



Completing the Picture

Retail risk management with credit bureau data

*All statements contained herein are the professional experiences, observations and opinions of Mr. Fair as an individual and do not constitute practices of HSBC Holdings Plc. in any country, portfolio, or retail product

Critical Development Infrastructure

*Safety & Soundness

Protecting depositors

Allocating capital

*Economic development

Creating consumer credit opportunities for more income levels

Cheaper / better offers for customers with better records

Consumer Behaviors-of-interest

#1 Which consumers will repay, with interest

Frequently called originations or accept/reject decision

After the first credit card, loan or mortgage, banks become interested in other behaviors:

revenue

collections

attrition

cross sell response

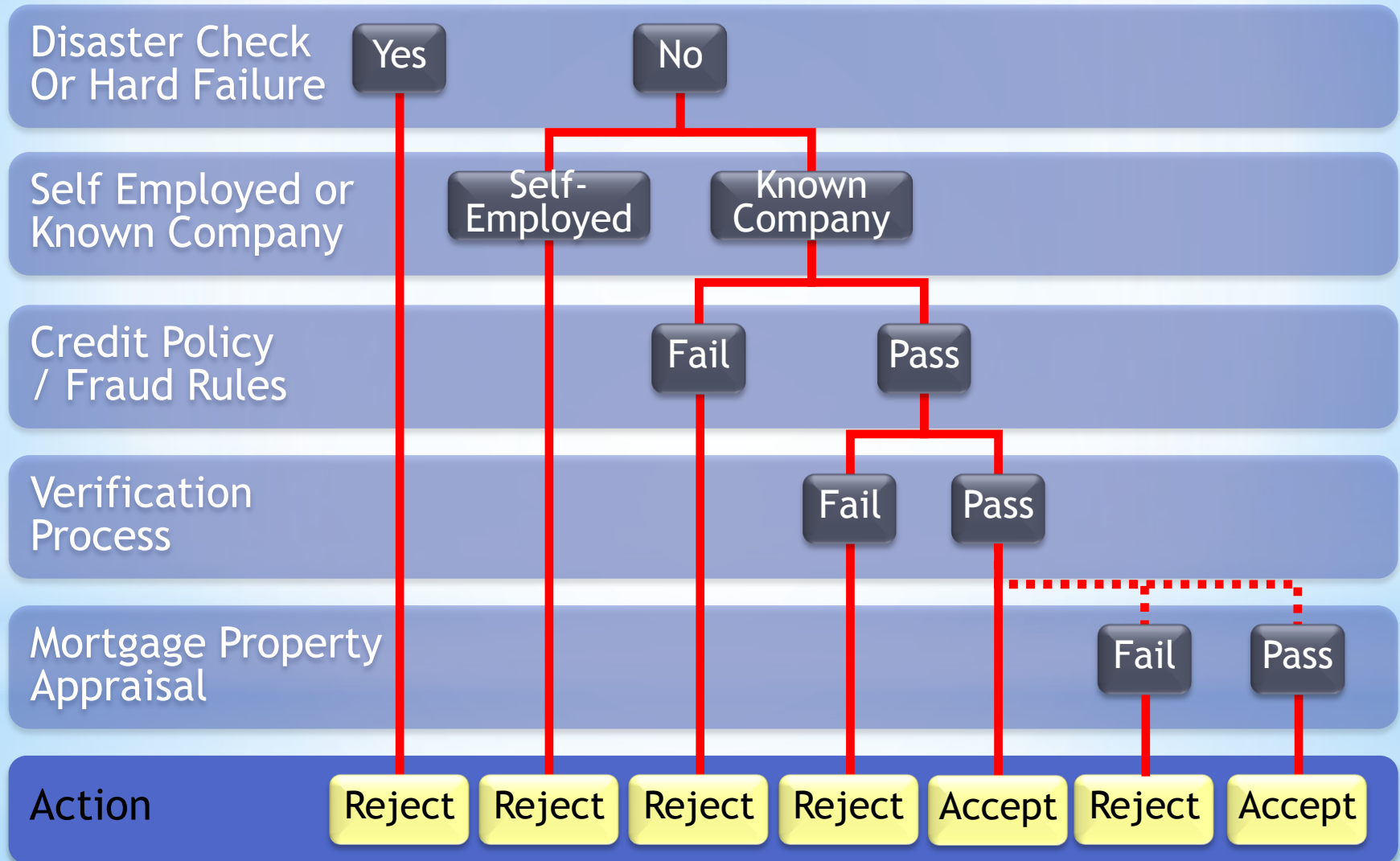
2nd -nth product performance

Lending in Non-Bureau Environments

- * Application forms
- * Appraisals / valuations
- * Income & Job status documentation
- * Verification processes on applicant, broker or employee provided information to avoid “gaming”
- * Often manual and judgmental processes



Originations With No Bureau



Bureaus: External, Neutral, Verified View

- * Internal credit policies, criteria and rules often focus on volunteered information
- * Deep view of customers, but often little knowledge about new-to-bank applicants

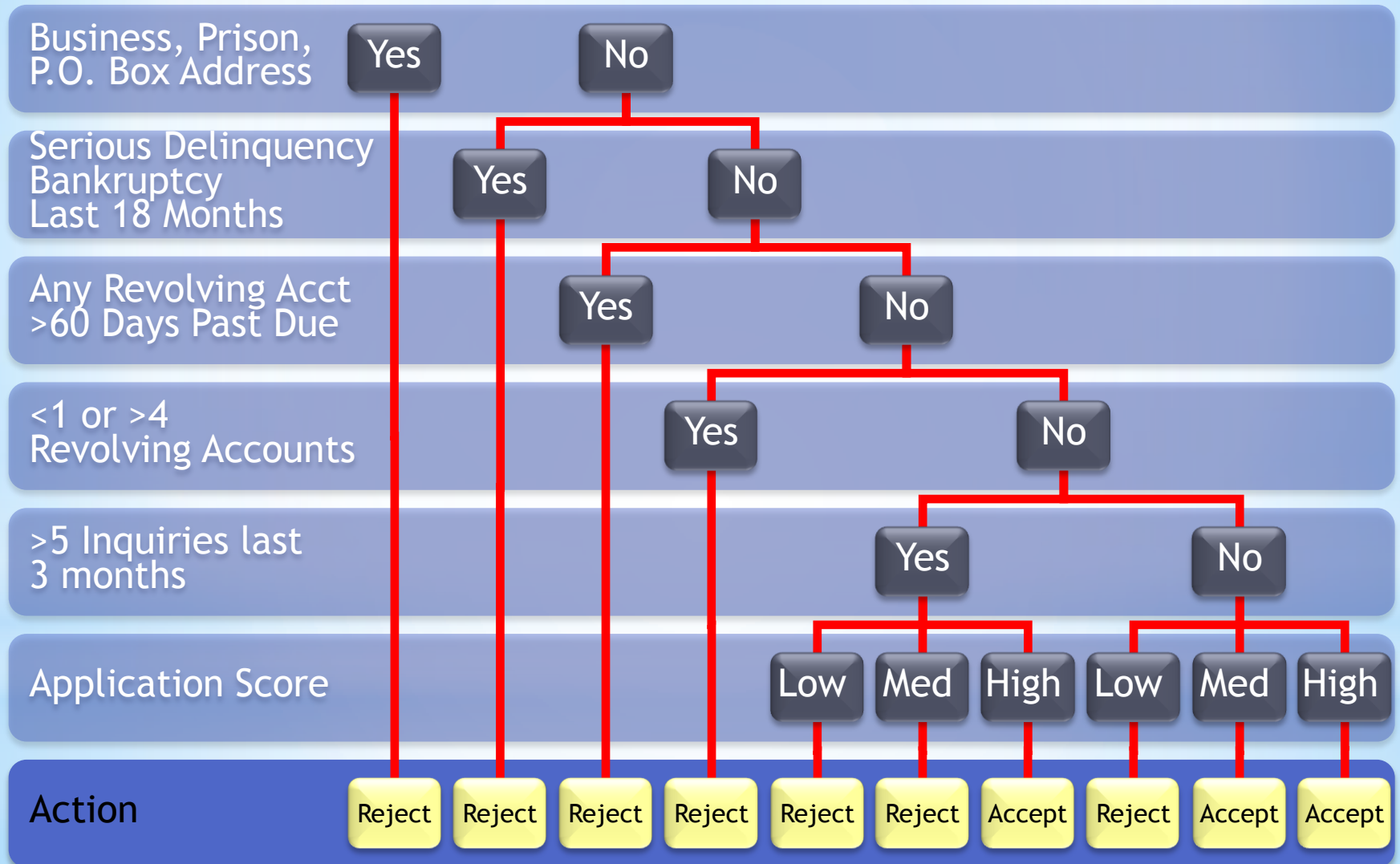
- * Bureaus provide insight into applicant and customer payment behavior to
 - Encourage credit availability across income spectrum
 - Rewarding customers with good to excellent previous behavior
 - Reject or price up customers with poor previous behavior

What Data works in Emerging Economies?

- * Repayment History
- * Amounts owed
 - Revolving credit
 - Installment loans
 - Mortgages
 - Other obligations (as available)
- * Types of accounts and length of credit history
- * Recency and severity of credit problems
- * Credit hunger



Originations with Full Bureau



Bureau Data in Account Management

- * In emerging economies bureaus most often consulted at originations

- * Less often consulted after applicants have become customers

- * Why?

 - Cost pressures at banks

 - High pricing of “batches” of reports by bureaus

 - Lack of understanding on ways to use external data as complement to internal behavior

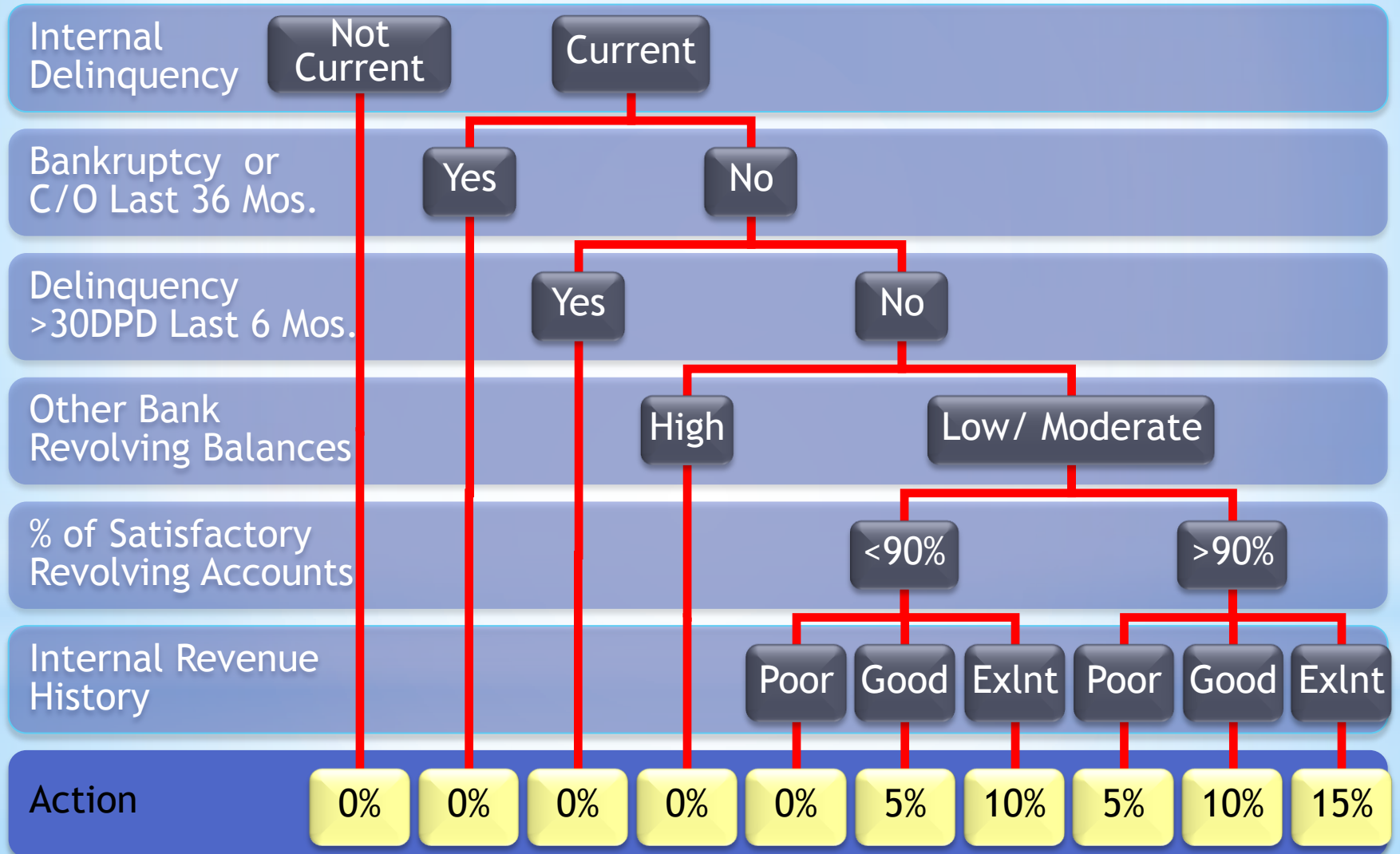
Credit Line Increase Strategy

- * Internal behavior is an incomplete portrait of consumer behaviors
- * Bureau data is used to identify customers with varying external debt levels

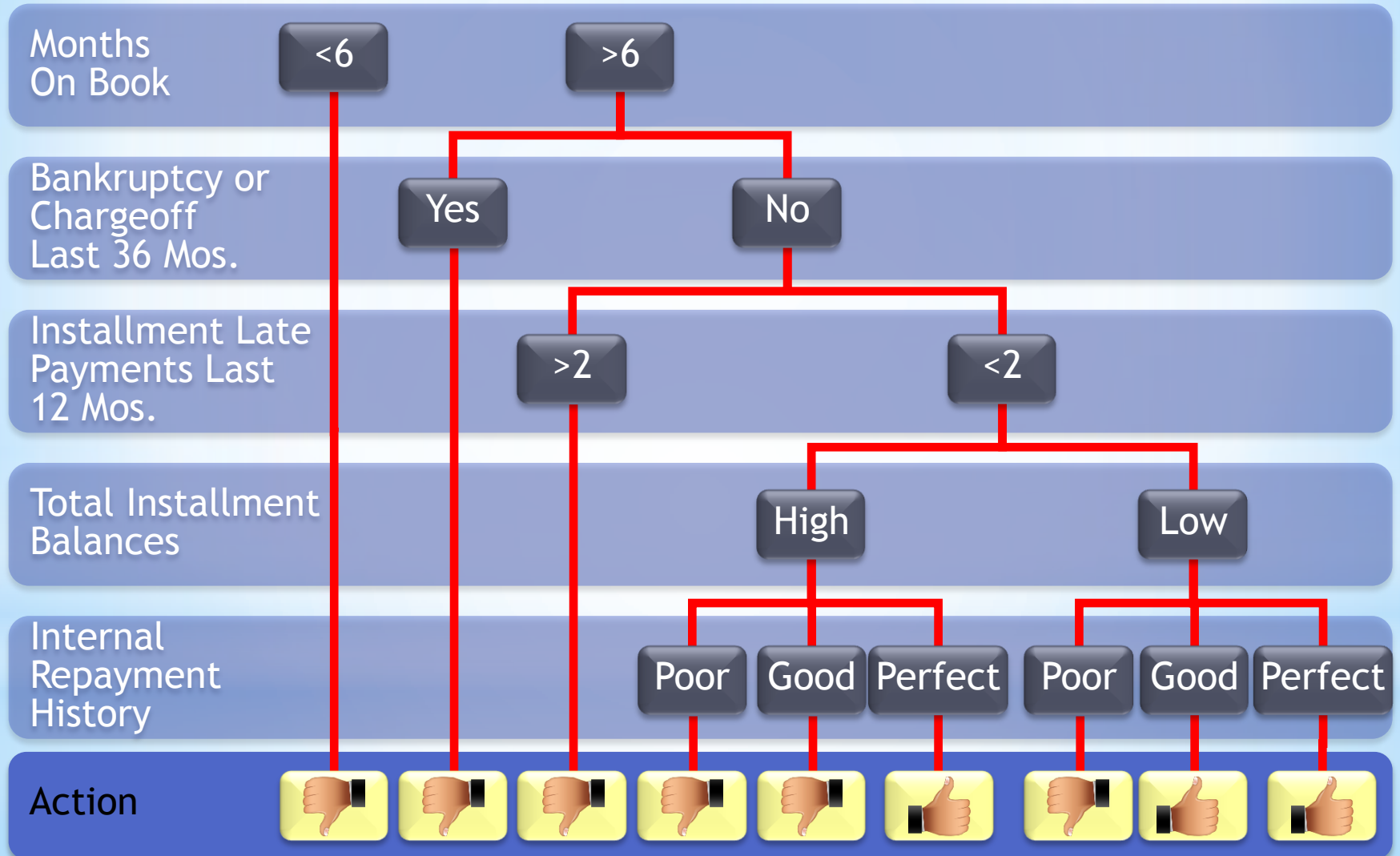
Banks can avoid or target customers as their risk appetite & local regulations permit

- * They may be paying you, but if they are not paying anyone else...

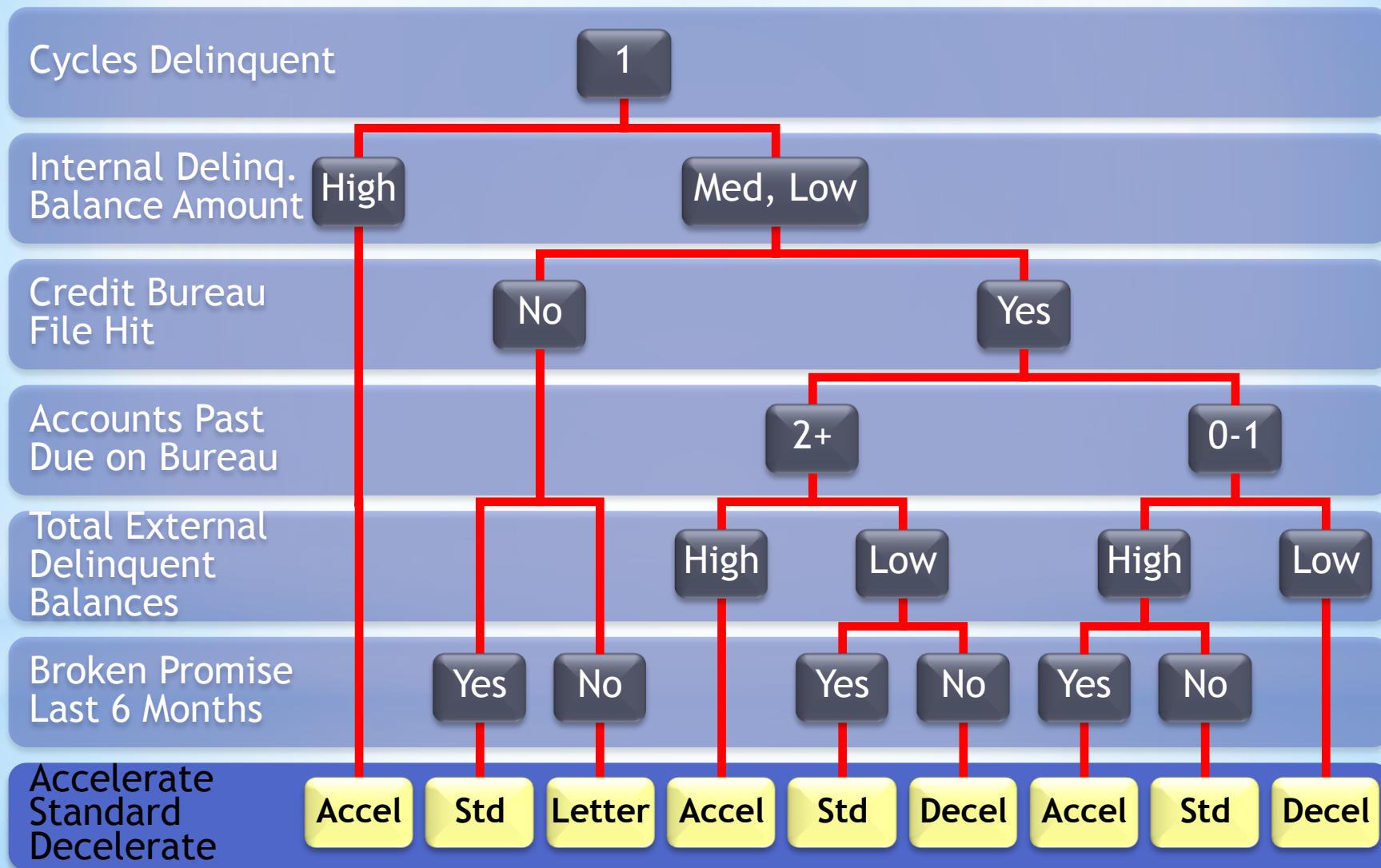
Credit Line Increase



Loan Top Up / Refinance Strategy



Consumer Collections



Balancing Interests

- * Bureau data is most often considered private, access granted for specified business purposes before or during a business relationship. And not after it is concluded.
- * Consumers should be provided with timely and reasonable dispute process
- * Give consumers a voice: actively create opportunities to consumers to learn about, see and comment their files. But not to the point of changing to how they wish history had gone...
- * Encrypt data going to and from subscribers

Pricing & Product Strategies

- * Online - expensive and very quick: permits realtime decisions
- * Batch / Offline - should be cheaper to make use in portfolio management (credit line changes, refinance, collections economic)
- * Non-report products: house holding, aggregating data at customer level, postcode/zip code level data, trigger products

The Road Ahead

- * Augment retail originations & account management strategies with credit bureau data
 - Create opportunities for consumers
 - Mitigate delinquency and default risk
 - Reward consumers with better products, pricing & features
- * Assemble data from non-bank industries that show consumer monthly behaviors: insurance, utility, telecomm, wireless, tax
- * Understand and use payment patterns of most consumer segments to provide opportunities for economic development

Questions & Answers