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TRANSUNION WHITE PAPER

Full-File Reporting: How Positive Consumer Credit Data Can Improve Banking Efficiencies and Fuel Economic Growth

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In a global economy, businesses need every advantage to stay competitive. One clear advantage: having access to the most complete information to make informed business decisions that can impact your bottom line. Full-file credit reporting—providing both positive and negative credit data—allows companies to:

- Assess the true creditworthiness of customers
- Improve the ability to control bankruptcy losses
- Find more effective ways to avoid lending to overextended borrowers

This white paper will explore the many benefits of sharing positive consumer credit data. A case analysis will be presented on the Hong Kong market, where TransUnion worked with the banking sector and the Hong Kong Monetary Authority (HKMA) to introduce positive credit data reporting in June 2003.

Between August 2003 and September 2005, the HKMA monitored and evaluated the results of this transition. Several key benefits emerged:

- Credit card receivables increased by nearly 10% from \$54 billion to \$59 billion.¹
- Rollover amounts (borrowed amounts which cardholders have not fully repaid) decreased by 17% from \$29 billion to \$24 billion.²
- The rollover ratio (the percentage of rollover amounts to the total amount of card receivables) decreased by 13 percentage points from 54% to 41%.³
- Individual unsecured credit (excluding credit card lending) loans increased by 38% from \$29 billion to \$40 billion from December 2003 to December 2005.⁴

In addition, the market share of non-bank financial institutions that offer loans to consumers increased by five percentage points from 25% in December 2003 to 30% in December 2005.⁵

Understanding the difference between negative and positive data sharing

While sharing negative data provides lenders with important information that helps result in lower default rates and improved market function⁶, it does not give the whole story about a consumer's ability to repay a debt. Examples of negative data include delinquencies (non-payment of a debt); court judgments; bankruptcies; charge-offs (debt that is written off); arrears (debt accrued after missing a payment); and late payments.⁷

Positive data sharing provides more detailed information about a consumer's loans and credit availability. Examples of positive data include the total amount and type of loans; accounts currently open and active; balances; credit limits; details relating to credit card commitments, such as how much is spent on the card and how much is repaid each month; how much cash has been taken out; and recent changes to borrowing limits.⁸

Access to both types of information can give businesses a more complete picture of a customer's financial commitments so they can make more informed decisions about extending credit.

How negative reporting may hide overextended consumers

Over the course of two years, one customer opened a total of 72 lines of credit from various financial providers, including the largest banks. The consumer did not make any late payments and, because positive data was not reported, lenders were unaware of the high number of credit lines.

What the financial service providers could not know was that the consumer made payments on each line with monies received from opening another line of credit. The first negative information was reported only after the 72nd line of credit was granted.

If the financial providers involved in this example had shared positive data, each creditor could have accessed a full credit data report and stopped lending to this overextended borrower.

Full-file data sharing can provide positive benefits

Overall, there are many benefits of sharing positive credit data for financial service providers, consumers and governments alike. For example, financial providers can reduce risk in lending to overextended consumers, while those same consumers can avoid becoming even more overextended. This in turn can help reduce the number of bankruptcies filed, which shapes the financial landscape of the community and the economy as a whole.

Lender Benefits

Expand customer base with better access to more consumers, including those with good credit records.

Better understand the relationship customers have with other lenders.

Expedite the loan approval process and increase competitiveness.

Increase application quality and profitability. Lenders can offer targeted pricing to customers based on the level of risk involved in extending loans.

Position and design better marketing strategy. Unlike negative data, which can be used only for the approval process, positive data may be used to derive policy settings, modeling and customer segmentation.*

Consumer Benefits

Encourages consumers to maintain good credit records.

Rewards consumers who maintain good payment histories.

Positive data reporting provides a more comprehensive picture of consumer financial behavior. A disproportionate number of consumers with a good track record can be unfairly penalized by negative data reporting.

Government and Society Benefits

Promotes good payment behavior among citizens.

Increases the country's banking stability.

Encourages steady growth in consumer banking.

* TransUnion provides its services in accordance with the local legislation and regulations of the country of origin of the information and therefore reserves the right not to provide the service when applicable. In addition, other terms and conditions may apply.

Case study: implementing full-file data reporting in Hong Kong reveals positive results

In Hong Kong, credit reporting is highly regulated. There is also a strong community focus on privacy concerns. Before June 2003, credit providers were allowed to share negative credit data, but only limited positive information, such as data relating to applications for credit and inquiries about customers.⁹ But a rapidly growing problem with bankruptcies prompted change as Hong Kong saw the number of bankruptcy orders issued by the courts increase from 893 cases in 1998 to 25,328 in 2002.¹⁰

At that time, many borrowers accumulated enormous, unsustainable levels of debt.¹¹ Often, the only remedy was bankruptcy, a legal action that is initiated voluntarily by the borrower or involuntarily by the creditors. The borrower may be declared insolvent, or unable to pay all debts even if the full value of all assets were realized—or may become insolvent when current obligations mature.¹² The borrower's assets are then distributed equitably among creditors and, in most instances, release the borrower from further liabilities.¹³

To address the problem, the Office of the Privacy Commissioner for Personal Data (PCPD), an independent agency that protects the privacy of citizens' personal data, assessed the bankruptcy situation with the Hong Kong Monetary Authority (HKMA) and members of the banking industry.

After much discussion, the PCPD moved to change the Code of Practice on Consumer Credit Data starting in June 2003. This change in Hong Kong's credit sharing policy would allow credit providers to share a wider range of positive consumer credit information.¹⁴ Credit providers would then have more complete information about customers' debt.

However, this move was not without its share of controversy. Apart from worries over personal privacy, there were concerns that positive data sharing might force a large number of borrowers, who were already overextended, into bankruptcy and thus cause a credit crunch. In addressing this concern, the PCPD introduced a two-year moratorium, prohibiting credit providers from accessing positive data to conduct credit reviews between June 2003 and June 2005.

Since then, the HKMA has been monitoring the benefits of positive data sharing based on a set of indicators agreed upon with the Consumer Council.



TransUnion worked with the HKMA and the banking sector to build a positive data reporting infrastructure

As Hong Kong's credit bureau, TransUnion had been aggregating negative data and public record information to centralize and process credit information since it was established in 1982. After the Code of Practice on Consumer Credit Data changed in June 2003, TransUnion evolved to become a provider of positive data and information, allowing for improved risk lending and expedited lending decisions, among other benefits.

TransUnion also worked with the HKMA to help banks, consumer groups and government understand how full-file reporting would improve banking systems and facilitate economic growth.

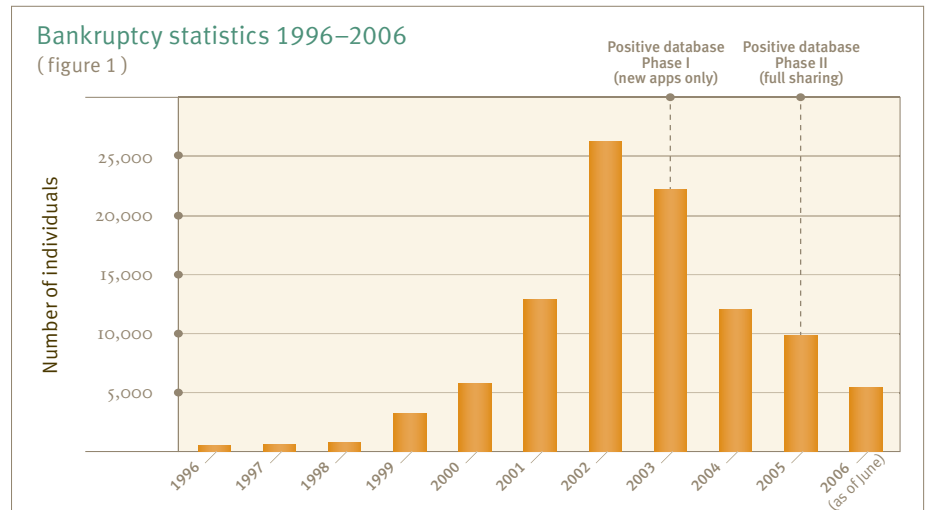
The results: positive data sharing proves beneficial for banks, consumers and the economy

After a first assessment of the results, the HKMA found that there were no signs of a credit crunch when the two-year moratorium set by the PCPD on limiting access to positive data expired in June 2005. In the Hong Kong Monetary Authority Quarterly Bulletin (March 2006), the HKMA reported that:

“With positive data sharing, financial institutions have fuller information to assess the credit worthiness of their customers, enabling them to avoid lending to borrowers who are already overextended financially. The institutions are also in a better position to control their losses in consumer credit business. After the introduction of positive data sharing in August 2003, the [credit card charge off] ratio declined steadily and stood at 2.95% in the third quarter of 2005, comparable to the level before the Asian [financial] crisis.”¹⁵

Regarding the benefits of positive data sharing for consumers, the HKMA also commented that:

“To the extent that positive data sharing reduces the credit loss of financial institutions, part of the benefits should be passed on to consumers in a competitive environment.



Overall, personal bankruptcies showed a decline after the moratorium on positive data sharing expired. SOURCE: Official Receiver's Office, The Government of the Hong Kong Special Administration Region

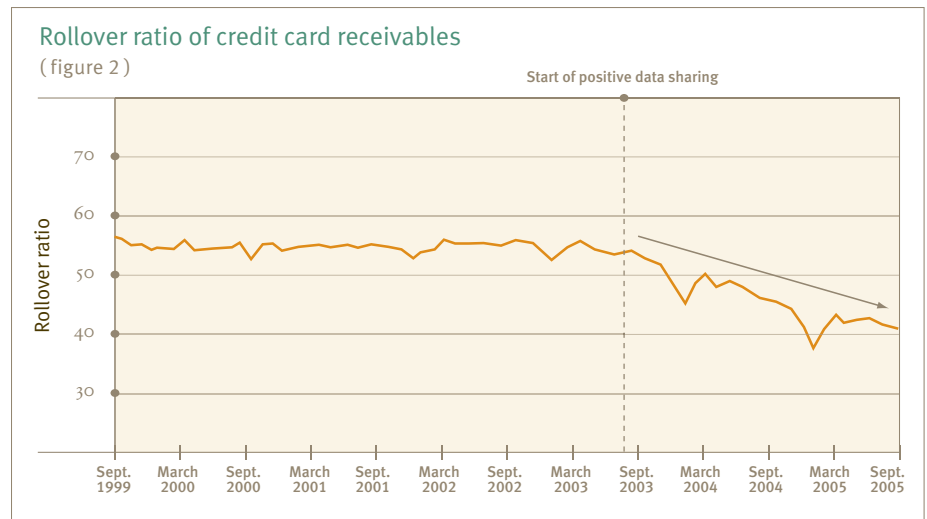
Consumers with a good credit record should benefit from lower costs in obtaining credit, whereas overextended borrowers should find it more costly to borrow. Eventually, the overall cost of consumer credit should decline, and there should be greater differentiation in interest rates as financial institutions

price credit according to the credit worthiness of individual borrowers. In addition, consumers should find it easier and quicker to have access to credit, resulting in a larger proportion of the population being able to obtain credit from financial institutions.”¹⁶

As previously mentioned, the start of positive data sharing in August 2003 through September 2005 showed clear benefits:

- Credit card receivables increased by nearly 10% from \$54 billion to \$59 billion.¹⁷
- Rollover amounts (borrowed amounts which cardholders have not fully repaid) decreased by 17% from \$29 billion to \$24 billion.¹⁸
- The rollover ratio (the percentage of rollover amounts to the total amount of card receivables) decreased by 13 percentage points from 54% to 41% (see fig. 2).¹⁹
- Individual unsecured credit (excluding credit card lending) loans increased by 38% from \$29 billion to \$40 billion from December 2003 to December 2005.²⁰

In addition, the market share of non-bank financial institutions that offer loans to consumers increased by five percentage points from 25% in December 2003 to 30% in December 2005.²¹ With access to both positive and negative information, these financial service providers were able to manage, price and aggressively market their loans to consumers at much lower interest rates.



Rollover ratio of credit card receivables showed a marked decline once positive data sharing was implemented.
SOURCE: Hong Kong Monetary Authority

Full-file reporting—using both negative and positive credit data—has shown many benefits, as can be seen in the first assessment of the Hong Kong market. Financial institutions can better control bankruptcy losses, offer more competitive rate loan products and increase responsible lending.

Consumers enjoy improved service, the ability to consolidate credit card debt, and lower interest rates as banks compete for their business; and the financial market opens to more non-bank financial service providers, encouraging economic growth.

¹ *Benefits of sharing positive consumer credit data*. Hong Kong Monetary Authority Quarterly Bulletin. March 2006: 9. <http://www.info.gov.hk/hkma/eng/public/qb200603/fa1.pdf> (accessed May 25, 2007).

² [Ibid.](#)

³ [Ibid.](#)

⁴ [Ibid.](#)

⁵ TransUnion

⁶ *Accentuating the positive: Sharing financial data between banks*. Agenda (Oxera). December 2005. [http://www.oxera.com/cmsDocuments/Agenda_Dec_05/Accentuating the positive.pdf](http://www.oxera.com/cmsDocuments/Agenda_Dec_05/Accentuating%20the%20positive.pdf). (accessed May 25, 2007).

⁷ [Ibid.](#)

⁸ [Ibid.](#)

⁹ *Benefits of sharing positive consumer credit data*. 5.

¹⁰ [Ibid.](#)

¹¹ [Ibid.](#)

¹² The Columbia Encyclopedia. Sixth Edition, 2001-2005. Columbia University Press. <http://www.bartleby.com/65/ba/bankrupt.html> (accessed July 20, 2007.)

¹³ [Ibid.](#)

¹⁴ *Benefits of sharing positive consumer credit data*. 5.

¹⁵ [Ibid.](#), 6.

¹⁶ [Ibid.](#), 7.

¹⁷ *Benefits of sharing positive consumer credit data*. 9.

¹⁸ [Ibid.](#)

¹⁹ [Ibid.](#)

²⁰ [Ibid.](#)

²¹ TransUnion



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