

# CREDIT SCORING AND CREDIT CONTROL IX EDINBURGH 2005

## Modelling Personal Bankruptcy in the UK

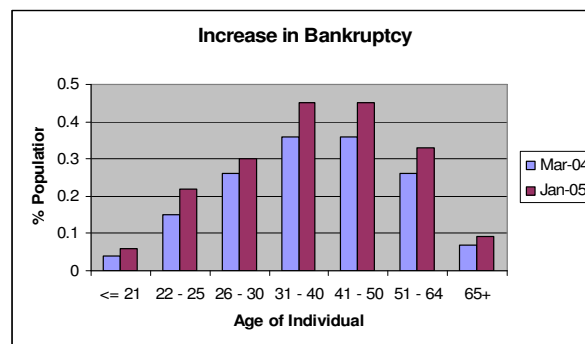
### Abstract

Personal bankruptcy in the UK has traditionally not been a significant issue in credit scoring. Even within a credit active population less than 0.5% of individuals are declared bankrupt, as opposed to around 4% that default on an annual basis.

Bankrupt individuals are typically identified as being a category of 'bad' within a scorecard development. However from the creditors point of view they are quite different as bankruptcy protects the debtor from debt collection by creditors.

The Enterprise Act 2002 (applies to England and Wales) made the first significant change in personal bankruptcy rules for many years. The Act makes the process of voluntary bankruptcy much easier and allows for the standard discharge of bankruptcies to be one year; Restriction Orders or arrangements are then used to extend the term of bankruptcy. These changes have made personal bankruptcy a more attractive proposition for individuals in financial difficulty.

The graph below shows the increase in bankruptcies by age of individual (on a credit active population) from March 2004 to January 2005.



The March 2004 figures (in the graph) include bankruptcies for the previous six years, therefore the increase in the proportion of bankruptcies up to January 2005 is much greater than is obvious on the graph. If sustained, these figures indicate a 100% increase in the number of personal bankruptcies.

Bankruptcy is therefore increasingly becoming a significant issue for credit providers and, potentially following the US model, will become more so in the future.

Experian-Scorex is currently undertaking an investigation to consider how credit bureau data can be used to predict personal bankruptcy. Consideration within this analysis is also being given to how this prediction can be included within the customer management process.

We will present results of analysis into the impact of the Enterprise Act on personal bankruptcy. Additionally from the Experian-Scorex analysis, we identify how potential bankruptcies can be identified from credit bureau data and discuss the implications of this for credit grantors.

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