



# BIIA

## Business Information Industry Association

### **Commercial Credit Information: Imperatives for Sharing of Payment Data**

#### **Why is sharing of trade payment data of value for credit grantors and the economy at large?**

**By Phil Cotter, BIIA Board Member and Contributing Editor**

A recent survey of the US based National Association of Credit Management (NACM) revealed that 46% of respondents did not share trade payment data with commercial credit information companies ([Credit Professionals Split on Sharing A/R Data](#)). The purpose of this article is to examine the reasons behind the aversions to share trade payment data and what can be learned from the successes of the data sharing practises of the consumer credit information industry.

In the early 1990's when I was still working in Consumer Financial Services I learnt a rather painful lesson about the risks of not having current and up to date financial information on customers. At that time I was responsible for a unit of a large Consumer Finance Company that provided point of sale credit to a wide range of retailers who used the company's services to enable consumers to purchase their goods and services on credit.

In the UK the Consumer Credit Act states that the credit provider has the responsibility to compensate the consumer who has used a credit facility provided through the retailer to purchase goods and services for any failure on behalf of the retailer to deliver them. This is exactly what happened to my unit: a large retailer of Home Improvements went out of business leaving my employer to pick up the pieces. At that time standard due diligence required a review of the retailers annual accounts and regular monitoring for court orders etc. The retailer in question passed these rudimentary tests with flying colours but unbeknown to us was the serious deterioration in the payment of its invoices to its suppliers over a period of 6 months prior to its failure. Only later when I met with D&B and was shown the increasing DBT (days beyond term) trend for the business did I realise that access to trade payment information would have enabled me to take action earlier and to minimise the losses we experienced. The experience was painful as it cost the company close to \$2.5m dollars to compensate the consumers affected.

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Fast forward 20 years, most of which I have spent working in Consumer and Business Credit Information and we appear to be no closer today to universal sharing of trade payment data in the Business Information Industry than we were 20 years ago as the a recent NACM survey of US Credit Managers indicates.

IT concerns were a popular reason for why companies wouldn't share their trade payment information. Additional workload to prepare the data was another excuse for not sharing information. This leads to the question of how to convince the remaining sceptics to join the 50% of those who appreciate the value of data sharing. Perhaps the answer lies in the success of data sharing in consumer credit reporting and the benefits delivered to the financial services industry.

In attempting to explain why this situation exists lets first turn to the development of the sharing of Consumer Credit Data and how this has benefited lenders, consumers , Credit Reporting Agencies (CRAs) and in particular my personal experience of how this developed in the UK:

- i) The Consumer Credit Industry has been sharing consumer payment data for many years and it is almost universally accepted that the sharing of both positive and negative data is vital to the proper functioning of a consumer credit market and benefits not only the lenders but also consumers and the wider economy.
- ii) That the current economic environment means that in many countries businesses are exposed to an increased risk of both customers and suppliers going out of business with the attendant financial loss and that universal sharing of trade payment data would help to minimise this risk.
- iii) The G20 and governments around the world cite SME's as one of the key drivers of future growth of their economies and in many countries bemoan the fact that SME's find it difficult to get access to loans to grow their businesses, designing increasingly complex solutions to this problem that don't appear to work.
- iv) That the Business Information providers (D&B, Experian, Equifax, Creditreform etc) will all cite their trade payment databases as powerful value added datasets delivering unique insight into the risk associated with extending credit to another business.
- v) That virtually everyone in the Commercial Credit Industry recognises that publicly available data such as annual reports, court orders etc. is too often out of date and inadequate for the needs of managing credit risk today. A BIIA survey of credit manager in late 2009 revealed that financial statements were rendered useless during the financial crisis because of the domino effect of the credit freeze impacting supply chains

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### **Consumer Data Sharing in the UK**

In the mid 1990's when joined Experian, data sharing was beginning to become established under the auspices of SCOR (Standing Council on Reciprocity) which is an industry body comprising of representatives of the data providers (lenders), CRAs and some other organisations and industry associations that are involved in the use of consumer credit data.

SCOR (<http://www.scoronline.co.uk>) was set up to ensure that the principles of sharing data were adhered to and that a forum was created in which issues affecting data sharing could be discussed and decided on. It continues to operate in this effect today.

In its governing principles SCOR set out the following foundations for data sharing:

#### ***“GOVERNING PRINCIPLE”***

*The overarching purpose is encapsulated within the “Governing Principle”:*

***Data are shared only for the prevention of over-commitment, bad debt, fraud and money laundering, and to support debt recovery and debtor tracing, with the aim of promoting responsible lending***

#### **GENERAL PRINCIPLES OF CREDIT PERFORMANCE DATA SHARING**

*Data provided for sharing purposes must meet legal, regulatory and voluntary code of practice requirements before provision and in use. Subscribers must use data only for purposes for which the required form of consent has been given*

*Data will be shared on the principle that subscribers receive the same credit performance level data that they contribute, and should contribute all such data available*

*Data may be used or made available by the CRAs only in ways permitted by these Principles*

*Subscribers must never use shared data to target any customers of other specific subscribers*

*Shared data must not be used to identify and select new prospects*

It can be seen that these principles set out several important criteria that underpins data sharing in the UK:

1. The purposes for which shared data can be used
2. The principle that you can only take out the level of data that you put in. For example if you only contribute negative data, you can only see other contributor's negative data.
3. That all contributors must contribute data pertaining to all their customers and not selective portfolios or segments

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4. The CRAs can only use data for purposes permitted by SCOR
5. Shared data must not be used to target or market to other contributors customers.

Prior to the establishment of SCOR and the Principles of Reciprocity (PoR), the two CRAs operating in the UK at the time, Experian and Equifax had gone out to separately recruit data contributors and there was little control over the use of the data. Even in the mid-nineties at least one major consumer finance company continued to argue that because it had 10 million customers, its data was disproportionately valuable to its competitors and tried to impose restrictions on access to its data. Gradually however, as consumer credit grew throughout the late 90's and early 2000's, new players came into the market and consumers began to have relationships with multiple lenders, the industry began to recognise that refusing to share data was a competitive disadvantage and not the advantage that some had once perceived.

In the early days the CRAs would cite the size of their shared datasets as a competitive advantage, however, over time the respective size of their shared databases have converged and today, Experian, Equifax and Callcredit will have( I estimate ) 95%+ commonality of shared data.

### **The Impact of the Principles of Reciprocity on the UK Consumer Credit Information Market**

What impact did the formation of SCOR and the establishment of the PoR have on the development of the consumer credit information market in the UK and more importantly what lessons might be learnt that could help the development of commercial credit data sharing in countries around the world.

It can be argued that the data sharing framework in the UK has had a fundamental influence on the development of the market for consumer credit information and associated services, examples of which are:

- Over time the use of shared data or certain elements of the shared data has been extended to allow the development of new services such as:
  - Identity verification,
  - Vetting for Public Sector Employees,
  - Residence and Age verification Services
  - Geo-Demographic marketing tools to remove high risk customers
  - Cross-Border Data Sharing
  - Sharing between Commercial Lenders and Consumer Lenders under certain circumstances but not including Trade Credit providers

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- In addition new contributors from new vertical markets have been able to share data notably
  - Telecommunications
  - Utilities
  - Certain Public Sector bodies such as the Child Support Agency
- It has created an environment where benefits have flowed to both CRAs and the customers of CRAs, in that CRAs have been able to create a wide range of services focused on addressing issues such as
  - Regulatory compliance,
  - Improving risk management capabilities,
  - Implementing sophisticated customer management strategies to improve profitability of existing customers,
  - Reducing costs and improving operational efficiencies through automating decisions and embedding in customers workflow

In return the CRAs have benefited, providing they have been willing to invest in areas such as analytics and platforms, from higher revenues and profits.

Often overlooked but equally important it has had a societal benefit enabling more consumers to have access to mainstream credit in the UK. A good example of this was a large utility provider on agreeing to share its data provided nearly one million customers who previously had not got a consumer credit record, increasing financial inclusion. For a further example of this go to: ([http://www.bigissueinvest.com/alternative\\_credit\\_scoring.aspx](http://www.bigissueinvest.com/alternative_credit_scoring.aspx)).

### **Lessons for Commercial Credit Payment Data sharing**

It can be argued that the UK Consumer data sharing model provides a number of potential lessons for future Commercial Credit Payment data sharing:

- An industry approach rather than a CRA led “data arms race” has the potential to be more successful and is the model most likely to get closest to achieving universal data sharing and coverage
- This model has some important elements that address a number of concerns that participants in such schemes naturally have:
  - How does a contributor ensure that their data is only used for the purposes to which they have agreed?

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- How do I know that my data is being shared only with other organisations who are sharing their data?
- How does the industry respond to evolution in data sharing and issues affecting data sharing, such as regulation, over time?
- Although initially painful to contemplate, it moves the CRAs away from being commodity providers of information and provides the foundation for them to become solution providers
- The industry wide sharing of payment data provides the basis for improved management of credit risk, particularly the assessment of risk associated with Small and Medium size enterprises. This in turn provides a potential industry solution to the political issue of SME access to credit and economic growth.
- If established it has the potential to create cross-over agreements with Consumer Data sharing schemes in the future, which could benefit both consumer and trade credit lenders
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### The Road to Nirvana

It should not be forgotten that sharing of consumer data in the UK first started in the early 1980's, it took nearly 10-15 years before the framework that exists under SCOR today was built and it required some visionary individuals to make it happen. Although it should be possible to shorten these timescales for Commercial Credit Payment data sharing, it also will need visionary leadership and determination from the CRA's and industry contributors to make it happen.

Initial first steps towards universal data sharing might be:

- The leading CRAs in a country to announce in conjunction with a number of major trade credit providers the formation of a body to oversee the governance of commercial payment data sharing in the country
- An announcement that to accelerate the process they will share the existing payment data that they have with each other starting the move towards universal coverage

Clearly these are not easy decisions to take, particularly the second step for CRAs who have invested in solutions built on *proprietary* payment data and who may have to explain to CEO's and investors why collaboration is better than competition in this area. But before rejecting this as a way forward it is useful to remember the following:

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- The UK model for data sharing is not the only one that exists. Indeed in many countries the owners of the data, i.e. the lenders also own (or owned) the Consumer Credit Bureau. There is nothing to stop an industry vertical creating a company to share data amongst operators in that vertical and with other verticals.
- Secondly, Business Information providers are increasingly facing frustration from customers who perceive their data as being of marginal value (hence the rise in low cost providers) when making credit decisions and face the threat of new entrants seizing on this opportunity. Could an industry led data sharing initiative sponsored by Duedil, the free business information provider in the UK, be a wayforward for them to move from freemium to premium?
- Finally barriers to entry here are relatively low, a commercial payment data base would not be particularly large when compared to many consumer credit data bases, publicly available data on businesses in most countries is now readily available and relatively inexpensive to acquire. Building a new business from scratch would take time but with the advantage of payment data designed in and the ability to deliver scores and platforms it could be a powerful alternative to traditional providers.

Is this the way forward? Only the industry can decide? However if there is an issue that is more relevant to the players and customers and which has the potential to position Business Information providers as contributors to economic recovery, improved financial inclusion for SME's and to be viewed as strategically important to future economic development, I can't think of it.



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*Phil Cotter has written a series of articles about the current state of play in business information ["After the Go-Go-Days"](#)*

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