## **Business Information Industry Association**

# After the "Go-Go Days" Part 2 The Current State of Play

BIIA has asked *Phil Cotter, an expert in the consumer and commercial credit information industry and BIIA's newest contributing staff writer*, to express his views about the shape of the credit information industry post financial crisis and how the major players intend to grow their business.

<u>Part one</u> was published on August 7<sup>th</sup> 2011 in the <u>BIIA News Section</u> on <u>www.biia.com</u> and served as a precursor of the development of the consumer and commercial credit information industry from the late 1980's up until the present day. It also looked forward to some of the challenges faced by the industry post the credit crunch in 2008, the subsequent recession and continued economic uncertainty.

This is part two which focuses on how the three major Consumer Credit Risk Management services providers, Experian, Equifax and Transunion are adapting to the current environment, the progress they are making in executing their plans

## Largest Players in Credit Risk Management Solutions



and where they are focusing their attention in pursuit of growth in the future.

As a precursor it is worth taking a look at the relative size of each of the major players in the global credit information market, providing a context in which we can look at their relative performance.

It is clearly evident that Experian is by far the biggest player in the industry and more than double the size, of its nearest direct competitors.

## Business Information Industry Association

In observing Experian's significant lead in size, immediately several questions come to mind:

- What key factors contributed to Experian's growth? What inhibited others from doing the same?
- Do the lessons from the past point to the likely winners and losers in the future?
- Who are the new players on the block and what are their chances of disturbing the status quo?

These questions will be explored during the course of this and the following articles.

Part 2: The Current State of Play - an assessment of the three largest players: Experian, Equifax and TransUnion

#### Experian

The Vision: "For our people, data and technology to become a necessary part of every major consumer economy around the world"

This vision has driven Experian's business over the last 10-15 years. It continues to guide Experian today as it expands into new markets, in which it already operates, and as it expands into new markets in which it does not operate. This vision not only includes credit information but also consumer marketing and direct to consumer services.

**Growth Factors:** Visions aside, what are the overriding factors which lead to Experian's growth to become the largest consumer credit information company worldwide in a relatively short period of time? It only started in 1995 as a US80 million business. There were several key factors which have contributed to this growth:

- 'First Mover Advantage': Use of credit scoring and automated decision systems: Experian (formerly CCN) was the first credit bureau in the UK to introduce credit scoring and automated credit decision systems in the early 1990's. This first mover advantage allowed it to capture 70% of the UK consumer credit information market and fully exploit the growth in consumer credit demand that occurred in the UK up until 2008.
- Workflow: Over time these solutions have become critical to customer's credit risk management and associated workflow processes creating high barriers of entry and providing a "channel" by which Experian have been able to deliver new services such as fraud prevention and authentication solutions.

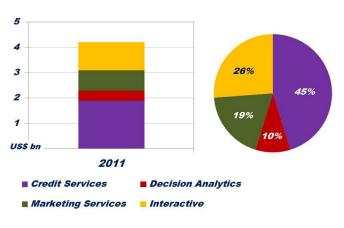
## **Business Information Industry Association**

- Acquired expertise and scale in credit scoring: In the 1990's Experian formed a partnership with Scorex, a global analytics and consulting business, subsequently acquiring the business in the early 2000s. This gave Experian access to global expertise in credit scoring and credit risk management as well as software capabilities to help customers implement automated risk management processes. Capabilities which enabled it to improve the services delivered by its credit bureaus and also to enter new markets where it didn't operate a bureau. This was the foundation for Experian's current Decision Analytics business
- Geographic expansion: Ability to acquire major market share in key markets. Experian owns 3 of the 5 largest credit bureaus:
  - Acquisition of TRW Information Systems, a US Credit Bureau business 1996). The business was subsequently renamed Experian. This was a significant strategic step in Experian becoming a major player in the industry benefiting from the US consumer credit boom
  - Acquisition of Serasa, the leading Brazilian Credit Bureau. The timing of the acquisition could not have been better as Serasa's growth and the booming Brazilian credit market helped Experian to grow and to offset the softness in US and UK markets during the credit crunch
  - Joint Venture in India with leading Indian Banks
  - Acquisition of a majority shareholding in Computec, the leading credit bureau in Colombia
  - Joint venture in Australia with leading Australian Banks
- Turning a data subject (consumer) into a customer: In 2002 Experian acquired Consumerinfo.com, a web based business that provided consumers with online access to their credit reports. This has been by far the most successful of the acquisitions that Experian has made in the "direct to consumer" space and the model was launched in the UK in the mid 2000's with considerable success and with the potential to be launched in other markets such as Brazil and India in the future.
- Developing vertical markets / product innovation: Information services
  for the automotive sector, recent acquisitions of Riskdisk in the UK, Medical
  Present Value in the US and Virid in Brazil are evidence of the drive to build
  revenues in the SME, Healthcare and Digital Marketing sectors respectively.
  Experian acquired a majority stake in Techlightenment a UK based provider
  of social media marketing tools as part of its plan to become a leading digital
  marketing player.

#### Experian Revenue by Geography 2011

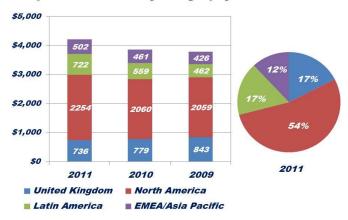


Source: Experian (Fiscal Year Ending March 31, 2011)



Source: Experian (Fiscal Year Ending March 31, 2011)

#### Experian Revenue by Geography 2011



Source: Experian (Fiscal Year Ending March 31, 2011)



enerated from these activities in vices (Consumer, Business & edit Scoring, Risk and Fraud sumer Marketing information) \$0.8bn; Interactive (Direct to Consumer revenues) \$1.1bn

Meanwhile the company continues to invest in new technology platforms with a vision towards developing state of the art global credit, analytic and marketing capabilities to enable speedier deployment of solutions to new markets in the future.

Judging by its first quarter update on 15<sup>th</sup> July, Experian's growth strategy continues to deliver results, total revenues grew by 10% on the same quarter last year, with organic growth contributing 6%.

Regionally Latin America continues to be the fastest growing market delivering 19% growth but all four regions are in positive growth territory.

Of the business lines, Marketing Services was the fastest growing at 10%, followed by Credit Services 9% and Decision Analytics 6%. Interactive revenues fell by 2% due to a decline in lead generation revenues from the

USA, however, the revenues from providing on line access for consumers to their credit reports grew in both the UK and USA.

## **Business Information Industry Association**

#### What will the future hold?

Critical mass in two key markets (USA and the UK), fueled by a credit boom, provided Experian with the cash flow and financial leverage to grow through acquisitions. Brazil (Serasa) already has proven its worth as a significant contributor to growth. Diversity in product innovation, entering vertical markets has helped to overcome its large dependence on the financial services sector. Experian has still 'gaping holes' in its geographic foot print: It has not been able to gain significant market share in Continental Europe. Perhaps over time European banks will realize that there is no real advantage to own credit bureaus. Experian knows this too well and will, as always, strike at the right time.

Legal restrictions in India prevented Experian to hold a majority equity stake in its credit bureau venture. This may change over time. The Chinese still block the creation of private sector credit bureaus, but one day that may change too. In the meantime it will be adding acquisitions here and there, entering new vertical markets and transferring know-how into emerging markets, which will keep Experian ahead of the game to hold on to its commanding lead in revenues.

### **Equifax**

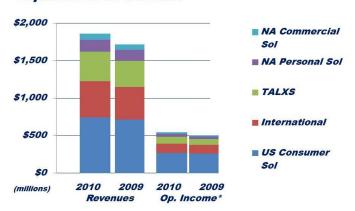
The Vision: "To be the trusted provider of information solutions that empower our customers to make critical decisions with greater confidence."

Equifax traces its origins back to 1898, when two brothers Cator and Guy Woodford, compiled lists of customer's credit worthiness for the local Retailer's Association in Chattanooga, Tennessee. A year later the "Retail Credit Company" was formed and located in Atlanta. In 1901 the company expanded into the Insurance market providing "moral hazard" information on policy holders. The company grew strongly through the early 1900's but during the 1920's faced increasing competition from new entrants particularly in the Insurance market. In the 1930's the emergence of the forerunners of modern day Credit Bureau's emerged with the establishment of a number of regionally based operations, provided a stimulus to the business and it set up the Georgia Credit Exchange to provide services across cities in the state. Following the Second World War, the company grew strongly extending operations across America and acquiring a number of regional credit bureaus and began issuing stock to the public in the mid 1960s.

In 1979 the Retail Credit Group changed its name to Equifax. This signaled a rapid period of expansion during the 1980s as the US Credit Bureau market was consolidated by the three major players Equifax, Transunion and TRW (now Experian). During this period Equifax purchased over 100 regional credit bureaus, moved into the Marketing Services sector through acquisition, formed a strategic partnership with CSC then the 5<sup>th</sup> largest credit bureau in the US and was operating a credit bureau in Canada.

## **Business Information Industry Association**

#### **Equifax 2010 Results**



Source: Equifax Earnings Report

\* Before Corporate Expense

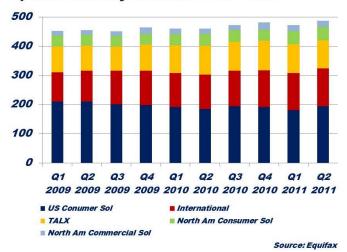
The 1990s saw a period of significant change for Equifax as it invested in establishing its international business in Europe, Brazil and Canada, In the late 1990s it made three acquisitions in Brazil creating a business with revenues of \$350m per annum. It also acquired full partial or ownership of operations in several other South American and Asian countries.

At home however Equifax

faced pressure on two fronts. There was increasing consumer concerns about the use of their data by companies such as Equifax and they eventually announced that they would no longer use credit data for marketing purposes in response to these concerns. With the economic outlook worsening in the late 1990's and the currency devaluation at the time in Brazil, investor's became concerned about Equifax's ability to deliver returns during a downturn. These concerns led to Equifax divesting a number of businesses

during this period to satisfy shareholder demands.

#### Equifax Quarterly Revenues 2009 - 2011



#### **Current Position**

Equifax's Q2 2011 consolidated revenues grew by 6% to \$487. Like its peers Equifax suffered declines in revenues in its credit information businesses during the credit crunch, but it was able to offset the decline through growth in its newly acquired TALX business.

It is noteworthy to point out that Equifax's revenues in Q2 1999 was 442 million.

Thus compared to the Q2 2011 revenues there has been hardly any growth?

Page 6

## **Business Information Industry Association**

The main reasons behind this apparent lack of growth are as follows: Equifax divested two businesses, Choicepoint and Payment Services (renamed Certegy) in 1997 and 2000 respectively. In both cases the reasons cited by management for these divestments was to enable them to focus on building their financial information business.

The two divested companies suffered mixed fortunes with Choicepoint eventually becoming a \$1bn+ organization, having survived a significant data breach in 2005. The company provides risk management services predominantly to US based insurers and was acquired by the Lexis Nexis division of Reed Elsevier for \$4bn in 2008. The payment services business had US\$800m in revenues when it was spun off as a separate company in 2000 but failed to prosper and was eventually acquired by Fidelity Information Systems.

How successful has Equifax been in the intervening years at building their core financial information business? In 2002 when Equifax divested the payment services business, total revenues from the core financial information business was \$1.1bn. At the end of 2010 revenues had raised to \$1.9bn an increase of 72%. This includes \$400m from TALX the workplace solutions provider acquired in 2008.

### Geographic Footprint:

A comparison with Experian's results by region for 2010 reveal that Equifax has not been able to diversify its business geographically in the way that Experian has. Equifax

# Geographic Footprints Experian 7% 12% 17% 17% 54% Europe North America Latin America Latin America Other (A-ME-AP) Source: Equitax (Fiscal Year Ending December 31, 2010)

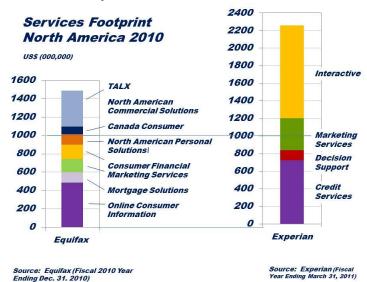
announced recently that it had merged its Brazilian operation with Boa Vista Servicos S.A in exchange for a 15% equity stake in Boa Vista. This ends Equifax's second attempt to build a successful business in Brazil.

Equifax was successful in launching a credit bureau in India in a joint venture with Indian financial institutions, however its ownership is restricted by law to 49%,

Page 7

## **Business Information Industry Association**

Services Footprint: In North American credit services Equifax is about par with



Equifax is about par with Experian, however in terms of services directed at the consumer, Experian holds a commanding lead. Both companies report services segments differently, for instance Equifax does not report decision analytics separately, therefor a precise comparison is not possible

#### What will the future hold?

In the 1990s Equifax was arguably the global leader in the Consumer Credit Information market having

consolidated its position in its home market and started to build international operations. However a number of factors contributed to its failure to capitalize on this position. The decline of the Brazilian economy led to the decline of its operations in that country and can be considered to be the right move at the wrong time. Under pressure from its shareholders it divested while Experian was largely acquiring new services and market share. In hindsight it should have held onto Choicepoint and acquired Seisint rather than letting a newcomer to risk management services such as LexisNexis create a US\$ 1.8 billion business. If it had followed that scenario Equifax could have been a US\$ 4bn business today.

Equifax is trying to make up lost ground through a number of key initiatives. In a presentation to investors given in August 2011 Equifax cited the following strategic initiatives which would drive future growth:

- Develop unique Decision 360 tool leveraging multiple data assets
- Grow The National Cable, Telco and Utility Exchange (NCTUE) a unique database containing positive non-financial payment data. Equifax claims 20% of the consumers on this database do not appear on their credit databases or have files too thin to build scores
- Diversify into products and markets less impacted by current economic situation and less reliant on lending activity

## **Business Information Industry Association**

- Establish a major presence in the Identity Management market
- Broaden relationships in existing markets through innovation
- Increase revenues from TALX by increasing revenues from employment and income verification services by expanding these into credit card, auto and consumer lending.
- Focus on increasing services per customer for existing TALX customers to drive revenue growth from existing base.
- Drive growth in their International operations through
  - Launching Decision 360 in international markets
  - Focus on Telecoms vertical and ID Management solutions
  - o Become #1 or #2 in each of the international markets it operates in
- Amongst a number of initiatives designed to grow its Personal Services revenue it intends to focus on mobile delivery (Equifax Everywhere)
- It intends to grow its US Business Information (Commercial Services) revenues by enhancing its analytics capability, increasing its sales force and expanding its marketing file.

At this juncture it is difficult to see how Equifax will create the differentiation which will enable it to create a clear competitive advantage in the near term and grow significantly faster than its competitors. Many of its strategic initiatives are focused on areas where competitors such as D&B and Experian have already made and are planning to make significant investments moving forward.

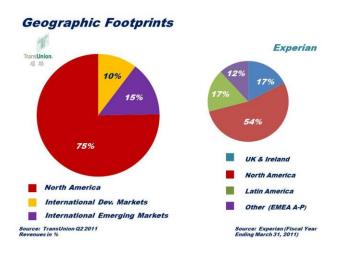
#### **Transunion**

Vision: "to be recognized as "best in class" by all those we serve—to give consumers and businesses the power to achieve, and in doing so help to build stronger economies, worldwide."

#### "From Rolling Stock to Public Company"

Transunion was created as a holding company, by the Union Tank Car company, a railway equipment leasing company in 1968. In 1969, it acquired the Credit Bureau of Cook County, located in Chicago, Illinois, to provide regional credit reporting services. In the early 1970s, it began expanding on a national scale by acquiring and partnering with other regional credit bureaus, and by 1988, had collected consumer credit information covering the United States.

## **Business Information Industry Association**



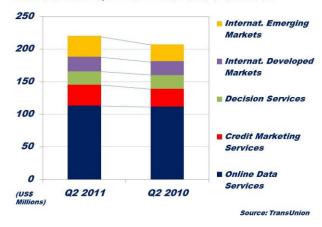
The business was acquired in 1981 by Marmon Holdings, Inc (owned by the Pritzker Family) and continued to operate within Marmon's corporate structure until 2005, when it was spun-off to the Pritzker family business interests.

On June 15, 2010, an affiliate of Madison Dearborn Partners the private equity company, acquired 51.0% of the company's outstanding common stock, the Pritzker family retained 49%. On 5<sup>th</sup> July 2011 the business filed for an initial public

offering (IPO) with the US Securities and Exchange Commission.

**Core Business and Geographic Footprint:** Transunion is the third largest consumer credit bureau in the USA and according to its IPO filing total revenues in 2010 were \$956m, up \$30m on the previous year but down from \$1bn in 2008. In its second quarter results announcement released on 8<sup>th</sup> August it reported that total revenues for the first half of the year had grown by 7.2% (excluding effects of Foreign exchange) to \$503m. 20% of Transunion's revenues are generated from their International operations and it is

#### TransUnion Q 2 2011 Revenue Growth



estimated that International revenues in the full year will be in the range of \$200-210m with the remaining revenues coming from operations in the USA, expected to be \$800-\$850m this financial year.

Transunion operates in 23 countries with operations primarily in The Americas, Africa and Asia Pacific. It currently only operates in Russia and Croatia in Europe. It is a partner to and shareholder in CIBIL, the first credit bureau launched in India and currently the market leader. It has

built credit bureaus in 14 countries often working with local partners such as MOSAIK in Vietnam as a means of entering the market.

## **Business Information Industry Association**

TransUnion, as a privately held company, has not been transparent in regard to company strategy. In conjunction with its Initial Public Offering TransUnion has started to issue quarterly earnings reports but in respect to reporting on individual lines of business and country operations its reporting is still too obscure. It will be interesting to see how the business performs once it is a public company.

#### Summary: Size really does matter in the consumer information market

In the open statement there are three key questions which deserve to be answered:

What key factors contributed to Experian's growth? What inhibited others from doing the same?

- Company's histories and why one prospered when another failed are complex matters to unravel. In the writer's opinion one of the factors that benefited Experian up until it's IPO in 2006 was its ownership by GUS. This enabled Experian to benefit from being sheltered from the demands of public ownership as it grew, whilst benefiting from its parent's position as a cash rich FTSE 100 company. This enabled it to grow its business and make a few mistakes along the way without being driven by short term investor sentiment. An advantage Equifax did not have in the late 1990s, early 2000s.
  - Notwithstanding that, Experian certainly made the most of the position it had and at the time of writing:
- Its revenues are more geographically diversified and therefore it has less exposure to the impact of slower credit growth in markets such as USA and UK.
- Experian's revenues are more diversified across four main business lines of Credit Services, Decision Analytics, Marketing Services and Interactive. In particular, in the writer's opinion, its capability in Decision Analytics and the breadth and depth of its data gives it a clear advantage over Equifax and Transunion in being able to design and deliver innovative value added products.
- It has the financial muscle. In the last financial year Experian generated \$1bn in cash, converting almost 100% of its profit before interest and tax. After interest, tax and dividends it generated free cash flow of \$792m. By comparison Equifax generated \$350m and Transunion c\$200m in cash. This gives Experian a huge financial advantage when it comes to investing in organic growth or acquisitions.

## **Business Information Industry Association**

 With a two billion revenue lead it will be difficult for Experian's competitors to catch up unless they manage exponentially through acquisitions or product innovation, which is unlikely given the current circumstances.

## Do the lessons from the past point to the likely winners and losers in the future?

Prior to the credit crunch, there was a perception that Credit Bureaus were businesses that were not significantly affected by economic downturns. This was largely based on the fact that they had continued to grow through recessions in the late 1980s and mid 1990s. What the credit crunch exposed is that Credit Bureaus are extremely sensitive to the level of credit supply and demand.

In the writer's opinion all of the companies covered in this article, despite their efforts to diversify into new vertical markets and products, remain very dependent on new lending activity, in particular, for revenues generated across all of their main product segments.

## So where will the battle be fought in the future?

There are 5 main areas where the fight for growth will be played out over the next 5-10 years:

- Geographic expansion winning the battle to enter and become No1 in new International markets where demand for consumer credit is growing will be vital to future growth. In the writer's opinion India holds out the prospect of being the game changing market. Equifax, Experian and Transunion all have a stake in this market and whoever comes out on top could have significant implications for their future prospects.
- Identity Management and Fraud Prevention services are natural extensions of the credit bureaus current operations and all are focused on investing in this area. However given the scale of global losses involved with fraudulent activity their revenues from this area remain very small in comparison. Demand for Identity Management services will rise as B2C, B2B and C2C transactions inexorably move onto the web and Identity Verification is key to establishing trust between transacting parties. Moves into these areas however will begin to bring them into direct competition with the likes of Lexis Nexis, Detica and Thomson Reuters.

## **Business Information Industry Association**

The application of their expertise in data management and analytics potentially creates an opportunity for the credit bureaus to be major players in the digital advertising market. Helping companies and agencies to gather information on customers behavior's on line, watching DTV or using their mobile, combined with the marketing analytics capability, where they already provide demographic and psychographic segmentation tools, presents an opportunity for them to become the "decision engines" for digital marketing in the future. Perhaps two words of warning. Firstly it wasn't so long ago that they were divesting/closing down off line marketing businesses. Secondly Google.

 Solving the SME conundrum. By common consensus SME's are key to economic growth of virtually every economy throughout the world and they represent a significant opportunity to the credit bureaus as data subjects and customers for their products and services.

Improving the breadth, depth and quality of data held on SME's in the countries they operate represents a significant challenge. In many countries there are no formal registers to confirm the existence of SME's and gathering information on their owners, financial performance and creditworthiness remains a challenge.

In the writer's opinion the Consumer Credit Bureaus with their vast amount of consumer information are best placed to solve this issue if they can find the means by which they can develop a persistent link between consumers and the businesses they own and run. In many ways this combined with improvements in Business Information for SME's is the Holy Grail, because of the synergies that exist for improving both consumer and business credit decisions as a result of this linkage.

Whoever gains the lead in this space is also likely to be better placed to service the needs of SMEs in the future since by definition they should have a better understanding than their competitors of who the SMEs are, where they are, what they do and what their needs are.

The likes of D&B are however unlikely to stand by and watch whilst Experian and Equifax try and build critical mass in this space.

• Finally "Big Data" and the "Cloud" provide as yet unknown potential for these organizations. Given their ability to gather, aggregate, analyze (often in real time) and embed decisions and data into organizations workflow, where are the markets in the future that could undergo the same industrialization as financial services did back in the 1990s?

## Business Information Industry Association

In the writer's opinion areas such as Healthcare with the advent of personalized medication based on individual's DNA, management of government data to enable the more effective targeting and delivery of services to citizens and acting as trusted third parties to store individual's data securely all have some potential attraction.

# Who are the new players on the block and what are their chances of disturbing the status quo?

As we have seen, the Consumer Credit Information market is dominated by the three global players, Experian, Equifax and Transunion between them they have been on a journey of consolidating the market, first through the acquisition of regional credit bureaus in America, lately through the acquisition of credit bureaus around the globe. This trend is likely to continue with acquisitions of credit bureaus in countries which are attractive to them and organic investment where there isn't a suitable target.

Occasionally there will the emergence of a new innovative player in a particular market, such as Callcredit in the UK, but the barriers to entry in this market are high and investors in new players need deep pockets to support the business whilst it gets to critical mass.

If we take a look at the trends that are driving the behaviors of players in this market, however, it is easy to see another round of consolidation taking place, this time on a much larger scale. Increasingly the trend in this market is towards globalization, creating global organizations that can serve the needs of both global and local customers, deliver best in class risk management, identity and fraud prevention, collections, analytics and workflow solutions. In effect creating a business template and supporting technology and product infrastructure that allows the business to be cost effectively replicated around the globe.

In this scenario it is easy to imagine, Experian and D&B becoming one organization, Thomson Reuters deciding that credit is a hole in their portfolio that needs filling, Google deciding that it really does want to extend beyond search into Big Data and Analytics. Throw in SAP, IBM and a number of others you care to add and you may have the shape of things to come.

#### In the next article we will turn our attention to FICO and CRIF .....



Phil Cotter is an expert in consumer and commercial credit information and BIIA's newest contributing staff writer. He can be reached at: e-mail address: <a href="mailto:philip.cotter@btinternet.com">philip.cotter@btinternet.com</a>.

The content of this article does not necessarily reflect the opinion of BIIA and its members. BIIA is not responsible for the use which might be made of the information contained in this article. Nothing in this article implies or expresses a warranty of any kind.