

Global Market
Update No. 1

Current & Future Trends: July Issue

Includes a Focus on Fraud



Welcome to the Inaugural Experian Decision Analytics Global Market Update

Earlier this year we asked for your feedback, and as a result we are committed to "Bringing International Knowledge to the market." We hope to achieve this by sharing global trends and local insights. This inaugural edition provides information on hot topics such as positive reporting. Although there is still much for the industry to do; the message is clear, positive reporting is coming.

Such a change affects lenders across sectors including banking, telecommunications and utilities. We recognise each sector will have different priorities and that these priorities are regularly being reassessed as markets move, competition grows and increased regulation is imposed.

In a world of fast-paced change we are also increasingly required to look across channels and technology. An example of this is using internet search data. A recent study provided some fascinating insights into what happens when someone searches "how much can I borrow?" Linking generic searches to risk assessment and application processing could provide new business opportunities.

One challenge that unites the industry across sectors, channels and technology is the battle against fraud. This edition also looks at how the industry could benefit en masse by simply sharing the information they already have about fraudsters. Within Australia and New Zealand, we are faced with our own unique challenges as well as those experienced globally. By leveraging our unique global experience, Experian Decision Analytics will endeavour to make this information available to you, helping your organisation to make informed decisions.

We hope this report is of value. If there is anything specific you would like to know more about current or future trends, simply talk to your account manager.



Nigel Butler,
Director, Decision Analytics

Sydney / Melbourne Customer Seminar Highlights

Over the last 5 months, we have been talking to a selection of our customers to understand what you think of us, in relation to our products, our competition and our analytics and consultancy. This feedback culminated in seminars run in both Sydney (10th March) and Melbourne (11th May), in which we presented the results of this feedback and made a commitment to how we are going to utilise this information to better our offering moving forward.

Feedback from our customers is that they like our open, honest approach and our commitment to listening to them and acting on it. To ensure we maintain focus on our commitments to you, our customer, DA has designed our customer charter. The focus of which is ensuring we work with you as strategic partners to support your business needs. Our commitment is as follows:

Continue to listen to our customers

Regular discussions

Get to understand your business better

Help you to justify the value of our services

Be proactive

Look at future, not just current state

Develop solutions for tomorrow's needs

Focus on solutions, not software

Greater focus on consultancy and advice

Offer 'packaged' solutions to support longer term objectives

Bring International knowledge to the market

Regular updates on local and global activities

Greater sharing of product roadmap

Bring in global experts for regular visits / reviews

Strategic long term partnerships

Understand needs of stakeholders outside of risk, collections and / or fraud departments

Develop market / brand presence.

Over the course of the year we will be holding additional seminars with our customers to discuss what we've done to date, our plans moving forward and to gather your feedback to ensure we continue to deliver.

Comprehensive Credit Reporting (CCR)

CCR will fundamentally change the credit landscape of Australia. Positive credit reporting data will provide lenders with more insight into customer behaviour. The fundamental benefits will come through greater competition in the credit bureau space promoting better value and innovation for lenders and borrowers alike.

To provide some insight, Hong Kong switched to positive consumer credit data sharing in August 2003. HKMA reveal that bankruptcies rose over 27 fold between 1998 and 2002 and credit card charge offs peaked at 14.6% in Q3 2002. Two years following the introduction of positive data sharing, the credit card charge off rate had dropped to 2.95% and the average indebtedness of bankrupts had dropped from 35 times monthly income to 25 times. This improvement is largely attributed to positive consumer credit data sharing. It is interesting to contrast these results with the aspirations of NCCP responsible lending here in Australia.

The benefits to consumers, and the implications for credit providers to stay competitive, are equally as significant. The period between 2003 and 2005 showed a marked shift in consumer behaviour resulting in an increase in credit card receivables, a decrease in proportion of revolving balances and a several billion dollar migration between portfolios.

Australia's restrictions around the use of data and also the exclusion of current balance as an item of information which can be shared will mean that the impact on this market will differ, however the changes will still be very marked. Contact us for further positive reporting market insights or to discuss your positioning in relation to opportunities and risk mitigation.



The team to deliver

Managing Multiple Bureaus

Currently lenders tend to adopt either a single bureau strategy or a primary / secondary structure, only choosing to use the 2nd bureau either when the bureau link is down or where a complete picture is not available from a single source. Going forward they will have much more flexibility to determine which bureau to use under what circumstance depending on their determination of greatest value add. Different bureaus will potentially have different levels of quality across different segments such as: Young or older applicants, residents of different regions, secured v unsecured applications, renters, savers etc.

As such lenders may choose to have a different strategy by customer and / or product segment and would want to constantly evaluate the effectiveness of such strategies using champion – challenger capabilities. Working with organisations around the world has shown that the key is to request the right level of data which is appropriate to the value and risk of the application or put another way, to target bureau spend on high risk customers.

Once the raw data is received from the credit bureau this needs to be summarised into predictive variables to be used in Decisioning, scorecards, amount and type of verification required, pricing etc. Generally speaking, most organisations use the same types of variables, with more sophisticated organisations able to derive more complex variables from multiple pieces of raw data. The ability to easily change or introduce these variables is important to ensure maximum value is obtained from each bureau search.

Being able to access these data sources using just one link reduces the complexity of this task and provides the ability to consolidate and aggregate data to provide a single complete picture of the customer.

Our external data connectivity solution, Connect+ brings together the ability to set sophisticated strategies, define complex variables from raw credit bureau data and provide a single link to multiple credit bureaus and other external data sources.

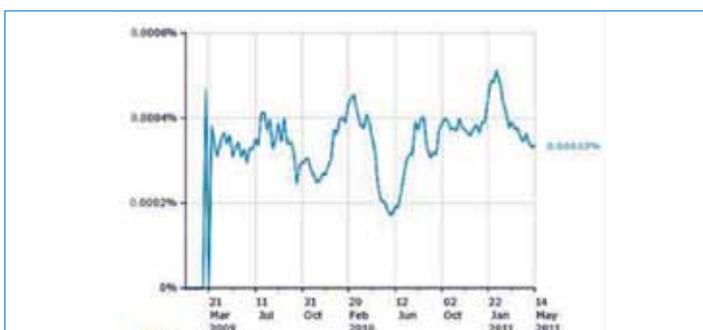


Fig. 1

Using Competitive Intelligence Data to Open Up Opportunity

The internet continues to be a source of untapped value. As an example, readily available within the Hitwise Competitive Intelligence Data is the monitoring of the growth and / or sources of generic searches via the internet. To illustrate this we looked at a search for 'how much can I borrow' (see Fig.1 for results from March 2009 until May 2011) which may be valuable to us as a general proxy for seasonal and / or economic cycle trends, and therefore an input into internal demand and / or resource models.

In addition, Experian Hitwise is able to trace not only the initial search request but also subsequent activity to understand where such searches lead the user.

Continuing with the illustration, Fig. 2 shows that of the searches on 'how much can I borrow' (results from 4 weeks prior to week ending May 14th 2011), only 45% of those resulted in successfully taking the customer to suitable content to click through on.

So what...?

These kinds of generic searches (of which there are many more) represent a huge opportunity for Banks to capitalise through sales, advice and / or customer service. For example, by building out content and landing pages, lenders could capture details from such potential customers and follow-up with relevant communication via an email address or phone number? Alternately, they may be able to monitor and improve their existing sales; advice and / or hardship web solutions so that they receive more and more relevant, convertible traffic.

Contact us if you would like to find out more and how web technology could support your business needs.



Fig. 2

Debt Collections Agency Optimisation (DCA) Within Telcos

The Telcos market globally faces challenges around managing bad debt amongst its customer base. At the same time, Telco companies are operating in a highly competitive market where it is essential to maximise customer value throughout the customer lifecycle, even up to charge-off. To manage customers who have gone into serious arrears, many Telcos use panels of DCAs and randomly assign overdue accounts to each DCA. Telcos need to maintain a relationship with their DCAs by sending a certain volume of accounts, and of a certain quality in terms of credit risk and demographics, this is normally done by simple selecting accounts at random, however each agency will have a particular expertise enabling them to collect better on certain types of accounts.

By ensuring that these quality and volume constraints were not broken Experian's optimisation tool recently enabled a win-win situation for one client and in turn the DCAs, by ensuring each organisation increased earnings through optimally selecting which accounts should be set to each DCA - resulting in the following benefits:

Increase of 10% in net customer value through more effective agency assignment for customers

Corresponding increase in commission earned by each agency, by an average of 9%

Overall customer recoveries increased from 20% to 23%

Increased level of re-connections, restarting the customer relationship and reducing overall churn

Relationships with agencies enhanced due to increased earnings and improved targeting

Quick and easy implementation of a tree into operational systems with minimal IT impact

Option to gain a further 8% improvement in the future through implementing the DCA strategy using an individual-level decision engine.

Experian works with some of the largest Telcos in the world, including Virgin, T-Mobile, British Telecom, Orange, Primus, Vodafone and Optus. Our industry specialists identify global innovation and opportunity. If you would like to speak to one of them call us today.

Focus on Fraud: Fraud and Data Sharing

Fraud is like an arms race where both sides use a range of techniques to try and stay ahead of each other. One technique that has proved successful in preventing fraud at the point of application is sharing fraud and application data at a National level.

Such National Hunter schemes have operated successfully in the UK since 1993. Experian have also worked closely with regulators and organisations globally to deploy data sharing schemes in countries such as Russia, India and South Korea. In the UK in 2010 alone across the portfolios of credit cards, mortgages, automotive finance, insurance and Loans; a total of 61,185 frauds were identified with an associated £6,346,708,784 in savings.

How does it work?

Fraud data sharing is the reciprocal exchange of information within a membership community in order to detect and prevent fraud.

Fraud prevention is generally considered to be a non-competitive issue.

Fraudsters do not target one individual organisation, they target as many as possible in order to gain maximum benefit. By working together, organisations can greatly increase their chances of identifying fraudulent behaviour and subsequently prevent losses. To complement our existing hunter service, we are now launching a National Hunter capability within Australia.

Want to know more about how our National Fraud Prevention and Data Sharing Services will work for you? **Call your account manager today.**

The Global Buzz

Did you know? Nearly a third of people have been victims of card fraud in the last five years, up from a fifth 18 months ago, according to figures covering eight countries for a survey commissioned by ACI Worldwide. Source: (Finextra - 10/02/2011)

Top 5 perceived threats from the insurance industry for 2011;

- 1 Increased compensation claims
- 2 1st party false claims
- 3 Stage accidents / hard fraud
- 4 Professional Fraud
- 5 Quick payout for competitive edge overlooking risk

Source: (Experian Global Consultancy Practice)

UK card fraud losses are at a ten-year low. According to the UK Cards Association, the drop was due to ongoing success of anti-fraud initiatives. Source: (CreditToday - 09/03/2011)

In contrast, online banking saw a 14% increase in losses mainly due to criminals using more sophisticated techniques. (Source UK NFA) Commentators around the world also point to a worrying increase in internal fraud and staff collusion highlighting links to organized crime and the increase in identity fraud. This is a good example of "Squeezing the fraud balloon". Source: (CIFAS)

A national study into fraud by bookkeepers employed at small and medium-sized businesses has uncovered 65 instances of theft in more than five years, with more than \$31 million stolen. Source: (SMH - 02/04/2011)

Want to know more about what is happening in fraud around the world and what you can do to stay ahead of the game? Give us a call.

Squeezing the Fraud Balloon: Fraud may appear to decline in one area, but it pops up elsewhere.

Events and Insights

Date:

Event:

Australasia

June 16 to 17	6th International Telco Forum – Customer Insight, From Vision to Value. Istanbul, Turkey
July 8	Challenges and Opportunities for Card Issuers and Lenders to Automate Credit Decisioning. Manila, Philippines

Europe

August 24 to 26	Credit Scoring and Credit Control XII. Edinburgh, Scotland
October 10 to 11	Identity and Fraud Forum 2011. Hertfordshire, England
October 11 to 12	Credit Risk Summit. Hertfordshire, England
November 24 to 25	Credit Risk Forum (11th edition). Berlin, Germany

Experian Insights

Access the latest global knowledge and insights webinars at the following links:
www.experian.it/emea/competitive-edge-with-experian-webinars.html
www.experian.com/corporate/free-webinars.html

Access the 2011 Fraud Report: experian.co.uk/business-services/fraud-prevention.html

ARCRC April 4 - 6, 2011

Experian were proud to be major sponsor and planning partner of the Australasian Retail Credit Risk Conference. Our session entitled 'What Difference Will Positive Reporting Really Make' presented by Richard Fiddis was jointly rated the most useful session by delegates.



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