Back to the Future:
Real-time travellers
Thirty years ago, Marty McFly and Doc Emmett Brown travelled through time in a flying DeLorean to the ‘future’. We finally caught up with the ‘future’ on 21st October 2015. The actors, Michael J Fox and Christopher Lloyd from the Back to the Future trilogy, were featured on the Jimmy Kimmel show in the States poking fun at the lack of progress made by the human race over the last 30 years.

Doc Emmett Brown refers to himself in the film as “a student of all sciences”, therefore we can safely assume he studied Data Science at some point (at least for the purposes of this article anyway!). What, therefore, would he have made of the evolution in techniques used to evaluate the creditworthiness of customers over the last three decades?

CRAs in 1985
Doc would have travelled from a time where staff were employed at Credit Reference Agencies (CRAs) to take orders from lenders over the telephone, printing credit reports out on a dot matrix printer and then faxing them back to the customer. This was a time where an ‘express service’ was delivered in less than 24 hours! This, of course, met the need of our customers at the time. With the absence of the internet and email, applications for credit were typically made in branch, filling out paper forms or sent in by post.

CRAs today
Fast forward to the ‘future’ (2015) and things have progressed significantly. With the explosion of the digital age, information is everywhere and is required – and expected – much more quickly and efficiently. Teams of analysts are employed to build highly predictive statistical models.

These are deployed within automated decision engines, processing high volumes of data from a multitude of sources through complex decision routines in fractions of a second, to meet the needs of a customer, who can now apply via an ever increasing number of sophisticated channels.

But what about the frequency of updates to that data? Has any of this moved forward in the last thirty years? Application searches are recorded in real-time; however, loan performance has always traditionally been collected on a monthly cycle. This is because lenders submit their loan portfolios monthly to the CRA. Although the cycle is monthly, the CRA receives different lender performance information from one to the next. The recording of application searches means that lenders can be of whether consumers are applying for multiple loans on the same day. They won’t, however, be aware of whether those applications have led to multiple borrowing within the same period; in some cases, a new line of credit could take more than a month to become visible.

One of the barriers, of course, is lenders’ legacy systems being unable to report to the CRA more frequently. So, if you’re a Risk Manager reading this, should you be concerned? To put your mind at ease, current analysis completed on the real-time exchange indicates that only 1% of loans taken out are from different lenders on the same day.

Therefore does the frequency of loan reporting really matter?
The FCA believes so, at least when it comes to the High Cost Short Term Credit (HCSTC) market. These lenders operate predominantly within the online environment, where applications and decisions are made in seconds.

It has been well-publicised that the FCA has been fully focused on this market and has been encouraging these lenders to share and use real-time data. The loan terms offered by this sector are typically much shorter than standard offerings, which mean several loans could be taken out by the borrower in between the usual monthly reporting cycles. If HCSTC firms are not using real-time data, they need to demonstrate to the FCA how they are factoring consumers’ up-to-date credit commitments into their affordability assessments.

An evolutionary process
The tightening of regulation has therefore pushed the HCSTC market to the forefront of the evolution of real-time reporting. Some within this industry may now argue that they have a more up-to-date view of their customer than a bank or a credit card provider, which is true to some extent, however, it is of course limited to the product line shared in real time by their market.

Equifax has always evolved to meet the needs of its clients. In response to the FCA focus on real-time data sharing, we released the Equifax Real-time Exchange in September 2014. Initially created to meet the requirements of HCSTC providers, this software has in fact been designed to support all types of lending, including dual applicants and guarantor loans. Increasingly we are seeing interest from other markets.

Craig Tebbutt, Head of Alternative Lending at Equifax, explores how data science has evolved over the past three decades and where it could be headed next.
The service provides real-time visibility throughout the entire loan cycle, which helps lenders to complete robust affordability assessments and to reduce the risk of fraud while providing better outcomes for their customers. Real-time data sharing is made as easy as possible, either via an Application Program Interface (API) link or daily batch upload accepted in all market formats.

**What does the future hold?**

Will we see a future where lenders across all sectors provide portfolio updates in real-time? This would present an IT challenge for many clients, but this would ultimately be driven by a combination of business and regulatory requirements.

We have come a long way in the last thirty years. In the final instalment of the Back to the Future trilogy, Doc Emmett Brown travels back to the old west in the 1800s. Had he ventured over to Atlanta at that time, he may have bumped into a couple of brothers, Guy and Cator Woolford, as they were busy setting up the world's first CRA, Equifax. I wonder what they would have made of the mad Data Scientist if he shared stories of decision engines, sub-second response times and real-time data sharing?

If you would like to learn more about the Equifax Real-time Exchange (or, indeed, our thoughts on time travel), please contact Craig Tebbutt at craig.tebbutt@equifax.com or on 07920 083 535.