Commercial Credit Data Sharing (CCDS)

The lender's perspective: how you can use this data to lend to SMEs

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Executive Summary

Thinking back 10 years, when asked about the key strengths of their organisation, leaders of SME lending businesses may often have spoken of their staff, customer and intermediary relationships, low cost of funds, customer base, sometimes of systems – never of data. Roll forward 10 years and we're in a position where the ability to absorb, analyse and deploy data-informed activities in a practical, customer-centric, value-adding way is likely to be as important over the next decade as any of the other attributes…

Commercial Credit Data Sharing (CCDS) is a government initiative mandated under the Small Business Enterprise & Employment Act 2015, with the aim of actively stimulating competition and new entrants in SME lending markets. Building on the value of information already provided by credit reference agencies (CRAs), CCDS requires nine major banking institutions to make available detailed business current account data and up-to-date information on the performance of business loans and corporate credit cards for all their SME customers. This rich new stream of data supports new lending and competitive opportunity for non-bank lenders. It is due to go live in the second half of 2017.

CCDS covers SMEs with turnover up to £25m and can provide wide-reaching benefits for lenders. These include improvements to underwriting decision quality, pricing, income opportunities, customer and intermediary experience, risk management, process streamlining and reduced operating costs. The importance of CCDS may be further reinforced through new voluntary lending standards being introduced by the BBA and UK Cards Association. A series of use cases are outlined in this paper.

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The benefits should be significant, quantifiable and achievable within the business model of established finance providers. Since CCDS represents a mandatory flow of data that will, over time, cover materially all of the active SME population (thanks to reciprocity rules it is estimated that over 100 financial institutions will become data providers), mainstream business processes and data structures can be developed based on these data flows. New forms of interaction with customers and intermediaries can be developed for adoption throughout the business, rather than for a small proportion of customers.

This draws a clear distinction between CCDS and Open Banking or the Second Payment Services Directive (PSD2), which is more inclined to drive new customer-intimate business models but, being consent-driven, may result in smaller initial usage volumes and a slower return on investment.

The benefits of CCDS are substantial and the business case should be strong, though it will necessitate a willingness to adapt existing practices, a dedicated implementation programme and top-down executive sponsorship. The DNA of a SME lender is changing inexorably, especially for those looking to operate at scale. CCDS can be a foundation stone of a new form of customer intimacy inspired by the possibilities of customer-centric data, related analytics and new technologies.

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Context – government intervention to increase competition in the SME lending market

In December 2013, as part of efforts to stimulate competition and the conditions for successful new entrants to the SME Lending market, the government released a consultation paper entitled "Competition in banking: improving access to SME credit data"[1]. Its findings would later be enshrined in the Small Business Enterprise and Employment Act 2015 (SBEEA) which, in due course, has led to important new data being made available to SME lenders under the CCDS programme.

The consultation paper recognised a number of key points, including that the four largest banks held an 85% market share of the SME lending market and that "such high concentration levels are bad for consumers and business", highlighting a determination to "see a step change in competition in the UK banking market". The consultation's findings were supported by other research of the time. "Small and Medium-Sized Enterprise (SME) Journey Towards Raising External Finance"[2], a study commissioned by the British Business Bank and published in October 2013, showed that 71% of SMEs contacted only one supplier when seeking finance; that in the majority of cases that supplier was the bank providing their current account; and that 40% gave up their search for finance at their first rejection. At the same time, the "SME Finance Monitor"[3] tracking research published by BRDC Continental showed banks declining 56% of first-time loan requests. While borrowing conditions may be more benign in 2017, it is not difficult to understand that in times of economics stress, the prevailing concentration of SME banking can have profound macro-economic impacts on the UK's small business sector that are unattractive to policy-makers.

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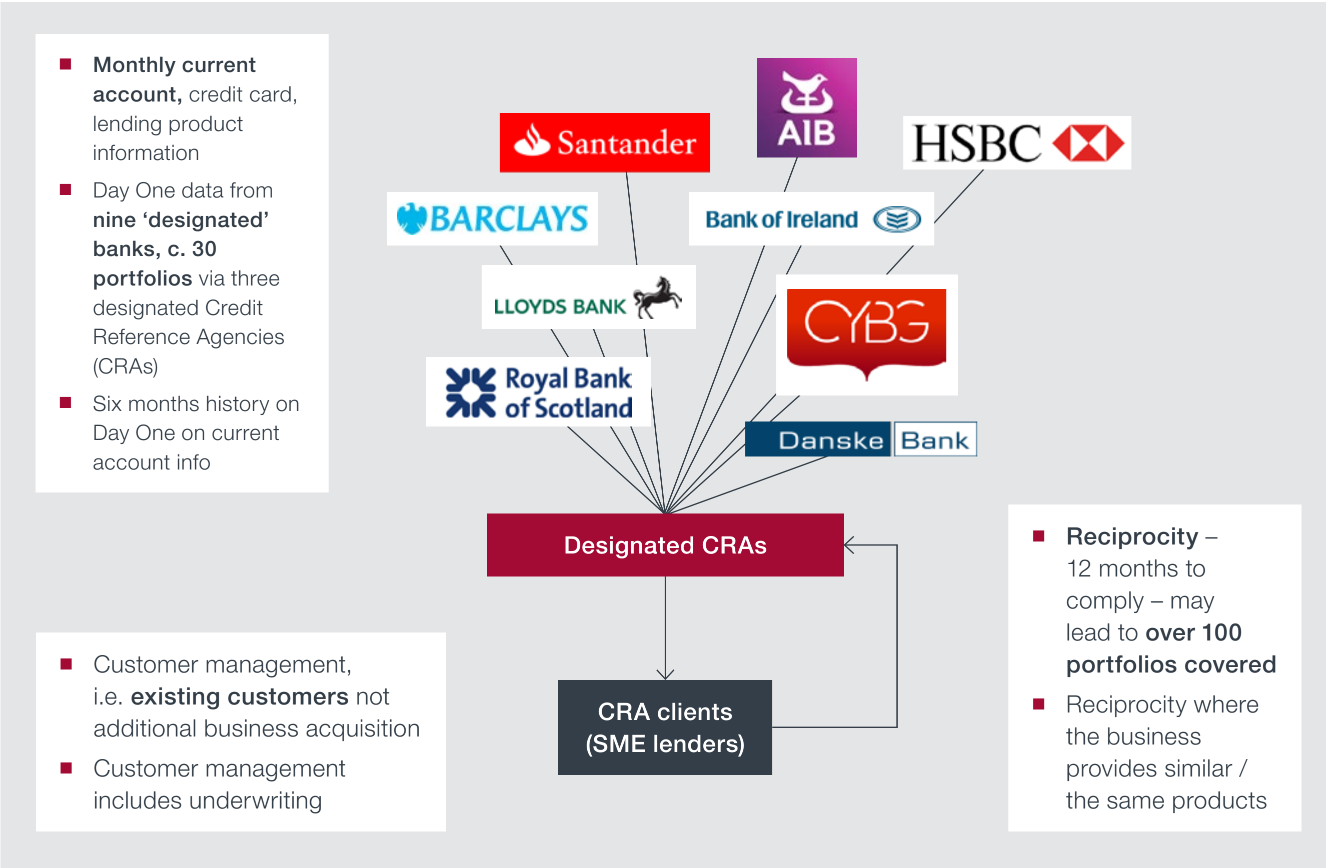
CCDS fits within a raft of connected measures introduced by policy-makers and regulators. Another flagship development introduced under the SBEEA was the designation of online platforms which now receive details of SMEs that have been unsuccessful in getting a facility from one of the main banks and then redistribute the information as a lead to alternative lenders able to support that business. The scheme went live in November 2016. To be delivered in tandem with CCDS, the Act has also led to the release of non-financial VAT information on companies, which will assist in the fight against fraud and help CRAs consolidate disparate data sources, especially for unincorporated entities and micro-businesses. Separate regulatory developments are opening up opportunities for new, personalised business models for SME lenders through Open Banking (January 2018) and PSD2 (November 2018).

Structural changes in the way we work mean the opportunity for SME lending has never been greater. Since the year 2000, the number of UK private sector businesses has grown steadily from 3.5m to 5.5m, averaging 3% growth per annum. Growth has been concentrated in the micro-business sector, predominantly in non-employing limited companies. There are now 5.2m companies with fewer than 10 employees. Each has a potential working capital or borrowing requirement but with the ability to deliver simple or abbreviated accounts at Companies House and limited credit history (sometimes known as 'thin file' applicants), traditional credit report information on these businesses can be insufficient to make a positive lending decision. CCDS fills a significant gap that can help lenders and borrowers alike.

New data available through CCDS

CCDS data will be captured and available on a monthly basis under a tri-partite arrangement involving the government, major banks and designated CRAs. The CRAs will consolidate the data and be able to distribute it to their clients, specifically SME lenders. The arrangement is summarised in the graphic below.



Under the agreement, terms of use allow for 'Customer Management' but not for marketing to new clients. Critically, given the nature and potential value of the data, 'Customer Management' includes the underwriting and onboarding stage. Current account information provided under CCDS can be particularly powerful when underwriting small businesses, especially unincorporated entities, where existing credit reports hold limited information.

Day One release of the data will provide a six-month history of current account data. As a result, lenders will have an immediate view of the ongoing liquidity and account behaviour of the prospective customer. Other lending data will be provided on a go-forward basis.

There are three main areas of data provided under the scheme:

- Current accounts
- Credit cards
- Loans and asset finance.

Data is provided individually for each facility, by each contributing institution.

DATA TYPE	COMPANY	BUSINESS CREDIT CARDS**	LOANS AND ASSET FINANCE**	BUSINESS CURRENT ACCOUNT**
Selected data points*	Name Address CRN Phone Trading style VAT number	Start date + close date Current balance Credit /overdraft limit Facility status Original default balance Default satisfaction date Number of cash advances Value of cash advances	Start date + close date Current balance Credit /overdraft limit Facility status Original default balance Default satisfaction date Facility type Payment amount Payment frequency Repayment period	Start date + close date Current balance Credit /overdraft limit Facility status Original default balance Default satisfaction date Minimum balance Maximum balance Average balance Credit turnover Debit turnover Rejected payments Days in excess

For more information and a full list of all data items, please refer to the 'The Small and Medium Sized Business (Credit Information) Regulations 2015' document[4], which is available at: http://www.legislation.gov.uk/uksi/2015/1945/pdfs/uksi_20151945_en.pdf.

* Note: for illustration purposes. Additional data points are included in the CCDS

** Separate information is provided on each facility held by the SME with participating finance providers

Some comparable data is already available to lenders under existing reciprocal schemes. However, CCDS offers greater breadth and depth. Each individual facility held by the SME is reported to provide a fuller picture of the customer's overall financial position, with the list of loan and asset finance products covered highlighted in the table below. CCDS data is likely to gain further power when integrated with existing credit reference information and a lending firm's own analysis and behavioural data.

LOAN AND ASSET FINANCE PRODUCTS WITHIN THE SCOPE OF CCDS
HP, lease purchase, conditional sale
Unsecured loan
Mortgage
Secured loan or second mortgage
Credit Sale Fixed Term
Fixed Term Deferred Payment
Variable subscription
Finance lease
Operating lease
Flexible mortgages
Consolidated debt
Primary lease
Secondary lease
Dealer buy-back
Fixed term account
Variable term account
Contract hire

Under agreed rules of reciprocity, recipients of the CCDS data will be required to start to provide equivalent data within 12 months of receiving the data. Once these reciprocal arrangements are in place, it is expected that information will be enhanced by an estimated additional 100+ data contributors, providing an extensive view of the SME's full set of exposures and financial behaviours.

Driving value for commercial lenders

CCDS provides significant benefits for SME lenders. Data may be delivered in raw form, though the CRAs are likely to generate additional insights based on CCDS and other data they hold, which will ensure lenders can easily adopt this new data source.

Most obviously, the richness of newly available data should improve the quality of underwriting decisions, especially for less financially active SMEs, unincorporated entities and micro-businesses. It will also allow a more complete assessment of larger SMEs, where bank accounts and other facilities are likely to be sourced from a wider range of suppliers.

A broad view of how CCDS data can be used highlights a number of other benefits for the lender. There are opportunities to streamline processes and improve the experience of customers and intermediaries. Removal of process friction reduces costs and increases speed, creating competitive advantage that drives higher proposal volumes. There are significant benefits in terms of risk management. Current account information can be analysed automatically and incorporated into risk models. Assessments of viability and affordability can become more clearly measurable and auditable. Underwriter time can be released to improve productivity. Speed of credit decision turnaround is increased. Fraud risk is reduced relating to tampering of bank statements and through account monitoring of customers and their suppliers.

While it would be possible for lenders to take CCDS only at the underwriting stage, maintaining the CCDS data feed throughout the life of each customer engagement can provide additional benefits. These fall into three distinct but connected categories: risk management, treasury support and income generation. Risk management is enhanced by maintaining close attention to ongoing liquidity and affordability for customers, and taking appropriate actions at a transactional, portfolio and policy level. The availability of enhanced risk data on clients, especially if it follows a common format across the market, should create new potential to attract treasury funds, including greater opportunity for securitisation. New areas of income generation are created by understanding the breadth and depth of the customer's financial activities, and in responding to their changing circumstances as identified through the data.

The amalgamation of business current account information and broad range of lending exposures gives a fuller view to assess liquidity, financial commitment, behaviours and affordability. This informs both whether a lender should offer a credit acceptance and the appropriate pricing of that risk.

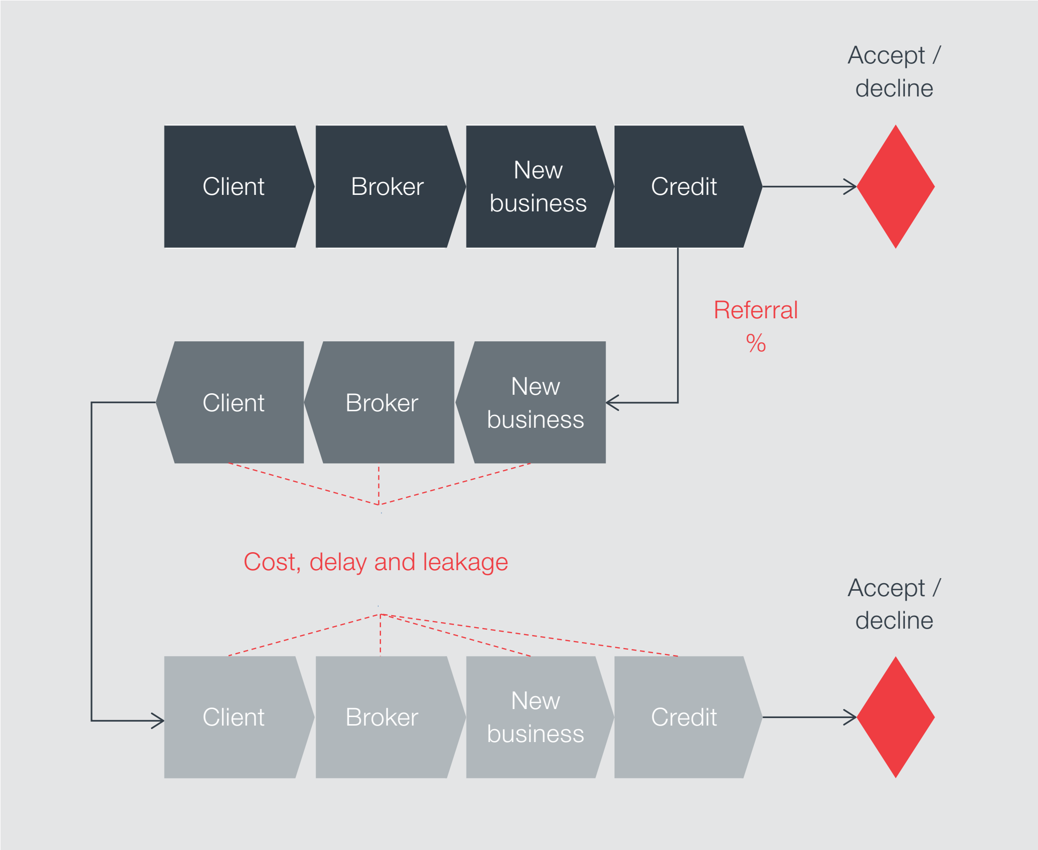
Use cases to drive practical benefits for SME lenders

The following use cases have been designed to demonstrate areas of potential benefit for SME lenders. They are centred on common issues faced by lenders, recognising that each lender will be at a different stage of maturity in terms of its data analysis and processing sophistication.

New business processing

Whether direct from the end customer or via a broker intermediary, a significant proportion of SME borrowing proposals require additional information before the lender can make the underwriting decision, and are referred back to the customer or broker for that information. Often, the missing information is the provision of bank statements to show that the loan repayment is viable.

There are several impacts of this referral. The potential for "leakage" is high, where the broker or end-customer does not proceed with the proposal. The hidden cost of lost business to the lender can be significant. Its impact can be modelled using system-held data and working with the credit team. In some cases, this benefit alone may be sufficient to justify the business case for adoption of CCDS.



Re-work costs within the credit department are tangible and can be substantial, on top of the resource savings made possible by converting manually analysed data into a digital environment. The streamlined new business process improves the experience for customers and brokers, who are liable to increase their flow of proposals as it improves their own proposal process efficiencies.

CCDS offers a number of data points which will help to determine the correct course of action based on the customer's situation, which can drive improvement in collections performance.

Collections management

For some lending businesses, once the credit decision is taken and a loan is paid out, the only contact between lender and borrower is the process of regular repayments, and no further monitoring of the customer's financials status is deemed necessary or takes place. However, if the customer defaults, it can be difficult for the case handler to know whether the customer can't pay (in which case forbearance may be appropriate) or won't pay (in which case a more robust approach to debt management may be required).

CCDS offers a number of data points which will help to determine the correct course of action based on the customer's situation, such as monthly average, minimum and maximum balances; credit and debit turnover (net and gross); rejected payments and days in excess of any agreed limits. These data points can drive an improvement in collections performance and more rapid case resolution (both of which could be modelled for the purposes of a business case), as well as giving greater control and confidence to the case handler.

Satisfying new lending standards on managing SME financial stress

The UK Finance is introducing new "Standards of Lending Practice"[5], on a voluntary basis, which will require financial institutions to monitor the financial wellbeing of their customers and affordability of outstanding debt facilities on an ongoing basis.

The standards are likely to impose on many firms to collect a range of liquidity and product tracking data to fulfil specified credit monitoring requirements, namely:

- "Business customers will be supported by pro-active and reactive measures designed to identify signs of financial stress"; and
- "Firms will achieve this: with systems and controls … capable of identifying…signs of financial stress **at any point in the customer life-cycle"**

Ongoing receipt of CCDS data should assist firms in complying with these standards, developing a monthly time series for each customer able to track liquidity, affordability and signs of stress. For example, relevant data points may include average and minimum current account balance, days in excess of overdraft limit, number of rejected payments, and so on.

Effective from 1 July 2017, the new standards cover lending to entities with turnover up to £6.5m and simple ownership structures, the large majority of UK entities. The scope of the initial release will cover overdraft, loans, credit and chargecards; it is reported that future releases may cover other products including asset-based and peer-to-peer (P2P) lending.

As the BBA and UK Cards consolidate with four other trade associations to form 'UK Finance', adoption of the new standards may be extended. Equally, there may be knock-on impacts for other sectors and trade associations, especially in sectors where bank subsidiaries are major market participants, such as asset finance.

CCDS data combined with other factors, such as account behaviour data, enhances the ability to spot trends quickly and respond to changing conditions across different segments.

Early warning data for an agile credit policy

Different customer segments respond differently to economic and market conditions. Especially in sectors with short product cycles or in periods of significant technological or economic change, the ability to time changes to credit policy can be essential to maximise new business and portfolio performance; either in terms of increasing or decreasing business within a given segment.

Traditionally, lenders may combine portfolio performance data with economic, treasury and strategic insights to modify their credit policies. Reliance on actual default or bad debt experience can prove to be too late, especially if new business origination continues apace. Equally, traditional credit reports rely heavily on historic, reported financial performance which is limited in its detail.

By providing liquidity data on a monthly basis, CCDS data allows a lender to build an ongoing picture of the resilience and liquidity of each of its customers. Combined with other factors, such as account behaviour data, this enhances the ability to spot trends quickly and respond to changing conditions across different segments or customer sub-groups, however they may be defined.

The ability to accelerate credit policy decisions can drive an increase in performing loans and reduce exposure in areas of increased risk. Pricing can be modified in response to emerging risk positions. The net effect of these actions should be an improvement in through-the-cycle business unit profitability. While it may be difficult to prove definitively, relatively small policy adjustments may represent a significant change in bottom-line profit, which should be modelled and included in the business case.

Another important impact of this approach is the potential to increase confidence of executive management who hold the mandate to determine how scarce capital is deployed between competing business units.

By providing liquidity data on a monthly basis, CCDS data allows a lender to build an ongoing picture of the resilience and liquidity of each of its customers.

Combining CCDS with already-held demographic and behavioural information provides a detailed view of the customer which creates new opportunities throughout the life of the customer relationship.

In-life cross sell/upsell

CCDS data taken at the underwriting stage immediately provides a wide view of a SME's other financial facilities and exposures; including facility type, start and end dates, balances outstanding, period of repayment, payment amount and frequency provided for each lending product held. As reciprocity arrangements kick in, the extent of CCDS data coverage will continue to grow providing an expansive view of product holdings. Combining this with already-held demographic, behavioural and system-held information provides a detailed view of the customer that is dynamic and creates new opportunities through the life of the customer relationship.

It's not difficult to see how a lender could use CCDS data within the agreed scheme rules to tailor communications that create in-life commercial opportunities. For example, this may involve adaptation of generic information, such as welcome packs, statements and end-of-term communications; and can be supplemented by activities such as outbound customer management calls, event-driven product campaigns or surveys that identify future buying programmes and decision criteria.

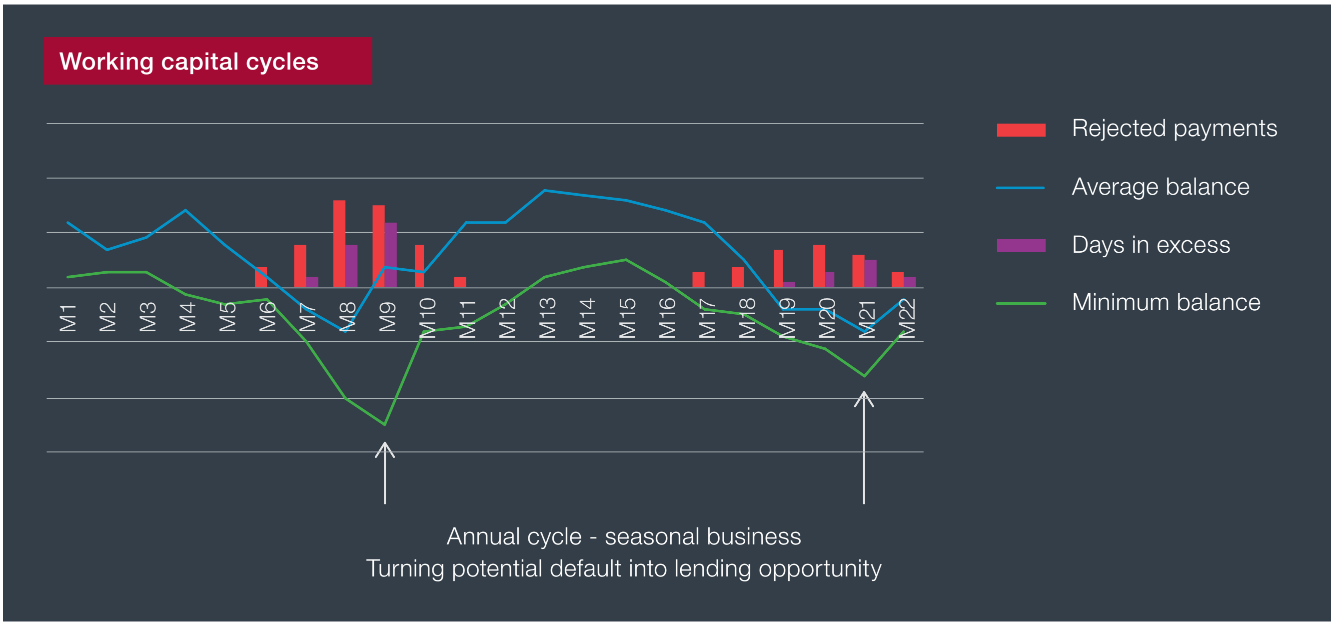
Communications may highlight acquisition pricing and other favourable commercial terms (such as a pre-approved credit line) in order to stimulate switching behaviour or increase share of wallet. Products with low exit barriers may be particularly vulnerable. Data-driven, campaign-based activities should be measurable and performance assessed for each tactical approach. Quantifiable business case considerations may include increased new business incomes and improved marketing ROI, which can be modelled.

New products

CCDS gives a lender much greater understanding of the financial holdings of its customer base and, in turn, the opportunity to quantify the potential to grow new business incomes through product range extension.

In tandem, and perhaps particularly relevant for the delivery of short-term working capital products, by tracking changes in the SME's financial position on a monthly basis, CCDS also provides insight on the timing requirement for those products. It's quite possible that a SME with a four-year lease on its office equipment is likely to consider product replacement at the end of that period. There will be some predictability and signs of repeat financial behaviours for seasonal businesses who need to pay staff and invest in stock during the low points in their annual cycle. Small businesses providing goods or services to large corporate customers may face significant working capital requirements which are compounded by the trade terms imposed on them by these customers. Many businesses will face a quarterly VAT bill that on occasion may be best smoothed over a three-month period.

Whether or not working capital weaknesses are predictable as part of the individual company's business cycle, without the availability of an appropriate facility, the SME could potentially default on other financial commitments, such as a medium-term borrowing facility requiring regular repayments. Such default favours no-one, especially if the underlying liquidity and prospects for the borrower are sound. Even if the default is fully resolved, the customer's credit status is damaged, the lender-borrower relationship is put at risk and the lender has incurred additional operating costs. Instead, given its knowledge of the customer's financial status, that same lender could have pro-actively offered a short-term payment holiday or a working capital facility that would both protect its existing exposure and generate new lending incomes.



Business case elements for this type of approach may include incremental lending volume profitability, reduced default on existing loan portfolios and an increase in both customer lifetime and product holdings. At a strategic level, the approach highlights how data and analytics can help the lender transition to a data-enabled relationship model, using analytics to drive insights that add value to the customer.

In contrast to Open Banking and PSD2, which are consent-driven, CCDS represents a mandatory flow of data that will over time cover materially all of the active SME population.

Factors affecting adoption

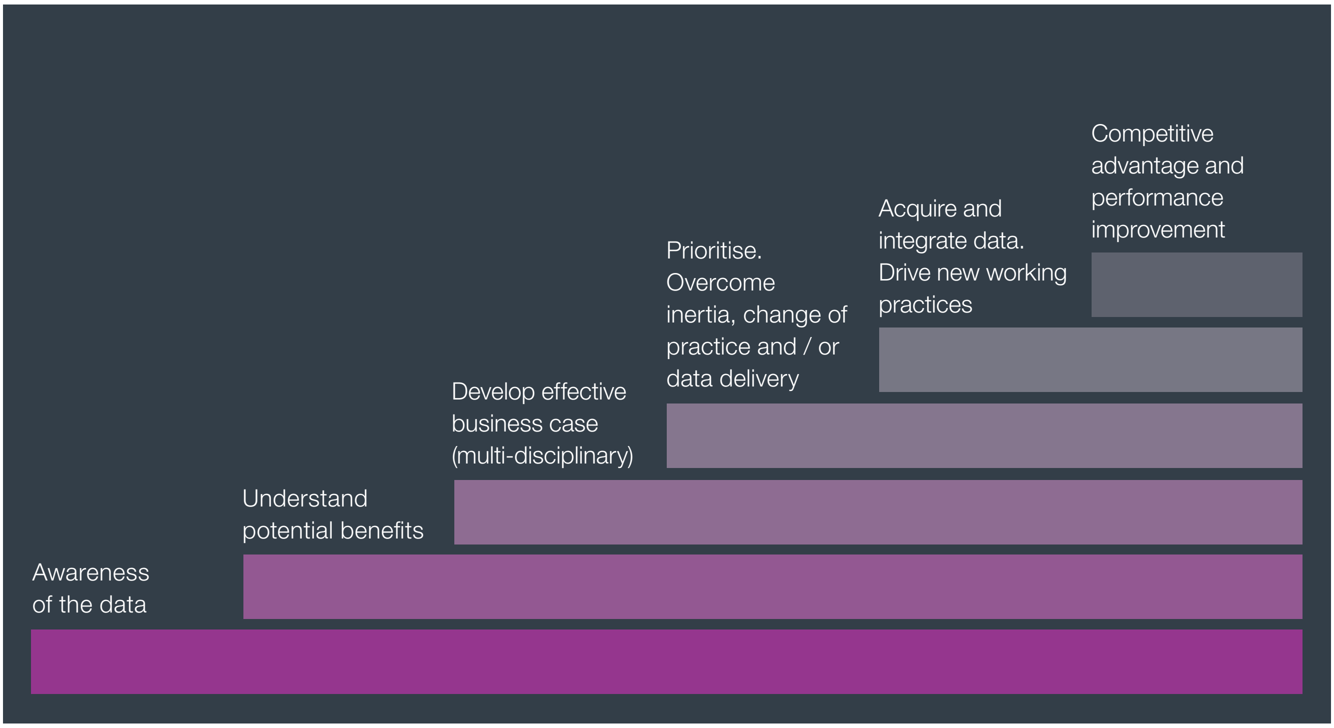
The scope of CCDS covers businesses up to £25m turnover, 99.9% of the entire business population. Through the use cases (outlined earlier) and specific requirements of individual lending businesses, it becomes clear that the breadth, depth and relevance of CCDS data has wide application within a SME lending environment. A number of benefits should be fairly easily quantifiable, giving the opportunity for a strong business case. There are intangible benefits – notably in terms of customer experience and the future persona of the lending business – that are less quantifiable and need to be considered at a strategic level.

CCDS needs to be placed not just in the context of the "fintech" enablement of new business models, but also in relation to other legislative and regulatory initiatives that affect the sector. CCDS, Open Banking and PSD2 are part of an evolving picture for business lending. Of these, CCDS is the earliest and crucially, the most accessible for existing finance providers. In contrast to Open Banking and PSD2, which are consent-driven, CCDS represents a mandatory flow of data that will over time cover materially all of the active SME population. As a result, mainstream business processes and data structures can be developed based on these data flows. In short, CCDS can be an early initiative to enhance the existing business models of SME lenders, and in the process realise scale business benefits across the full breadth of the organisation's new business flows and customer portfolio.

Day One delivery of CCDS data will include six months of historical current account information. Details on existing lending exposures will be delivered on a go-forward basis. Datasets will not immediately be suitable for long run analyses that are required for through-the-cycle modelling, but nonetheless provide an immediate window of insight on existing customers and new credit applications.

The government first envisaged CCDS in 2013. As we move into the second half of 2017, it is nearly with us. Like all initiatives that take several years to come to fruition, there is some fatigue amongst observers and take-up will neither be universal nor immediate. Adoption leading to effective deployment in value-adding, practical commercial applications will take time and effort. There is a commercial and competitive window to grab early mover advantage that few will achieve.

Success in making full use of CCDS will require an organisation to develop a shared vision based on strategic intent and a robust business case, an organisational commitment that includes resourcing the required development and skills, and the ability and willingness to modify existing practices. Pulling it together across the business will require top-down sponsorship as well as effective ground-up change management. The steps to success, all of which are likely to be required, are outlined in the graphic below.



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Market implications

CCDS, Open Banking and PSD2 are foundational elements with the power to open up the SME lending market, re-shape competitive pressures and underpin new ways of working. New business models will emerge and value chains will be reconstructed. In a business environment where the old tenets of a customer relationship based on face-to-face contact are receding, a business model inspired by the possibilities of customer-centric data, related analytics and new technologies can be the bedrock for a new customer intimacy that stimulates higher service levels, higher organisational efficiency and long-term customer loyalty.

On its own, CCDS is the most accessible of these three new initiatives. It will enhance but is unlikely to fundamentally reshape an existing business model. For finance companies who recognise the need to change but whose natural tendency is for incrementalism rather than wholesale disruption, this is a blessing.

Firms that adopt CCDS can enjoy significant benefits. As well as reducing inherent lending risks, CCDS should drive new incomes. It can also act as a catalyst for a medium-term organisational change in response to demands of the market and shareholders.

Inevitably, there are implications. CCDS stimulates opportunities for new entrants without legacy systems or legacy mindsets, or for existing financial providers to stretch into adjacent markets. This creates both opportunity and threat. Market changes in financial services tend to occur slowly, but new competitor sets will emerge. The rules of the game will be updated as the "information haves" do battle with the "information have-nots".

The process of change will be reinforced as new compliance standards increase the in-life duty of care of lenders for their SME customers, seen in the new UK Finance 'Standards of Lending Practice'. While some SMEs will enjoy easier access to funding at lower rates as a consequence of CCDS data, others may become increasingly disenfranchised which, in turn, may drive further regulatory intervention.

The DNA of a SME lender is changing inexorably, especially for those looking to operate at scale. Each organisation has its own imperatives and has to make its own decisions. CCDS appears to be a boat not to miss.

For more information on CCDS, please speak to your Equifax Account Manager or email us at **ukmarketing@equifax.com**

ABOUT THE AUTHOR

Peter Hunt is the founder of Growcap, a consulting firm focused on new concept commercialisation in the business finance market and related sectors. He has over 20 years in executive and strategic roles, and is a strong proponent of the power of technology and data to drive superior business performance.

While Chief Operating Officer and Head of Strategic Projects at Investec Asset Finance Group, Peter was responsible for devising the group's target operating model, leading the development and implementation of new capital and risk models, related business practices and supporting technology infrastructure (Credit Today "Risk Team of the Year" 2014). At the same time, he played an active role on the HM Treasury working group on Designated On-line Platforms (Small Business Enterprise & Employment Act 2015). Peter's previous roles include Head of Strategy for RBS Business & Commercial Banking and Founder of the specialist asset finance consultancy Invigors LLP.

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