

A diverse group of people of various ages and ethnicities are smiling and standing together. A white speech bubble with red text is overlaid on the right side of the image.

HOW TO ASSESS THE CREDIT RISK OF NEW IMMIGRANTS

Attract and retain more high-quality customers while reducing your risks.



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EXECUTIVE SUMMARY

With approximately 250,000 new immigrants arriving in Canada every year, financial institutions have a big opportunity to build long-term relationships with this growing customer base. Gaining insight into their credit history is key to offering them the right financial products while minimizing your risk. However, it's often hard to assess this population's risk due to their lack of a Canadian credit history.

Equifax's New Immigrants Study¹ revealed that these customers are often a wise investment. The study shows how new immigrant credit rankings will fare over the course of three years and offers key insights into their financial behavior.

This white paper highlights findings from the study – including insights about new immigrant delinquency rates and credit scores. You'll also learn how to make accurate assessments about this population, so you can confidently approve more customers and drive sales.

THE BIGGEST MISCONCEPTION ABOUT ISSUING CREDIT TO NEW IMMIGRANTS

Between 2006-2011, approximately 1.2 million people immigrated to Canada.

One of the first things these newcomers do is apply for financial services. They must open financial accounts to secure housing, car loans and phones. When they establish credit, they integrate into the Equifax payment system and start to build a Canadian credit history. According to the study, new immigrants begin their financial activity with banks and credit unions. As time goes by, they use other financial products.

¹ The study is based on a sample of approximately 114,000 new immigrants identified within the Equifax database, who may have immigrated to Canada between 2010 and 2011. Their credit behavior was observed over a 36-month time window.

Institutions are competing hard for this key market, as nearly 80% of new immigrants obtain their first financial product from one of five major Canadian banks. All of the Big Five are using a multi-channel approach to promote their offers to new Canadians, ranging from traditional print, radio and television campaigns to one bank establishing exclusive access to parts of the international airport in Toronto.

Despite intense competition, financial institutions have historically taken a very cautious approach to engaging new Canadians – resulting in a suite of offerings founded on a highly conservative view of newcomer creditworthiness. This point of view is ‘sticky’ and tends to hold even after more information about the newcomer becomes available.

However, the results from our New Immigrants Study suggest that newcomers are wise investments. When given the opportunity, new immigrants tend to prove that they are good customers – maintaining low delinquency rates and obtaining financial products from multiple institutions. According to the study, **the credit card delinquency rate for new immigrants is over 20% lower than the national average for the general population.**

In addition, a credit risk score analysis of this population suggests that after 24 months, new immigrants have a slightly higher credit score than the average population adjusted for age.

NOT HAVING A WAY TO ACCURATELY ASSESS NEW IMMIGRANTS IMPACTS YOUR BOTTOM LINE

These findings show that new immigrants are often wise investments. However, obtaining their credit history so you can accurately assess their risk is difficult.

Financial institutions have tools to conduct inquiries on 80% of the population. However, you likely don’t have a way to assess the 20% of the Canadian population that includes new immigrants. In many cases, this makes it impossible to gather data such as their balances, utilization, public records, bankruptcy filings and inquiries from other lenders.

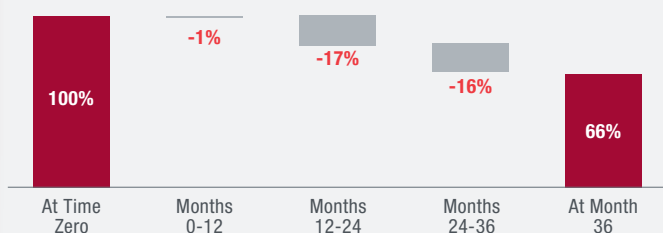
Without an accurate assessment to limit your risk, your institution may offer them collateralized loans or a “starter” credit card with a low limit. If the new immigrant does well with these products, you’ll offer them something better in the future.

However, new immigrants won’t wait too long for you to offer them something better. A significant number of first credit cards adopted by new immigrants are closed or become inactive by the second or third year – or they remain open with low usage.

THE CREDIT CARD DELINQUENCY RATE FOR NEW IMMIGRANTS IS LOWER THAN THE NATIONAL AVERAGE.

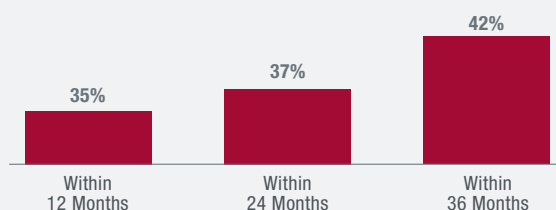
New Canadian close 34% of total credit card trades within 36 months...

Open vs. Closed Credit Card Trades



...while more than 40% of trades that remain open are not used

Share of Open Trades that are Inactive (Multi-period Zero Balance)



Consumers who let their first credit cards become inactive or closed will look for credit elsewhere. About half of them obtain at least one new credit card, often two. The majority of the new cards are not opened with the same financial institution as where the first credit card was obtained. As outlined in the chart below, only 29% of new immigrants renew with the same company. The rest get their second card from a different institution – more than doubling their credit limit from \$1,575 on the first card to \$3,854 on the new card.

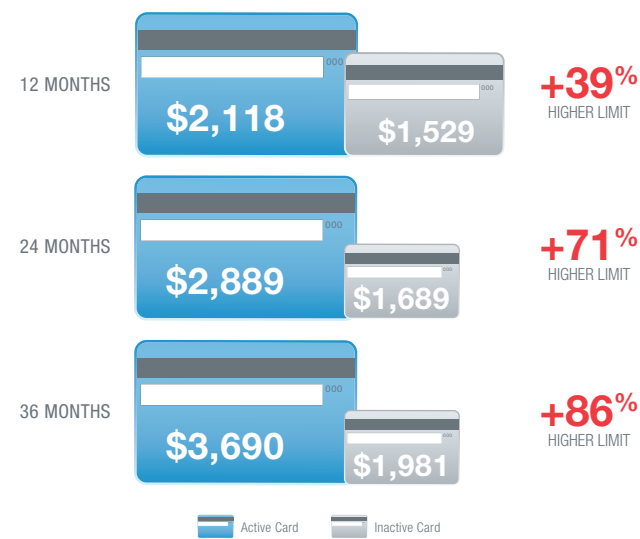
ABOUT HALF OF NEW IMMIGRANTS
WITH AN INACTIVE OR CLOSED
CREDIT CARD STILL NEED THIS
PRODUCT, SO 71% OF THEM FIND IT
WITH A NEW FINANCIAL INSTITUTION
AND AT A HIGHER LIMIT.

For those credit cards that remain open, when comparing active and inactive cards in terms of their limit, utilized cards tend to have a higher limit. This suggests that a lower limit is one reason for non-usage. These results suggest that new immigrants look for other options as their original products fail to meet their changing needs. They tend to find better options with new financial institutions.

The first three years are critical to establishing customer relationships. **If you don't meet new immigrants' needs, the majority will stop using your products and go to your competitors within a year.** This can greatly impact your bottom line, as you won't have the opportunity to deepen relationships with newcomers. For example, you'll miss the opportunity to cross sell them stickier credit products – such as mortgages – and eventually capture their wealth management business.

In addition, landed newcomers represent an important cohort of influencers who could steer the choices of subsequent waves of immigrants. If those 'not so newcomers' believe that they have been underserved, they will be less likely to speak positively about their overall experience. This will not only harm your relationships with new immigrants, but it will also impact sales from the general population.

However, there is now a way to accurately assess new immigrants...



CONSUMERS WITH CLOSED OR INACTIVE FIRST CREDIT CARDS					
	Average Limit of First Credit Card		New Credit Card Opened	New Credit Card opened with Same Company as First Credit Card	
			% of Consumers	% of Consumers	Average Limit
12 Months	\$1,575	➔	46%	29%	\$3,854
24 Months	\$1,752		55%	34%	\$4,348
36 Months	\$1,958		47%	45%	\$5,096

MINIMIZE YOUR RISKS WHILE PROVIDING NEW IMMIGRANTS WITH HIGHER LEVELS OF SERVICE AND PRODUCTS THEY NEED

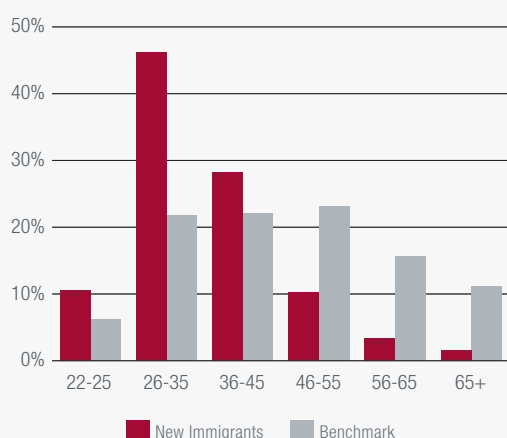
A risk score gives you insight into individuals – such as new immigrants – who have minimal credit histories. This takes the guesswork out of inquiries, so you can better assess a new immigrant's level of risk and offer them the right financial products.

When you have a risk score, you can:

- Reduce your risks by attracting individuals who have the ability to pay
- Understand the short- and long-term financial behavior of new immigrants, so you can build proper lifecycle risk strategies
- Offer low-risk immigrants a better package for their first account, so they will be more likely to stay with your institution throughout the years
- Develop strategies and products for new immigrants to build long-lasting customer loyalty
- Increase your share of wallet in the marketplace

Since 56.7% of new immigrants are under the age of 35, you have a huge opportunity to win them as lifelong customers.

**New Immigrant Profile:
Distribution by Age**



5 KEYS TO BUILDING LONG-LASTING RELATIONSHIPS WITH NEW IMMIGRANTS

Our study found that companies vary greatly in their ability to attract new immigrants. This may be due to their strategy, competitiveness or how attractive their products are to this population segment.

Understanding the financial behavior of new immigrants in both the short and long term is key to building strategies with appropriate risk mitigation. Analysis suggests that this segment can prove to be a good and responsible investment for financial institutions. If appropriate strategies and products are used, both parties could benefit.

Here are five ways you can attract new immigrants and retain their business in the long-term:

1. Provide a great customer experience.

Don't wait for new immigrants to ask you for more credit. If you aren't proactive, you'll lose them to your competitors. New immigrants quickly show themselves to be good or bad credit risks, and you should court the good ones for their business. Don't deny them what they need ... or your biggest risk will be that they take their business elsewhere.

2. Understand the newcomer journey.

Consider the job that newcomers are trying to do ... building a stable life in a new country. The credit-building journey is part of this job. Offer new immigrants a program or process that helps them build their new lives.

3. Offer programs or processes ... not products.

Instead of thinking in terms of 'products', think about what programs or processes you can offer new immigrants to help them smoothly transition to their new lives in Canada. For example, you can offer new immigrants a temporary credit card with a low limit. If they make their payments on time for the first six months, you can automatically switch their account to a better product with a higher limit. This will help them achieve their larger financial goals.

4. Define specific account management and contact strategies specific for newcomers.

Consider monitoring newcomers. Manage their onboarding and franchising as a distinct cohort to prevent them from "falling through the cracks". It's also important to stay on top of this segment's changing needs, so you can build long-term relationships with them.

5. Consider the 'not as new' to Canada opportunity.

Our study suggests that the newcomer wallet is active. They add and remove accounts, shuffling the order of the items in their wallets. Consider how you can capture more of this wallet and how you can protect your first- in-wallet positions.

SCORE COMPLETE™ PROVIDES A FULL VIEW OF NEW IMMIGRANTS, SO YOU CAN DRIVE OPPORTUNITIES, APPROVALS AND BUSINESS

With Equifax's Score Complete, you can gain insight into new immigrants and others who do not have lengthy credit histories.

Score Complete is a consumer delinquency score that predicts the likelihood that a consumer will have a 90+ day delinquency (or worse) within the next year. Score Complete begins with the predictive power of the Equifax Risk Score (ERS) for strong credit files. It is then augmented with scorecards based on alternative data sources for the applications that ERS 2.0 does not score.

For files with limited credit information – such as new immigrants - Score Complete uses data from sources that are not aggregated by other credit scores, including:

- Neighbourhood street level data
- Older trades and inquiries
- Telco trades

Score Complete can be used by itself as a complete delinquency score or in conjunction with another credit score. It returns a score virtually every time, unless there is problem with the input address.

With Score Complete, you can:

- **Streamline your decisions.** Make informed, consistent decisions on all new immigrant applications.
- **Identify prime customers.** With insights you gain from Score Complete, you won't be "in the dark" about which customers are safe investments. This allows you to build business with good customers.
- **Foster loyalty.** Create a sense of loyalty with new Canadians and make your products "first in their wallets".
- **Adjudicate with ease.** Score Complete works like a traditional risk score. It uses the same 300 to 900 credit score range, so you don't need to revise your existing risk levels.
- **Increase your approval rates.** Attract more high-quality customers while maintaining acceptable levels of risk.

Score Complete is only available through Equifax. No other institution or credit bureau offers this level of insight into new immigrants.

NEXT STEPS

Gain insight into your newcomer applicants, so you can drive approvals and foster loyalty with this growing market segment. Let Equifax help you assess the credit risk of new immigrants.

ABOUT EQUIFAX

Equifax empowers businesses and consumers with information they can trust. A global leader in information solutions, we leverage one of the largest sources of consumer and commercial data, along with advanced analytics and proprietary technology, to create customized insights that enrich both the performance of businesses and the lives of consumers.

Businesses—large and small—rely on us for consumer and business credit intelligence, portfolio management, fraud detection, decisioning technology, marketing tools, and much more. We empower individual consumers to manage their personal credit information, protect their identity, and maximize their financial well-being.

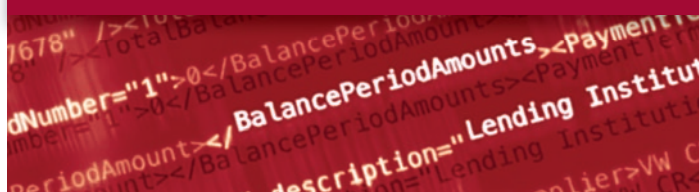
Headquartered in Atlanta, Equifax Inc. operates in the U.S. and 15 other countries throughout North America, Latin America, Europe and Asia. Equifax's common stock is traded on the New York Stock Exchange under the symbol EFX.

ABOUT THE AUTHOR

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Regina's background is in statistical analysis, campaign management and research with over 15 years of experience across various industries. Before joining Equifax as Director of Modeling and Analytics, she held senior analytics and customer and data insights roles at various organizations including Bank of Montreal, Loyalty One, and Intact Insurance (formerly ING Insurance). Regina brings knowledge from many industries including retail, financial, pharmaceutical, CPG and insurance. In her past roles, she developed statistical solutions, oversaw analytical and measurement projects, and assisted in the specification of best CRM practices related to campaign management, business intelligence application and data mining, ensuring optimal targeting for marketing communications. Regina holds a Master of Science degree in Statistics.





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