lenders because of problems with their credit rating.

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>> Finding ways of dealing with these – and the many more marginal cases – is a key challenge, which could be addressed by taking information from multiple data sources.

When cases are grey, chances are the lender will decide not to process the loan. Multi-bureau decisioning could increase overall acceptance rates.

#### Implementation issues

The biggest hurdle to a practical implementation of a multi-agency strategy is the fact that each agency stores its information differently, which, with literally hundreds of different data items, makes comparisons very difficult.

This is exacerbated by an unwillingness on the part of the agencies to share data. A detailed knowledge is therefore required of the data returned by each agency and its relation to similar data from the other agencies. Scorecards either have to be designed to process data from more than one CRA or, more likely, individual scorecards need to be developed for each agency used.

In some cases, a decision needs to be made about whether to aggregate data across the CRAs or apply some other algorithm, such as taking the minimum, maximum or average of a data set.

For example, when building a picture of indebtedness, it will be necessary to aggregate the accounts data from the shared data pools at each agency and then de-duplicate accounts that appear on multiple agency files.

This is not an exact science, and matching accounts has to be done by looking at balances, loan start dates and other information, while allowing for differences arising, for example, from the timing of the updates to the agencies.

Ultimately, multi-agency decisioning needs to present a cost benefit to the lender, so use of multiple agencies needs to be intelligent, with secondary searches being made where there is good reason rather than as a matter of course. Examples may include:

- ◆ Where an applicant is accepted in principle based on one agency's data,

a search of a second agency's shared data may be made to ensure there is no adverse account information on the applicant's record.

- ◆ A second search where the primary search fails to match or a service is not available.

- ◆ An additional fraud check with a secondary agency where possible fraud is suspected.

- ◆ A search of all three agencies to build a full indebtedness picture where the application data shows a high level of commitment.

#### Conclusion

Multi-agency decisioning makes sense from the point of view of being a responsible lender and having another tool in the fight against fraud.

With both of these issues on the government's radar, it would be no surprise to see more legislation, targeted at lenders, on the horizon. **CCR**

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