How lenders could use CCDS for customer management

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Satisfying new lending standards on managing SME financial stress

The UK Finance is introducing new "Standards of Lending Practice", 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.

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.

Stay tuned for more articles explaining the value of CCDS and how you could potentially use this data and embed it to your business processes.

The next article will be about: "Factors affecting adoption of CCDS"

For more information on CCDS please contact us at ukmarketing@equifax.com