THE RATINGS WAR

Credit checks aren't something you'd think most HNWs would struggle with — but it turns out there might be such a thing as having too much money

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Alexander Hoare, scion of 300 years of Hoares and board member of his family's bank, is in a Carphone Warehouse. Imagine the scene: he's trying to buy an iPhone or a BlackBerry, or maybe even a Nokia for retro charm. He's reached the front of the queue and the sales assistant is running a credit check on him.

Waiting.

Then, no dice — or rather, no phone. No credit score has come up, a little red light has gone off. Perhaps the sales assistant is looking at him with a certain suspicion. They can't give him the phone contract now, but if he returns with a bank reference, they'll be able to do it. So Alexander comes back, having written his own bank reference on his own bank's stationery. Back to a shop two doors down from his family's bank — a shop which is on land that his family owns.

He gets the phone.

The point of this story — other than to get you wondering what phone Alexander Hoare does indeed carry — is that poor (or non-existent) credit scores do not only afflict the poor. As James Jones of Experian, the consumer credit scoring company, explains, there is a logical reason for this: 'Wealth and assets aren't something we record; it's the opposite: we record debts.' Because HNWs have plenty of the former, they tend to lack the latter, regular repayment of which is credit-score gold.

This can cause problems beyond phones. Gina Miller, co-founder of wealth managers SCM Private, has spent the past year developing new online platforms such as SCMDirect.com, and part of the investment procedure requires potential clients to undergo a credit check. What surprised Miller was how many of the client profiles they ran through testing failed.

'It seems that many HNWs do not score as highly as you might first think,' she says, 'as they rarely have a mortgage or many credit cards or debt. In addition, they can be fairly frequent house-movers within a five-year period. The issue here is that the system marks down a client's score if it finds many personal documents have different addresses attached to them.'

SCM has adjusted its online system, but clients will still fail from time to time (which is a good thing: 'Any system that is passing 80-100 per cent of HNW applicants is probably not following best practice.').

MANUAL LABOUR

For private banks and wealth managers, a failed credit score doesn't mean they have to reject the client — but it does necessitate time-consuming and costly manual approval. 'In our case,' says Miller, 'we follow the European-style "2+2" system requiring two original or certified documents to be produced from one table and two from another.'

Intriguingly, you don't have one single credit score. Lenders look at applicants through the lens of their own previous customers, says James Jones: 'For each lender, [the system] compares your data to the data of past customers that they've had. So if a customer went on to be a really good customer… then the chances are their calculation is going to be a high score for you.' You don't need to have the *best* credit score, just the score that's best for the bank.

This focus on credit scoring comes against a background of tougher regulation — harder know-your-client procedures, more measures against money-laundering and last year's Mortgage Market Review. The MMR (as much of a pain as its namesake) says, according to the Financial Conduct Authority: 'Lenders are fully responsible for assessing whether the customer can afford the loan, and they have to verify the customer's income. They can still choose to use intermediaries in this process, but lenders remain responsible.'

Alexander Hoare has thus seen credit checks from the other side too: 'Historically we have paid little or no attention to credit scores — until MMR came along in the summer. MMR seems to be a response to liar loans, which never featured strongly here, but now we are required to do credit searches on impacted borrowers. This is not easy, as the best credit reference agencies do not allow interrogation by non-participating banks. We are not that keen to supply customer data just for the joy of MMR. We prefer to know our customers properly.'

Which reinforces another of the problems of the standard credit score: you can have as many data on your clients' credit cards and mortgage repayments and gas bills as you like, but in this way you can't know *them*. And if private banking is about one thing, it's knowing your customer in a more meaningful way.

Still, as much of a hassle as failing a credit check might be, it's worth remembering — both as lender and customer — that among the false positives will be some real positives: people you don't want to let invest with you or borrow your money or even walk out of your shop with a shiny new iPhone.

SCORE!

Here are some ways to improve your credit score:

- Use your credit card and pay off the full balance every month
- Stay out of your bank account's overdraft facility
- Make sure you're on the electoral register
- Have utility bills paid in your name
- Review your credit report from time to time, particularly before applying for credit
- If you have your banker send a letter confirming your net worth to credit-scoring agencies, they can add a note saying you have such a document and can provide a copy on request to lenders