BIIA NEWSLETTER

Market Intelligence - Industry Developments & Trends - Information Technology - Regulatory Issues - User Community

BIIA NEWSLETTER ISSUE 05 II - 2015

May II - 2015 ISSUE

BIIA Welcomes GBGroup as a New Member

GBGroup combines individual identity data with technology to provide our clients with the Identity Intelligence they need to make good business decisions based on trust.

LATE BREAKING NEWS

BIIA in Action: SME Credit Reporting Workshop Mumbai, India

The IFC (World Bank Group) invited professionals from the financial services industry, credit rating and the credit bureau sector to a seminar on ***SME Credit Reporting*** in India.

According to **Colin Raymond**, Principal Operations Officer of the IFC (World Bank Group) there are an estimated 29.8 million formal Micro, Small and Medium Size businesses (MSMEs) in India, nevertheless to date less than half of MSMEs entities are found in the databases of credit bureaus. The IFC has identified a number of India-specific hurdles which could be responsible for the asymmetry of information such as: The absence of a single unique identifier and non-standard reporting format, making it difficult to reconcile different data sets from diverse sources.

In a session titled ***'Facilitating SME Financing Through Improved Credit Reporting'*** BIIA managing director **Joachim C Bartels** was asked to give a synopsis of the findings and recommendations of the World Bank's International Committee on Credit Reporting (ICCR) of which BIIA is a member. In its report, 'Facilitating SME Access to Finance through Improved Credit Reporting', the ICCR identified a number of impediments which are the cause of lack of information on SMEs (information asymmetries). The ICCR made ten recommendations to remove the impediments though greater information sharing:

1. Widen Data Sharing: To include all relevant parties granting credit and institutions collecting data on SMEs
2. Increase mandatory disclosure (in many emerging markets SMEs are not required to disclose their financial status)
3. Improve financial & information literacy of SMEs as a means to improve qualitative and quantitative information
4. Access to Public Sector Information (PSI) to support identification and authentication of SMEs/Micro Businesses
5. PSI to raise quantity and quality of data collected on SMEs
6. PSI: Define policies for permissible use and reuse of PSI data
7. Access to 'closed user groups': Credit bureaus to provide access for all credit grantors (trade credit grantors)
8. Regulatory oversight / Code of Conduct – Ombudsman for Dispute Resolution
9. Global convergence and harmonization of key characteristics of credit data
10. Sharing of best demonstrated practices. Improving transparency of credit reporting

BIIA Member Dr. Selim Seval, Chairman and Board Member of FINAR/D&B Turkey provided an outline of the SME credit information market in Turkey. He highlighted the fact that credit markets differ, thus there is no one-size-fits-all solution. However he suggests advocating a "one generic approach" that is customizable to different environments because one has to link SMEs from different regions of the world if they are to be supported. One needs to open their eyes so that they may trade internationally. Multilateral organizations should push these ideas forward.

An intensive discussion ensued about the various lessons learned from other emerging markets applying it to SME credit reporting in India. Eliminating asymmetries of information responsible for the lack of access to finance by MSMEs will take a concerted effort by various government institutions, the credit granting community (financial services and trade credit providers), plus the cooperation of the MSME community.

MEMBER NEWS

PPCB, CRIF's Partner in Vietnam, Joins the Vietnam Banking Association

PCB (Vietnam Credit Information Joint Stock Company), whose major shareholder and local strategic partner is CRIF, has officially become a member of the Vietnam Banking Association. During an event held in Hanoi on April 20, the Vietnam Banking Association celebrated the admission of new members and signed a co-operation agreement with PCB.

The support and welcome of the members of the Association to PCB affirms the value of the services that the company brought to the credit market in Vietnam. During his speech at the ceremony, Dao Minh Tuan, PCB Chairman, confirmed that "PCB will constantly strive to contribute to the development of the Vietnam Banking Association and the whole banking sector in general. This co-operation with the Banking Association members will help strengthen customer networking, further improve the quality of credit information and continue to assist our clients with innovative risk and portfolio management services."

In February 2013, PCB obtained a license, issued by the State Bank of Vietnam (SBV), to establish the first entirely private and voluntary credit bureau in the country with the support of CRIF as its strategic partner. Since then, PCB has grown quickly both in size and operations. The credit bureau has currently 25 members including major banks and credit institutions in Vietnam with a database of around 5 million borrowers, both individuals and SMEs. In addition, other banks, financial companies and micro-finance institutions are at the final stage of joining the credit bureau. ***Source: CRIF Press Release***

Veda Partners with MOGO

Veda announced that it has entered into an exclusive partnership with MOGO. A natural extension of Veda's services, *MOGObankconnect* bolsters Veda's ability to deliver credit histories and identification checks with income and expense data, providing financial institutions with a clearer picture of an applicant's financial circumstances and facilitating better real time lending decisions.

This solution will provide lenders with an automated and streamlined mechanism to help mitigate the increased pressure on financial institutions to comply with responsible lending obligations, such as income and expense checking. While more mature financial markets such as the US and UK have taken advantage of automated income and expense checking for some time, Australia has lagged behind, with only the small amount lending segment embracing this technology to date. Along with changes to comprehensive credit reporting in Australia, whereby more information is available on individual's credit behavior to make accurate lending decisions, electronic verified income and expense information adds another strong indicator for financial institutions.

The *National Consumer Credit Protection Act 2009* requires a credit provider to take reasonable steps to verify a consumer's financial situation. According to ASIC's Regulatory Guide 209 this involves obtaining information about the consumer's actual income, expenses and other circumstances that are likely to affect their ability to meet the financial obligations. Verification of expenses including items such as rent, repayments, insurance premiums, loans and discretionary expenses like entertainment or alcohol will become increasingly important under the NCCP. The use of only modelled income and expense benchmarks will no longer be acceptable.
Source: Veda Press Release

MEMBER NEWS

Dun & Bradstreet India Releases 15th Edition of 'India's Top 500 Companies 2015'

122 companies, headquartered in the Delhi NCR region featured among the top 500-list this year. 65 companies based in Delhi featured in the list, followed by 36 Gurgaon based companies and 21 Noida based entities

Dun & Bradstreet recently released the 15th edition of its premium publication **'India's Top 500 Companies 2015'**. 122 companies who are headquartered in the Delhi NCR region featured among the top 500-list this year. 65 companies based in Delhi featured in the list, followed by 36 Gurgaon based companies and 21 Noida based entities. Automobile and Auto component sectors fortified their leadership with 16 entities from the region, followed by power & power equipment sector (7 entities) and real estate & infrastructure sector (7 entities). Oil & gas sector as well as food products and BFSI ranked third with six companies each.

'India's Top 500 Companies' is among the longest running reputed publication in the country that ranks and felicitates high performance Indian companies in terms of various financial and operational parameters. This edition also marks Dun & Bradstreet's two decades of presence in the country. The top corporates from **50** sectors were also felicitated on the occasion through the **Dun & Bradstreet Corporate Awards 2015.** ***Source: Indiainfoline.com***

Dun & Bradstreet to Fuel Informatica's Intelligent Data Platform

Strategic Alliance Will Enable Informatica Customers to Consolidate Applications and Build Stronger Total Customer Relationships

Informatica (NASDAQ: INFA), one of the world's leading independent providers of data integration software and Dun & Bradstreet (NYSE: DNB) announced a strategic alliance that natively integrates Dun & Bradstreet content into Informatica's Intelligent Data Platform and core applications, including Master Data Management (MDM), Total Supplier Relationship (TSR), Data Quality (DQ) and Data Integration (DI).

The alliance will enable Informatica customers to consolidate applications to grow their most valuable customer relationships. Customers will be able to access timely data through Informatica's platform and seamlessly integrate it into key workflows that drive business decisions. The new solutions will be sold by Informatica and are available to customers now. Among the most pressing business needs is the ability to easily integrate real-time, actionable insight into current business workflows. With an aim to pave the way for better, faster information-based decisions to help organizations transform into data-fueled enterprises, the alliance will leverage Dun & Bradstreet's global commercial database to better address needs from marketing, sales, procurement and technology.

About: Informatica Corporation (NASDAQ: INFA) is one of the world's leading independent provider of data integration software. Organizations around the world rely on Informatica to realize their information potential and drive top business imperatives. Informatica Vibe, the industry's first and only embeddable virtual data machine (VDM), powers the unique "Map Once. Deploy Anywhere." capabilities of the Informatica Platform. Worldwide, over 5,800 enterprises depend on Informatica to fully leverage their information assets from devices to mobile to social to big data residing on-premise, in the Cloud and across social networks. ***Source: D&B Press Release***

MEMBER NEWS

kompany.com Extends its Service to Cover US Company Filings

kompany.com extends its service to cover US company filings, now connecting commercial registers in 80 jurisdictions

kompany.com announced its US market launch during the Collision conference in Las Vegas on 5th May 2015. Including the US, kompany now connects commercial and business registers in over 80 countries and jurisdictions via its API platform BREX.io. kompany offers the only cross border live-search, instant business verification and access to authoritative, official, and company filings, as well as credit reports from leading international credit agencies of over 50 million companies. The goal is to become the global clearing-house for trusted company information, covering 100 million companies by 2017. kompany is currently preparing a Series B funding round of USD 5-7 million to further its global expansion.

Authoritative and official company information is the basis for local and international trade activities. Access and live availability of official company information has not caught up with the fast-paced development of international trade. Many company registers have only recently switched to electronic systems and access barriers remain. Given the increase of international trade and the rise of online market places, instantly knowing your business partners has become an increasingly vital business need. The necessity to conduct background checks is not only driven by a need for commercial optimization. It is also required as a result of legal trade initiatives and legislations, such as the Anti-Money Laundering Act (AML) led by US and EU joint initiatives. There is a big trust and legal gap with company data retrieved from yellow pages, online business directories, search-engines, and commercial credit reporting agencies. This data is not considered official or authoritative and can only be used for non-critical marketing or lead generation.

kompany (through BREX.io) is an official and registered Clearing Office of the Republic of Austria, an official contracting partner of the Common Register Portal of the German States, a distributor of the European Business Register (EBR), the Swiss Federal Commercial Registry Office, the UK Companies House, and the Irish Companies Registration Office. Agreements are currently being extended in Europe, Russia and the US.

kompany was founded in 2012 and has raised USD 4.3 million in seed, angel and Series A funding. It is headquartered in Vienna, Austria. An experienced team of 15 industry professionals continues to develop and grow the platform and business. The founders and the start-up team have worked together in several companies in Europe, South Africa and the US during the past 10+ years and have a successful track record in the mobile and digital media industry.

Source: Kompany.com Press Release

Sinosure Signs Partnership Agreement with Serasa Experian

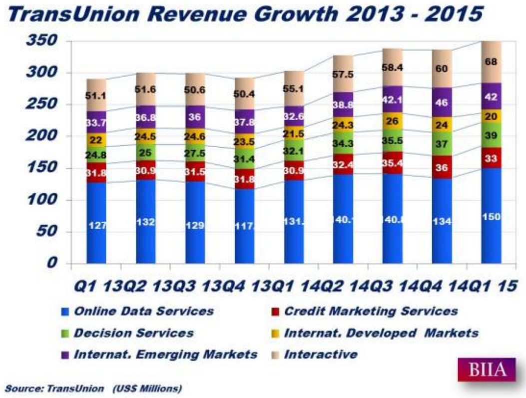
The China Export and Credit Insurance Corporation (Sinosure) and Brazil's largest credit report company, Serasa Experian, signed a long-term partnership agreement to collaborate on credit information and support services – the company's first such agreement with a major Latin America-based company.

Sinosure reportedly has partnerships in place with more than 120 credit information companies around the world.

Source: Xinhuanet.com

MEMBER NEWS

TransUnion Q1 2015 Revenues Up 16%



Total revenue was $353 million, an increase of 16 percent (18 percent on a constant currency basis) compared with the first quarter of 2014. Acquisitions accounted for a 4.7 percent increase in revenue. The net loss attributable to the Company was $7 million, an improvement of $8 million compared with the first quarter of 2014. Adjusted Net Income was $29 million, an increase of 60 percent compared with the first quarter of 2014.

Adjusted EBITDA was $114 million, an increase of 20 percent compared with the first quarter of 2014, due primarily to the increase in revenue, along with operational efficiencies enabled by prior investments. Adjusted EBITDA margin was 32.3 percent, an increase of 90 basis points compared with the first quarter of 2014.

"In the first quarter, we generated double-digit revenue and Adjusted EBITDA growth driven primarily by strong organic growth across all of our segments," said **Jim Peck**, TransUnion's president and chief executive officer. "We continue to see solid returns from our previous investments made in both strategic growth and productivity initiatives, along with market momentum in our core business, due to favorable market conditions."

Segment Highlights

U.S. Information Services (USIS): Total USIS revenue was $222 million, an increase of 14 percent compared with the first quarter of 2014, driven by organic revenue growth across all platforms and revenue from the recent acquisitions of DHI and L2C. Online Data Services revenue was $150 million, an increase of 14 percent, driven by an increase in credit report volume. Marketing Services revenue was $33 million, an increase of 7 percent, due primarily to an increase in custom data sets and archive information and revenue from our recent acquisitions. Decision Services revenue was $39 million, an increase of 22 percent, due primarily to organic revenue growth in healthcare, financial services and insurances markets and revenue from our recent acquisitions.

International: International revenue was $63 million, an increase of 16 percent (24 percent on a constant currency basis) compared with the first quarter of 2014, driven by increased volumes in all regions and revenue from our recent acquisition, which accounted for an 18 percent increase in revenue.

Developed markets revenue was $20 million, an increase of 4 percent (11 percent on a constant currency basis) compared with the first quarter of 2014. Emerging markets revenue was $42 million, an increase of 23 percent (31 percent on a constant currency basis) compared with the first quarter of 2014. Incremental revenue from our recent acquisition accounted for a 28 percent increase in Emerging Market revenue.

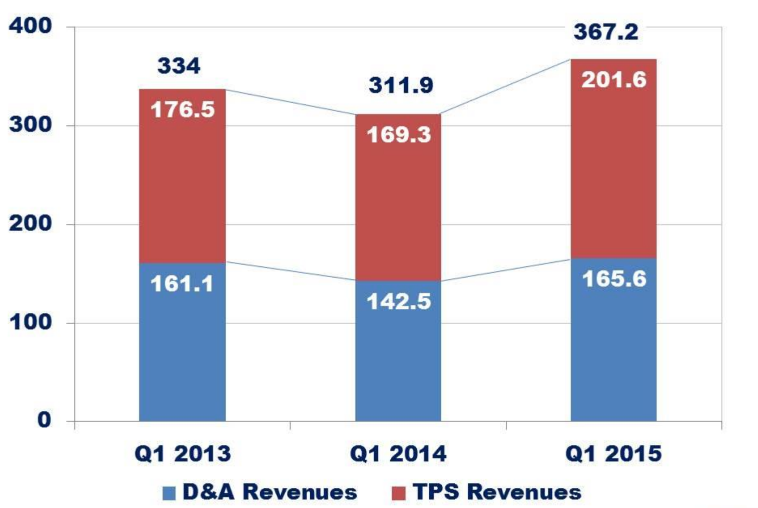
Consumer Interactive (formerly Interactive): Consumer Interactive revenue was $68 million, an increase of 24 percent compared with the first quarter of 2014, driven by an increase in revenue from the indirect channel and an increase in direct subscribers. Operating income was $24 million, an increase of 24 percent compared with the first quarter of 2014, driven by the increase in revenue. ***Source:*** ***Marketwired.com***

INDUSTRY NEWS

CoreLogic Q1 2015 Revenue Up 12%

- Revenues up 12% to $364.8 million fueled by 19% growth in Data and Analytics (D&A) revenues. Technology & Processing Solutions (TPS) revenues up 6%.
- Operating income from continuing operations up 232% to $49.3 million reflecting the benefits of revenue growth, favorable business mix and cost productivity.
- Net income from continuing operations up $32.5 million to $29.3 million. Diluted EPS of $0.32 versus prior year $0.03 loss. Adjusted EPS up 156% to $0.46.

CoreLogic, one of the leading global property information, analytics and data-enabled services providers, reported revenue growth of 12% to US$364.8 million fueled by 19% growth in analytics.



CoreLogic Q1 2013 – Q1 2015 Revenues (US$ millions)

First quarter revenues increased 12% from prior year levels to $364.8 million. Revenue growth was principally attributable to higher demand for property data, analytics and underwriting solutions as well as market share gains and the benefits of the acquisition of Marshall & Swift /Boeckh (MSB) and DataQuick (DQ).

D&A revenues rose 19% compared with prior year to $165.6 million driven principally by gains in insurance, international and core property data, which more than offset the impact of unfavorable foreign currency translation and lower multifamily services revenues. TPS revenues increased 6% year-over-year to $201.6 million driven primarily by higher demand for underwriting solutions which more than offset lower specialty credit and project-related document processing and retrieval revenues.

Operating income from continuing operations totaled $49.3 million for the first quarter compared with $14.8 million for the first quarter of 2014. The 232% increase in operating income resulted primarily from higher revenues, favorable operating leverage in our mortgage-related underwriting solutions businesses and lower expenses related to the cost efficiency programs, which were partially offset by increased depreciation and amortization associated with the acquisition of MSB and DQ. First quarter net income from continuing operations totaled $29.3 million compared with a net loss of $3.2 million in 2014. The $32.5 million year-over-year jump was primarily driven by higher operating income and lower interest costs, which more than offset the impact of increased provisions for income taxes. . ***CoreLogic Earnings Report***

INDUSTRY NEWS

Verizon Acquires AOL for $4.4bn

Verizon announced a definitive agreement to acquire AOL for $4.4bn. The acquisition represents a continuation of Verizon's strategy of increasing scale in its over-the-top video platform and leveraging its best in class wireless asset.

Financially, the deal is immaterial (adding less than 0.1x of leverage) and $531m (~1% of Verizon's 2016E) in 2016E EBITDA. Verizon maintained guidance to return to pre-Vodafone transaction credit ratings by 2018-2019. The deal values AOL at 7.7x our '16E EBITDA. The deal was struck in a non-auction format and has led to speculation of another bidder which has led AOL stock to trade through the $50 bid price.

It's about ads: Verizon has been building / buying its way into an OTT platform for the last few years including the acquisitions of Teremark and OnCue. VZ has also secured various video rights including NFL games and college sports from ESPN for its mobile platform. AOL has 3 basic parts, 1) the legacy dial-up and anti-virus subscription business which is declining but throws off substantial cash, 2) media properties like Huffington Post which attract a lot of eyeballs but generate little profit, and 3) the 'platform' ad placement business. AOL bought programmatic ad business Adap.tv in 2013 for $400m and we believe this component of AOL is really the crux of the transaction. In addition to data consumption, Verizon's purchase here will add an established, sophisticated monetization engine to VZ's OTT ambitions.

Serious about OTT: As linear TV growth grinds to a halt and cord-nevers proliferate with time, content companies are rapidly experimenting with direct to consumer delivery of content over broadband (OTT). Mobile is well positioned as the model is set up to monetize total consumption of data rather than simply throughput speed like the wireline model. VZ's move to bolt a monetization engine on to its content deals and customer base underscores VZ's ambitions and seriousness in the space. ***Source: Merrill Lynch***

Verisk Analytics has Acquired Wood Mackenzie

Establishes Verisk as a Leading Provider of Data Analytics in Energy, Chemicals, Metals and Mining

- Combined company will be a global leader in data analytics
- Adds another Verisk-like business with deep vertical expertise, extensive proprietary data assets, a highly recurring revenue model, consistently strong growth, and leading profit margins
- Accretive transaction combines two companies with similar cultures
- Purchase price of £1.850 billion (approximately $2.8 billion) to be funded with about $2 billion in debt and up to $800 million in equity

Based in Edinburgh, Wood Mackenzie has a track record of more than 40 years providing objective analysis and advice on energy assets, companies, and markets, giving clients in more than 80 countries around the world the insight they need to make better asset investment and portfolio allocation decisions. Wood Mackenzie's diverse, blue chip customer base includes 800+ international and national energy and metals companies, financial institutions, and governments. Wood Mackenzie works with strategy and policy makers, business development executives, market analysts, corporate finance professionals, risk teams, and investors. ***Source: Verisk Press Release***

NEWS FROM CHINA

Tencent Debuts Micro Loans Product

Credit assessment based on data sourced from the Internet

WeBank, an online-bank owned by majority shareholder Tencent, has recently launched its first financial product – “micro loans”. The amount of the small loans product is set between RMB 20,000 to RMB 200,000 (US$3,225 to US$32,250) with daily interest rates set at 0.05%. The loan service does not require guarantees or collaterals, and is repayable at any time. Approval time required is reportedly around 15 minutes.

WeBank’s clients are currently selected by invitation only. The online bank can also be accessed through mobile devices and is connected to Tencent’s online payment service, QQ Wallet. Tencent’s credit approval process relies mainly on big data gathered from the Internet including online information, assets, consumption habits, repayments, social network data and gaming habits amongst others. WeBank will also create credit rating reports based on users’ personal online data.

Source:* *Tech.qq.com

People’s Bank of China Issues two Licenses for Business Credit Reporting

According to an announcement by the PBOC, two Chongqing-based companies have been approved to provide business credit rating services – Chongqing Hualong Qiangyu Credit Management Co., Ltd and Chongqing Cloud Micro Credit Management Co., Ltd. There is currently no additional information available on the two companies. ***Source:* *CQ.cqnews.net***

Alibaba Group Acquires Stake in Chinese Logistics Company

Alibaba Group announced the acquisition of a minority stake in the Shanghai YTO Express (Logistics) Company. Financial details were not disclosed. Both companies plan to cooperate in developing logistics solutions to improve efficiency of China’s logistics industry.

YTO Express will work closely with Alibaba’s logistics subsidiary Cainiao to enhance the industry’s logistics management capabilities as well as international and rural delivery services. Cainiao was founded by Alibaba in 2013 in partnership with a consortium of logistics companies with the aim of building a nationwide logistics platform. ***Source: Business Strategies Group Hong Kong - www.bsgasia.com***

Alibaba launches Korea Pavilion on Tmall.com

Alibaba Group, has announced the launch of a Korea Pavilion on its Tmall.com platform. Tmall.com’s Korea Pavilion opened on 18th May and allows any Korean retail goods to be listed.

Tmall.com’s Korea Pavilion was introduced in a ceremony at the aT Center by Jack Ma, founder and executive chairman of Alibaba Group, and Choi Kyunghwan, Deputy Prime Minister of Korea. The Korean Pavilion has partnered with Korea Agro-Fisheries & Food Trade Corporation (aT) and Korea International Trade Association (KITA). According to Alibaba, a Korean herbal cosmetics brand was among their best-selling item during China’s Singles’ Day in November last year. ***Source: Business Strategies Group Hong Kong - www.bsgasia.com***

NEWS FROM CHINA

dmg Invests in Chinese Property Data Market

dmg information Asia Pacific announced its venture into the Chinese property information market by investing in Funcent, a data and workflow solutions provider to real estate valuation companies and commercial banks. No financial details were disclosed.

Source: dmg Asia Pacific

NEWS FROM RUSSIA

Internet Services Market in Russia - Review 2014

According to The Russian Association for Electronic Communications (RAEC), the Runet's (Russian term for Internet in Russian language) aggregate revenue 2014 is approximately at the level of 2013 amounting to about 14.6 million EURO. The revenue of Internet dependent segments such as Internet access providers, e-commerce etc. has grown from 76 million EURO to 102 million EURO. According to experts, about 1.3 million people including freelancers work for companies in the Internet industry.

E-commerce covers 65% of the Russian Internet services market. Online-retail, electronic payments and digital content (video, music, books) are the most developing segments.

BIIA member Credinform estimates that currently there are approximately 11,500 legal entities and sole entrepreneurs engaged in e-commerce in Russia.

Online travel is also one of the most promising sectors, especially following the much talked about large travel agency bankruptcies. According to Mr. Plutogarenko, head of RAEC, the aggregated revenue of the e-commerce sector as of 2014 has increased by 42% and amounted to 9.4 million EURO. Thanks to the search engine advertising, video advertising and marketing services in social media, the Internet advertising sector has grown 18% in 2014. While the media advertising sector declined by 5% compared to 2013.

Experts also estimate a 7% annual growth of the Internet user community in Russia. 2014 statistics show that 73 million people use the Internet. According to a highly probable forecast, the number of Russian Internet users will increase by 3% and will reach 76 million people by 2020.

Russia's internet users are using different gadgets simultaneously: computers and lap-tops, pads and mobile devices. Mobile Internet is becoming more and more popular: based on expert opinion, in 2014, 9% of users used mobile devices only.

RAEC experts forecasted an increase of the Russian Internet market revenue of approximately 20.7 million EURO by the end of 2014. Currently the Runet is in a crisis mode, as Mr. Plutogarenko notes, and thus anticipates only a 8-10% growth rate.

Source: Credinform Russia

ANALYTICS

U.S. Lenders Reluctant to Switch to Better Performing Credit Risk Scoring Models

For an industry that prides itself for being sophisticated with the use of data and advanced analytics adoption to new credit scoring systems is a slow and expensive process. According to VantageScore LLC, three recent independently conducted surveys http://www.vantagescore.com/news-story/140 suggest that slightly more than 50% of the lenders interviewed would consider switching from their existing credit scoring system to one that is proven to be more predictive . Given the importance of properly assessing consumer credit risk why weren't 100% of the respondents willing to consider switching to a more predictive score?

U.S. credit bureaus continue to innovate but lenders are slow to adopt. Since the mid 1990's each of the three largest U.S. credit reporting agencies introduced various credit risk models that outperformed more popular models, but experienced little user adoption. Why? One reason for the lack of adoption is that many lenders have an irrational reluctance to use a different credit model from each CRA. Their reluctance was premised on the fact the models offered by each CRA were designed using different performance definitions, performance windows, score scaling and development team; and that multiple CRA/score based decision strategies would be required for automated account management and underwriting decisions. This belief was irrational because the generic credit bureau based was not the same across each credit bureau. Each model version was based upon varying levels of credit information content and quality, different credit characteristic definitions, different performance windows and different good/bad performance relationship. The only commonality across the models that they were using was the name of the model development company and that the models had similar, not identical, score ranges. This irrational reluctance to adopt innovation made for less efficient risk management practices and discourages credit bureau innovation.

A migration from emphasis on nominal score values to inherent risk assessment is required. When generic credit bureau models were first introduced in the U.S. (new non-U.S. credit bureaus introducing credit scores planning to introduce generic credit scores please take note) lending strategies were programmed using score values, instead of the inherent risk associated with a particular score. For instance, in an account origination scenario lenders programmed automated underwriting systems to approve applicants with a credit score above a specific credit score (i.e. 679), instead of the risk level associated with the score provided (i.e. probability of default greater than 25%). As the use of generic credit bureau based risk models spread, federal government regulatory agencies created regulations based upon score cut-offs, not risk levels, based upon the credit risk model used by lenders. These regulations were mistakenly perceived by lenders as an endorsement of specific credit scoring systems, which created an unintended barrier for the adoption of new, more predictive generic scores. Federal regulatory agencies have since retracted and modified their regulations with an emphasis on inherent risk assessment instead of specific score values http://www.vantagescore.com/regulators and migration to new credit scoring systems have begun, but the process is painstakingly slow and expensive because automated credit risk management systems are still programmed for a specific score threshold not a credit risk threshold. *To be continued on next page*

ANALYTICS

U.S. Lenders Reluctant to Switch to Better Performing Credit Risk Scoring Models

Continued from previous page

Credit bureaus can take the lead to deemphasize scores and convert decisions to risk based thresholds. Because the practice of basing underwriting and account management strategy logic around arbitrary score values is so entrenched in the U.S., and possibly other countries with established credit bureaus, there may be little that established credit bureaus can do to migrate lenders towards accepting risk based score thresholds, but it might not be too late for credit bureaus entering a country that does not have an established credit bureau or credit bureau based scoring system. For instance in the U.S. during the mid 1990's Experian (then named TRW) introduced the National Risk Model that returned a score range of 1-999 with score representing the interval probability of default. Because the National Risk Model returned the probability of default, not a specific score, after programming underwriting and account management strategies, users of the National Risk Model are more proficient to adapt and implement updated versions of this model or competing models offered by another CRA because their strategies are programmed according to the inherent risk associated with the consumer not the nominal score value returned on a consumer's credit report. Unfortunately, by the time this model was introduced most lenders just invested a great deal of effort to program, and in some instances reprogram, all of their various decision support platforms to accommodate the first generation of generic credit bureau models and were not interested or willing to repeat this arduous exercise to accommodate another model from one U.S. credit bureau.

Credit bureaus introducing their first credit bureau risk model may want to deviate from the norm. Credit bureaus to introduce their first credit bureau based scoring system may want to consider introducing a model where the score represents the probability of default. The benefit to the CRA and lenders is that as updated versions of their model are released, which will be required as their data assets improve and competition increases, lenders already accustomed to using a model with a score based upon probability of default will be more readily open to switching to a new model version than a model based upon a nominal score range. On the downside it will also be easier for a competing credit bureau to entice lenders to convert their score with a model having a similar score value.

Data quality and product innovation ultimately will determine market share. While having predictive models are important, ultimately the meaning of a score will have little consequence in determining a credit bureau's market share. The key to long term success resides in a credit bureau's ability to expand and improve the quality of their data base. As credit bureaus expand their databases to include alternative data, models that return a nominal score will continue to be an impediment to innovation and improved risk evaluation. To paraphrase Rupert Murdock, 'The (information) world is changing very fast. Big will not beat small anymore. It will be the fast beating the slow.' Those credit bureaus that innovate and can quickly accommodate customer adoption will prosper.

About the Author: Chet Wiermanski is one of BIIA's contributing editors writing on the subjects of credit scoring and decision systems. He is a Visiting Scholar at the Federal Reserve Bank of Philadelphia researching new applications of consumer credit report information. Additionally, Chet is Managing Director of Aether Analytics which specializes on leveraging hidden data sequences and time series components within consumer credit information typically ignored by traditional credit bureau based solutions. Previously Chet was the Global Chief Scientist at TransUnion LLC. Holding a variety of positions within TransUnion, during his tenure, between July 1997 and February 2012, he was responsible for identifying, evaluating and developing new technology platforms involving alternative data sources, predictive modeling, econometric forecasting and related consulting services.

REGULATORY NEWS

New PERC and TCAI Study: Is CROA Choking Credit Report Literacy

A newly released study finds that implementation of the Credit Repair Organizations Act (CROA) discourages interested consumers from learning more about their credit reports and scores, creating conflicts with other federal laws and public policy objectives. The authors, from the Policy and Economic Research Council (PERC) and Take Charge America Institute (TCAI) at the University of Arizona, examined data from users of a credit education product offered by a national consumer reporting agency and found improvements in credit scores and consumers' credit tiers materially outpaced those of a comparison group. Despite these benefits, few consumers completed the purchase process to learn how to improve their scores.

"This report finds that consumers who used an individualized credit education product experienced greater improvements in credit scores compared to those who received generic education materials," said Dr. Michael Turner, president and CEO of PERC and one of the study's co-authors. "Unfortunately, dated financial regulations create obstacles that deter significant numbers of consumers from using credit education products."

The study looked at data collected by Experian on 1,365 consumers who purchased and used Experian's Credit Advisor product during a 13-month period between March 2011 and March 2012. Among those who successfully completed the product's counseling experience moved to a better credit risk tier at nearly twice the rate of those receiving educational materials only (22% vs. 13% for the VantageScore credit score, and 26% vs. 13% for the PLUS credit score). The report also examined survey data from consumers who interacted with the product to understand the factors that impacted their decisions. Significant numbers of interested consumers failed to complete the purchase process following exposure to the procedures required by CROA, with many citing the mandated 3-business day waiting period as a leading reason. For example, at a free price point, 46% of respondents who did not use the product said they would have if they could have done so immediately.

Credit reports and scores are an important factor in determining access to and the cost of credit for individuals and small business owners. Federal law and policy statements from elected officials and regulators encourage Americans to engage with the national credit reporting agencies to learn more about their credit reports and scores. Recent expansive court interpretations of CROA have resulted in the reclassification of core credit bureau services that have nothing to do with credit repair—credit monitoring, credit education, identify verification—as credit repair activities. These decisions have put CROA at odds with policy objectives in both the Fair Credit Reporting Act (FCRA) and the Fair and Accurate Credit Transactions Act (FACT Act) that envision significant financial education roles for the three nationwide consumer reporting agencies, Equifax, Experian, and TransUnion.

The report concludes with a call for Congress to amend CROA to exempt the nationwide consumer reporting agencies in order to eliminate the tension between the CROA and the FCRA and FACT Act. The report finds that exempting the nationwide consumer reporting agencies from CROA carries no risk of consumer harm as the agencies have an obligation under the FCRA to ensure maximum possible accuracy of data in their repository, and any other unfair or deceptive practices are already heavily regulated by the Federal Trade Commission Act and the broad powers of the Consumer Finance Protection Bureau (CFPB) that did not even exist when the CROA was passed nearly 20 years ago.

You can download the report on PERC's website here: http://www.perc.net/wp-content/uploads/2015/04/CROA.pdf

BIIA 10TH ANNIVERSARY CONFERENCE

October 29th / 30th 2015 Hong Kong - The Park Lane Hotel

BIIA celebrates its 10th anniversary this year with a premier event as a tribute to the accomplishments of our industry and its members.

BIIA will address at this conference the opportunities and challenges posed by rapidly changing technology and market conditions. We're bringing together the brightest minds in the business to discuss the information hubs of today and tomorrow. The BIIA Network will provide connections with new partners from across the globe and fine-tune best practices to make tough decisions easier.

The conference has three information tracks:

- In the **Business Information Track** we present a number of key topics which relate to the future of trade credit and the implications on business information. It involves an interactive discussion with a major user group, the credit insurance industry. We also present new initiatives such as the Legal Entity Identifier (LEI) and the business information segment Governance, Risk & Compliance
- In the **Overarching Business Issues Track** we will discuss issues which impact the business information and consumer credit information segment. The audience will learn about the threats posed by **Cyber Crime** and how **BIG Data and Predictive Analytics** take center stage in our industry
- The **Consumer Credit Information Track** involves panel discussions concerning current and emerging industry and policy issues

Who should attend:

- Leaders and professionals from the business information industry, credit bureaus, decision support, platform and workflow software providers
- Users of business and credit information services and representatives from government institutions and regulators

For more details about the program and how to register click on this link: REGISTER

Business Information Industry Association Asia Pacific – Middle East Ltd.
Suite 4114 Hong Kong Plaza, 188 Connaught Road West, Hong Kong
Telephone: +852 2525 6120; Fax: +852 2525 6171; E-mail: biiainfoasia@gmail.com Home Page: www.biia.com
Certificate of Incorporation: 979425