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**Title: Experian: The Focus is On Behavioral Scoring**

**It is widely known that the consumer financing market is of the segments that has experienced the biggest impact of the global financial crisis. How bad is the situation with delinquencies in Russia today? Which scenarios are most realistic? What are some of the changes taking place in the credit policies of banks? Daniel Zelenski, Country Manager, Experian, Russia and CIS, answers these questions in his interview to PLUS magazine.**

**PLUS: Russia's consumer financing market in times of crisis. Similarities and differences with international markets. How severe is the situation from the point of view of business perspectives in general?**

D.Z.: I believe the crisis brings not only negative things but also positive moments. It's no secret that there are over 1000 active banking licenses in Russia today. And there are no more than 200 banks that actually form the banking system. So a market consolidation – the acquisition of small banks by large banks – which will possibly happen would revitalize the banking industry. But the main problem for the sector is the need to retain consumer confidence and a level of liquidity that would suffice for fulfilling obligations.

**PLUS: In spite of the fact that many analysts and government officials now say that the worst for the banking industry is in the past, do you still feel we can face a domino effect in the sector?**

D.Z.: It's most likely that complications of this sort will affect small banks but I do not think that they will have a default nature. Most likely, they will be acquired by large banks and I do not think the population will feel the effects of these processes.

**PLUS: Optimistic and pessimistic scenarios: what global and local economic factors influence the probability of each?**

D.Z.: The optimistic scenario is that this year we will see a restoration of growth rates in the industry seen in September 2008. The pessimistic scenario is that the situation with loans which are becoming more expensive and less affordable to the people will last for over a year.

The main factor affecting the banking system from outside is access to funding in western markets. It's no secret that banks, especially those involved with retail financing, seriously depend on funds they obtain from capital markets. Today the cost of this capital has become higher. So restoration and stabilization in capital markets will be one of the first signs of restoration of the banking industry in Russia and other countries in CIS.

**PLUS: Which strategic actions on the part of banks can influence the situation, negatively and positively?**

D.Z.: If banks from the third category – small banks – experience some difficulties it will be important to see what large and mid-sized banks will do, I mean banks that form the banking industry and government-owned institutions. Their role is highly important from the point of view of their ability to solve arising problems. The crucial thing will be speed of reaction. It is very important for the people not to feel the effects of the problems in the industry because the main goal in this situation is to preserve consumer confidence.

**PLUS: Your assessment of the situation with personal defaults and delinquencies. What are the main mistakes made by banks in their credit policies and consumers?**

D.Z.: It's no secret, and many market observers point to this, that delinquencies are on a rise. I would refrain from naming any specific figures or saying that delinquencies will grow many times over but this situation is quite normal for a time of social change.

All clients can be broken down into categories. For example, there are borrowers who take out more money than they can repay. Naturally, if a person takes on so many loans that his monthly income does not cover the installment payments, he represents a threat to the bank. And in times of crisis this is a definite default. Banks that used to issue such loans made a mistake. But this is not only their mistake, this is also a mistake of the borrower because he will have several banks chasing him trying to collect at least something. Most likely, a person in this situation will have to deal with specialized collection agencies.

Other mistakes made by banks are not so much associated with their credit policy but rather the inflexibility of their infrastructure. Organizations with a decentralized decisioning system find it harder to be flexible and react quickly to market changes. In other words, they will find it harder to make changes to their credit policies than banks where the decisioning system is centralized and well set up.

**PLUS: How have the credit scoring and fraud prevention needs of the industry changed given the current severe financial and economic situation? What key changes are happening in the risk management policies of banks?**

D.Z.: The main changes that are happening in the credit policies of banks are associated with tougher terms of financing. In the current situation, the terms of securing a loan are becoming tougher. Banks are more reluctant to issue large loans or issue them for a shorter period of time so the terms of financing are changing. Before, banks focused on getting new customers. So they needed systems that enabled them to process loan applications and make decisions. Now fraud prevention and collections solutions are in greater demand.

**PLUS: General view of specialized credit scoring solutions adapted to the complicated market situation: which aspects are key, in your view?**

D.Z.: I would not say that there are some special technologies adapted to the crisis. The technologies are the same. The main differences are in the core of these systems: the core changes depending on the market conditions, products offered by a bank, etc.

I'd like to note that one of the important things is working with existing customers, i.e. everything associated with behavioral scoring. In the current situation this enables organizations to work on their portfolios. Many banks have customers that have an account, deposits, they may have borrowed loans at some point in time. But if you try you can find that in every bank up to 80% of the customers need additional products which turn to competitors for because the bank was not proactive. So proactive work with existing customers, particularly, the understanding of the risks and needs, is a good opportunity to increase revenue from each customer. For example, if a customer has an account which he regularly replenishes and a one-year deposit, it makes sense to offer him a credit card and not wait until he turns to another bank to get one. Usually, a person is tied to a bank where he has a current account where his employer transfer his salary and where he has a deposit and the bank has the opportunity to offer additional products to this customer.