

Infolink – the UK credit information agency

By Brian Bailey

THE SECURITY associated with land and buildings is so traditional that it is actually enshrined in the English language. 'As safe as houses' we say, and why not? On average, house prices have risen steadily over the years and any predictions of a slump seem today as far as ever from coming to pass. In the United Kingdom, home ownership is one of the fundamental aspirations of the middle classes and, with a marked scarcity of property to rent, is likely to remain so for some time to come.

Against this background, mortgage lending must appear to be one of the most secure options for money looking for a home. Testimony to this can be found in the enthusiasm with which the banks have finally entered the mortgage market and in the arrival of mortgage agencies other than the traditional building societies.

Why is it, then, that with loans secured on property that continues to rise in value, mortgage lenders increasingly are seeking independent credit information on the people to whom they are making loans? While house prices were relatively stable, many building societies used a credit information agency, UAPT, (now UAPT-Infolink plc) to check borrowers' creditworthiness. With rising house prices, usage declined but legislation in the form of the Building Societies Act has lifted restrictions on the societies which are now able to extend their range of services.

Moving into unsecured loans and cheque accounts, the building societies are once again very significant users of credit information. One of the factors that has brought about



a reversal of practice is the very significant increase in competition within the market. This has meant, for example, that building societies may prefer not to ask for a bank reference in case the bank itself should offer the borrower a mortgage.

UAPT, or Infolink as it is now known, came into being in the early 1840s precisely to allow credit grantors to exchange information while still competing with one another. Traders would record information about their credit customers with the secretary of the association and enquiries could be answered factually without giving away any competitive advantage.

Today, the principles are much the same but the scale of the operation has changed dramatically. From a member-owned association starting in London, the operation has grown to a public company holding details on more than 44 million individuals throughout the UK. Information held on Infolink's £6.5 million Unisys computer system includes all available

electoral registers, public records of bankruptcy and County Court Judgments for debt, and an increasingly important body of data contributed by credit grantors giving details of previous and existing credit agreements with balances outstanding and payment histories.

Consumer credit commitment identified by Infolink's Payment Profile Service runs in excess of £8.4 billion.

A second result of increasing competition is that mortgage lenders are extending the market. Aided both by rising levels of disposable income and by government policies encouraging the sale of council housing to tenants by local authorities, a much wider stratum of society than before is taking on mortgage commitments. This extension of the market is taking mortgage lenders into a market sector that is less well off and more susceptible to unemployment problems.

In uncertain markets, accurate and comprehensive information is essential for making good underwriting decisions. While still remaining a comparatively small fraction of total mortgage lending, repayment defaults have increased in recent years as have possessions of properties, although the latter now show signs of having peaked.

Mortgage fraud has also hit the headlines in the last year. According to newspaper reports, by July 1987, Metropolitan and City of London police forces were said to be investigating at least 10 different organised mortgage frauds, concerning about 1,000 properties. The money involved was believed to be in excess of £50 million. Rising house prices

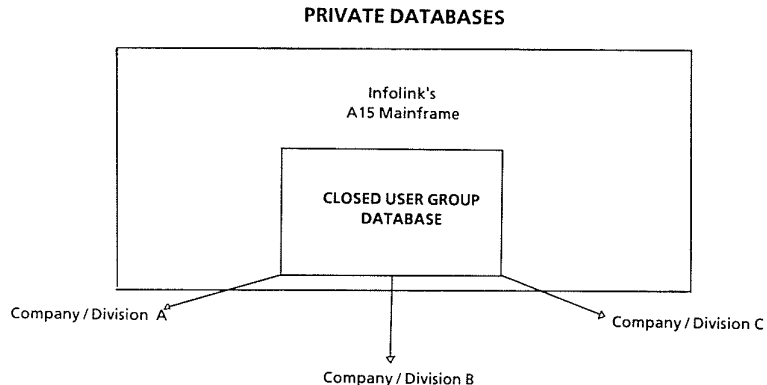
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have made the potential gains from fraud that much greater.

The nature of fraud varies and not all can be prevented by making credit checks. However, searches of electoral registers to confirm residential details of both purchasers and vendors can identify anomalies in the information given by prospective borrowers and on occasion can even point to family connections. Credit register information can identify people with a history of financial difficulties who may be considered more likely to attempt fraud.

Other information held by Infolink relating to previous searches of the database can prove beneficial in avoiding fraud. Each time a search is made it is recorded and subsequent searches on the same name and address will show a previous search having been made. The category of lender enquiring is identified and if it is a search that the particular organisation has made this is also shown. Undue search activity could indicate attempts to finance the same property several times over.

Changes in the mortgage market have also made lenders look carefully at the service given to customers. Information technology helps to speed up the decision-making pro-



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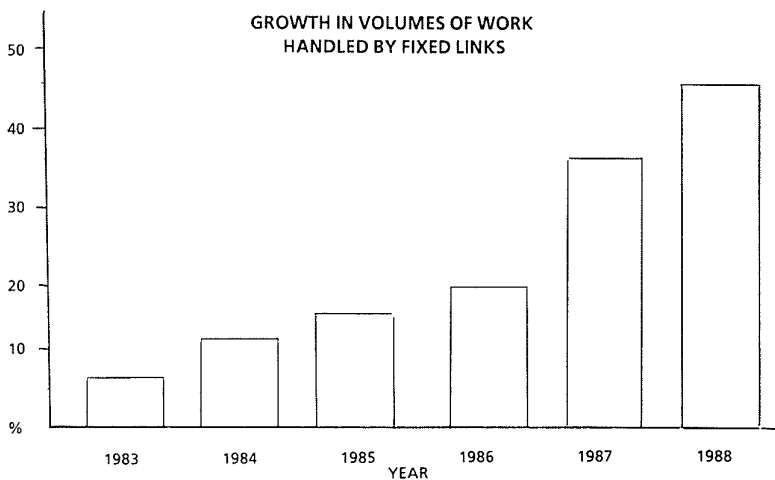
cess by making the data on which to base a decision available instantly.

Of course, the most appropriate delivery mechanism varies from one organisation to another. In order to cope with this, Infolink offers its information through both dial-up and fixed link communications via a wide range of on-line terminals. These include videotex, teletype, telex, visual display units, micro-computers and mainframe computer to computer links. Branch manual services via telephone, telex or post are also available for less frequent users.

Significantly, however, a growing proportion of enquiries are made through mainframe computer links. Direct mainframe-to-mainframe links are particularly effective in the case of organisations which already have a large on-line branch network. By communicating directly with the head office computer, information is automatically made available to all the branch terminals. This approach not only offers considerable savings in telephone costs but also permits information to be tailored to the specific needs of the organisation.

This may be as simple as reformatting response frames to give a desired presentation on screen or it may involve coding the information which is passed to make it interface directly with a credit scoring system maintained on the head office computer. Infolink's Unisys computer already communicates directly with many other manufacturer's mainframes including IBM, Honeywell, Tandem and ICL.

The degree of expertise that Infolink has achieved in computer communications can be especially valuable where finance organisations have merged or have agreed to work together. More often than not, customer information is held on two or more computer systems which, because they have evolved independently, are incompatible and cannot



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communicate with each other. Lack of intercompany communication is a potential security risk but the establishment of 'closed user groups' is helping to encourage the efficient distribution of information.

Traditionally, financial institutions file and retrieve information by account number and not name and address, thus making it very difficult, if not impossible, to match multiple account holders. Infolink's own computer files, however, are accessed by name and address input and the whole system is structured to provide data on several accounts held by the same person.

By establishing a private database on the Infolink computer all parts of the group can have access to group data at the same time as assessing the standard Infolink information. An example of this is a closed user group for a bank who wish to see data held by the bank itself, its finance house

*'No opportunity
for bending
the rules'*

subsidiary and its credit card company.

It should be said that the closed user group approach is useful not just for sharing information between different companies but can apply within a single company that maintains separate computer systems for different customer groups.

Underwriting is a complex process involving the consideration of many different factors. Decisions on whether to extend finance have traditionally been taken by experienced people who try to consider all the facts. This can be time consuming and consequently costly in terms of personnel, particularly where numbers of customers are high and speed of decision is important. Credit scoring is a statistical method of making objective credit decisions based on large samples of previous and existing customers.

PAYMENT PROFILE				
JOHN CONSUMER 10 HIGH STREET ANYTOWN				
DOB: 04/06/53		RES: 0 YEARS - RES: 5		
Type of agreement	Date of agreement	Amount and terms	Subscriber number	Agreement number
FT	10/01/86	£100 x 24	067325	123456
£600	0021000110000	07/87		
Balance outstanding	12 month payment history	Date of last file update		

The technique of developing a 'scorecard' in which weightings are given to the various parameters has been shown to be consistently more effective than subjective, human assessment. Infolink's Scorelink division specialise in the development and maintenance of scoring systems for the credit industry.

Apart from improving decisions and increasing efficiency, credit scoring has the advantage of placing much greater control over risk management. It permits a level of fine tuning impossible to achieve using human assessment. Additionally, if it is fully automated, with the option to amend the scorecard restricted to key management personnel, the opportunity for front office staff to bend the rules at their own discretion is removed. System over-rides can thus be documented and monitored.

The latest technology to be applied to decision support systems is that of artificial intelligence and knowledge-based systems. Originating in the engineering field, knowledge-based systems encapsulate in a computer program the decision-making processes of one or more experts. Working at the forefront of this technology is KnowledgeLink, a subsidiary of Infolink whose founder and technical director, Professor Donald Michie, is a world authority on the subject.

While having very definite applications in the consumer credit market, this approach also offers some very exciting solutions in the corporate area where insufficient data exists to build traditional credit scoring systems. With a number of UK building societies now agreeing multi-million

*'Always some
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pound mortgages on commercial properties, knowledge-based systems may prove an invaluable aid in corporate assessment.

There will always be some degree of risk associated with mortgage lending. It is the objective of Infolink to support credit granting organisations in the area of risk management so that by obtaining accurate, relevant information on their customers and benefiting from the various decision support systems, they may successfully control the risk in a manner consistent with the objectives of the organisation. ■

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