

The two ends of the lending spectrum

How to personalise customer journeys, build lasting relationships and mitigate collections risks

March 2021



Contents

Introduction: Effective decision-making in uncertain times	03
Economic shock: A challenging environment for lenders	04
How to assess risks and opportunities: Combine data with analytics	06
Customer lifecycle management: From originations to collections	10
Agile decision-making for a fast-changing world	13



Introduction: Effective decision-making in uncertain times

In a turbulent economic environment, where everyone is experiencing the impacts in different ways and to varying degrees, it's more difficult than ever for lenders to assess risks and make accurate lending and customer management decisions.

In this guide, we will examine the tools and strategies businesses can use to manage risks and improve decision-making. Not only to make better informed customer acquisitions, but also to improve the way customers are managed to minimise the risk of arrears. The key to minimising collections difficulties is to start with well-informed originations strategies, and then manage those customers effectively as their circumstances and external factors change.

This requires the ability to constantly assess data at a granular level, and apply sophisticated analytics and decisioning, so you can adopt a personalised approach to dealing with customers. In this guide, we'll demonstrate how Experian has the tools and expertise to help lenders improve and automate risk assessments, and support instant decisions at every stage of the customer lifecycle. So you can achieve valuable new lending growth while mitigating impending arrears.



Economic shock: A challenging environment for lenders

Ever-changing impacts and trends

We're living through one of the most volatile economic periods in recent history. The sudden shock experienced when the pandemic hit exceeded anything seen in previous recessions – and economic conditions continue to be volatile. Trends are changing faster than ever and can quickly reverse or accelerate. There's also considerable variation in the impacts seen and felt across different regions, sectors and demographics.

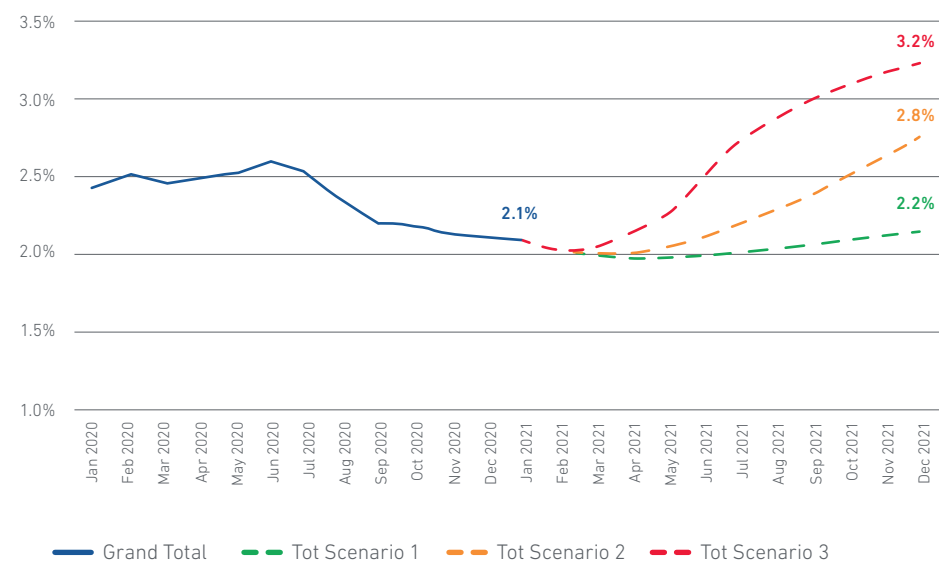
All of which means people across the country are experiencing the effects in different ways and to varying extents. For businesses in the credit and lending sector, it means the job of making decisions about individual customers is more complex than ever. From identifying affordability and vulnerability, to spotting potential and opportunity throughout the customer lifecycle.

Complex scenarios and new vulnerabilities

The picture is complicated by short-term economic measures introduced during the pandemic, such as emergency payment holidays (EPH), the furlough scheme and the need for forbearance. These measures have masked the full economic impact of the crisis and shielded some of those customers who would normally be most affected. Lower earners who would typically be hardest hit in a recession have been largely cushioned. It's the middle earners, across age bands, who have experienced the most significant impacts.

Delinquencies initially rose at the outbreak of the pandemic, but fell back as government support schemes were introduced. Now, delinquency is on the rise again and is expected to continue throughout 2021. This is likely to put further pressure on collections, making it essential to minimise risks in your customer portfolio.

Forecast Overall Stock Delinquency Rates
(CC, PL, MG, AF)¹



¹ CC – Credit Card PL – Personal Loans MG – Mortgages AF – Auto Finance

In addition to the risks associated with Covid-19, there are Brexit-related uncertainties too. Some sectors, businesses and jobs are more vulnerable to post-Brexit impacts than others. Unfortunately, it looks like sectors that have been resilient in the face of the pandemic could be hardest hit by Brexit, such as construction and manufacturing. With most sectors facing an uphill recovery from Covid-19, or navigating Brexit, there are very few sectors left unscathed. This will have a clear impact on customers' incomes and affordability, and on lenders' portfolios.

Understanding exposure to economic risks

All of these factors make it increasingly difficult to assess the credit risks associated with individuals. From the extent to which they are impacted, to whether those impacts are short-or-long term. It is critical to understand who is economically exposed as conditions continue to change.



Sector risk example

	Covid-19 Impact	Brexit Risk		Covid-19 Impact	Brexit Risk
Agriculture, Forestry & Fishing	●	●	Retail	●	●
Extraction & Mining	●	●	Land Transport, Storage & Post	●	●
Food, Drink & Tobacco	●	●	Air & Water Transport	●	●
Textiles & Clothing	●	●	Accommodation & Food Services	●	●
Wood & Paper	●	●	Recreation	●	●
Printing & Recorded Media	●	●	Media Activities	●	●
Fuel Refining	●	●	Telecoms	●	●
Chemicals	●	●	Computing & Information Services	●	●
Pharmaceuticals	●	●	Finance	●	●
Non-Metallic Products	●	●	Insurance & Pensions	●	●
Metal Products	●	●	Real Estate	●	●
Computer & Electronic Products	●	●	Professional Services	●	●
Machinery & Equipment	●	●	Administration & Supportive Services	●	●
Transport Equipment	●	●	Other Private Services	●	●
Other Manufacturing	●	●	Public Administration & Defence	●	●
Utilities	●	●	Education	●	●
Construction of Buildings	●	●	Health	●	●
Civil Engineering	●	●	Residential Care & Social Work	●	●
Specialised Construction Activities	●	●			
Wholesale	●	●			

● High risk ● Mid risk ● Low risk

How to assess risks and opportunities: Combine data with analytics

So how do you build new lending and expand your portfolio in this challenging economic environment, while minimising risks and preventing future collections bottlenecks? With every portfolio and person impacted differently, how can you optimise lending strategies?

Assess data at a granular level

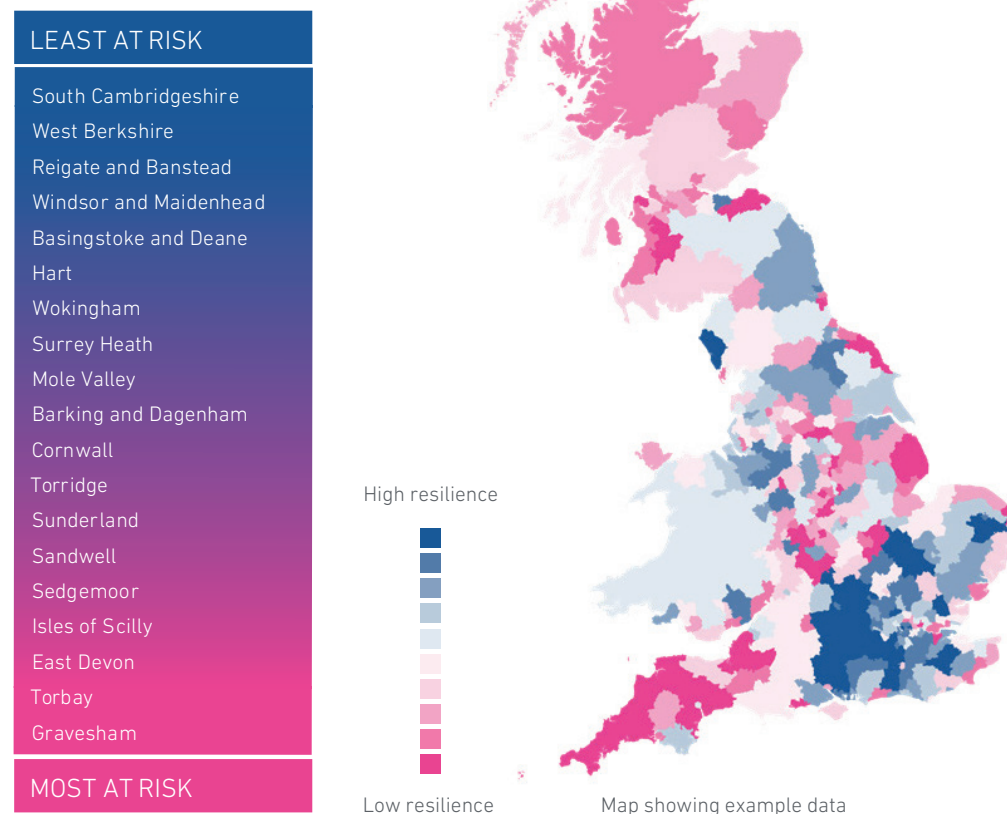
The full effects of the pandemic are yet to be felt, which means credit providers must gain a much more sophisticated understanding of individual customers, to better assess risks and opportunities. That means understanding risk and opportunity at a much more granular level than ever before. When assessing the likely scale and duration of economic impacts on individuals for example, you need to look beyond personal circumstances and understand the context in which people are living. That could include understanding the dominant employment sectors in their area, and how those sectors are affected by changing economic conditions. Demographics also need to be considered, as different segments of society are affected in different ways.

Identifying areas of resilience

Experian has constructed a local index that aims to benchmark areas in terms of confidence and recovery profiles. Our confidence index is made up of various factors, designed to give a more accurate and granular view of actual trends.

Confidence index example

Data derived from December 2020.
For more current data/confidence mapping, please contact us.



Analysis empowers rapid risk assessments

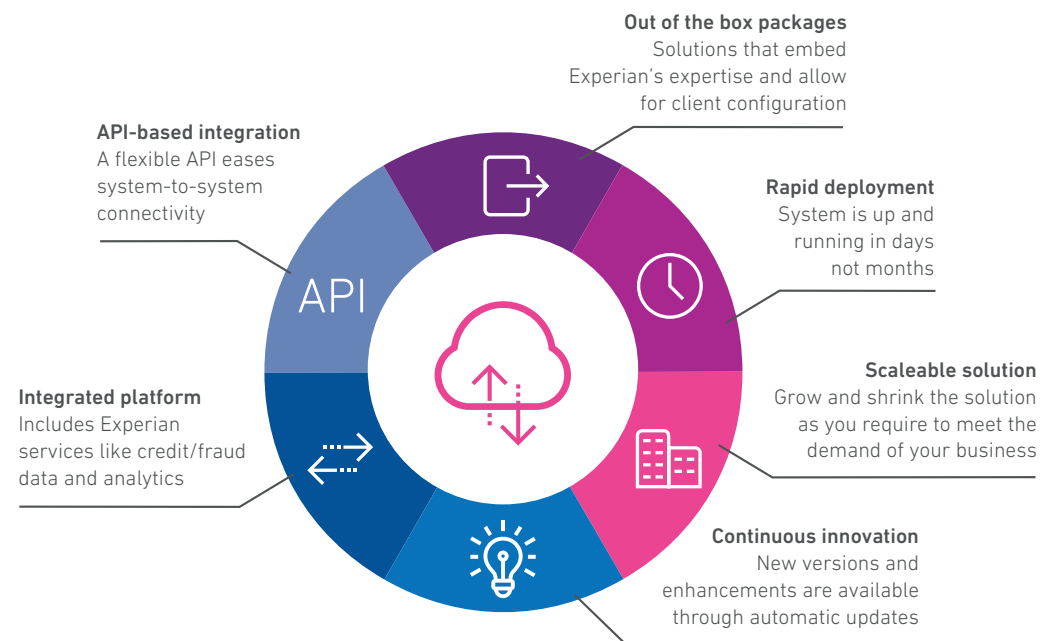
It's clear that detailed insights matter when it comes to assessing risks and opportunities associated with different customers – and that doesn't just mean having better tools. It requires more accurate real-time analysis that allows customer strategies to be designed in response to changing events, to inform your actions and decisions. Customer analysis needs to be extended to include broader economic scenarios and both historic and new data sources.

To understand the volatility in consumers' financial capacity, it's critically important that you can recognise signals from your data, to understand what action is needed, when. Advanced analytics can enable you to do this quickly and effectively. Being able to determine which patterns are common for everyone, and which are individual indicators of impending stress, or an opportunity for value growth, will help you manage your customers and wider portfolio more effectively.

Agile cloud solutions support rapid decisioning

Accurate and up-to-date data from a wide range of sources is vital to help you better assess individual risk, support those who are financially vulnerable, and identify new customer opportunities. Agile cloud solutions make anticipating and responding to market and customer shifts simpler and faster, enabling you to keep pace with rapid change.

Our cloud-based, single platform delivers complete, agile and integrated decisioning capabilities



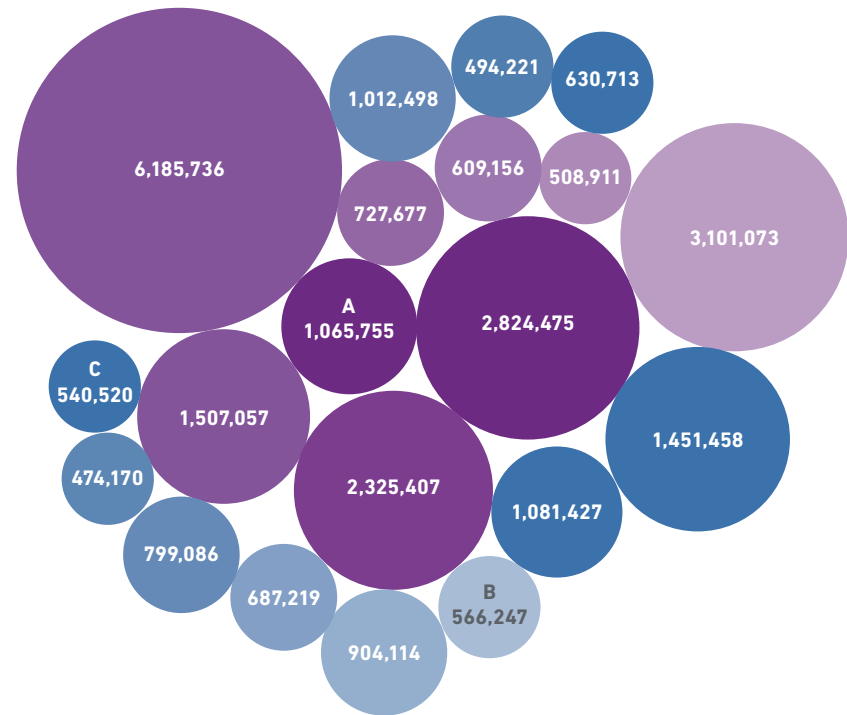
Experian provides a range of ready-made analytic models and scenarios, backed up by dynamic decision-making strategies. To help you identify new opportunities, understand lost opportunities, and determine which customers are likely to fall into arrears. By harnessing the power of AI-enriched software, you can be sure that your decisions are optimal, from pricing to limits, and that you are always making decisions relevant for each point in time and the prevailing economic conditions.

Unlocking new levels of insight

Experian has invested in Covid-specific data innovations that help to bring greater clarity to assessing risk, capital adequacy and credit provisioning, by enabling you to better understand customer circumstances. Our insights show there are pockets of people who represent good risk, but sophisticated analytics are needed to identify them – see figure 10. Our decisioning platforms can help you make sense of these insights and create the most effective strategies for your specific products and channels.



Figure 10: Segmentation of the Experian Consumer Bureau by credit risk



UK Population % - 52.32

Segment A

Excellent credit risk, not taken a payment holiday, equity in their property, no income shock, unemployment risk is low.

Segment B

Good credit risk, have taken an EPH, equity in the property but unemployment forecast risk is medium.

Segment C

Poor credit risk, highly indebted with forecast unemployment risk being high.

Within our consumer bureau we have identified 1.6m consumers who represent good or excellent credit risk.

Management information you can act on

By providing valuable management information on metrics such as drop-outs, conversions and performance against the customer journey, our tools allow you to quickly adapt your strategies in response to emerging trends. Testing new scenarios and benchmarking will help you to understand your performance against your competitors, as well as the effectiveness of your strategies.

Assessing reject inference is particularly valuable, as it enables you to identify how customers have responded and performed after your decision-making strategy has rejected them. This insight enables you to determine whether your credit risk cut-off is working effectively, or if you are turning away customers who would represent good risk.

By harnessing data and analytics, you can evolve your decision-making based on optimal models that are continually advancing in real-time, based on actual customer behaviours.

Embracing analytics for better consumer outcomes

The FCA is focusing on better outcomes for customers, and encouraging more sustainable models for personal lending. To achieve better customer experiences and outcomes, both regulators and lenders want to see better straight-through processing: frictionless customer journeys with minimal manual processes, such as underwriting. This means giving consumers automated decisions in seconds, so they can access the products they want quickly, while ensuring they are only offered products that are suitable for their needs and circumstances.

By using advanced analytical tools to assess affordability throughout the customer lifecycle, you can accurately and confidently:

 offer the right products to the right customers at the right time

 better support customers in times of need

 understand which customers have capacity for further lending

To support your regulatory compliance, these analytical tools ensure you always make customer decisions that are justifiable and without bias. To demonstrate compliance, it's also essential that these tools offer comprehensive reporting and auditing capabilities.

Customer lifecycle management: From originations to collections

We help lenders and credit providers to make fast, effective decisions about new and existing customers through our powerful combination of data, analytics and technology. Our support helps you to identify, attract and manage the right customers, across the entire customer lifecycle – from originations to collections.

Here's how we can help at every stage of the customer-management lifecycle with an interconnected network of support, data and insights.

Originations: Generating profitable customer relationships

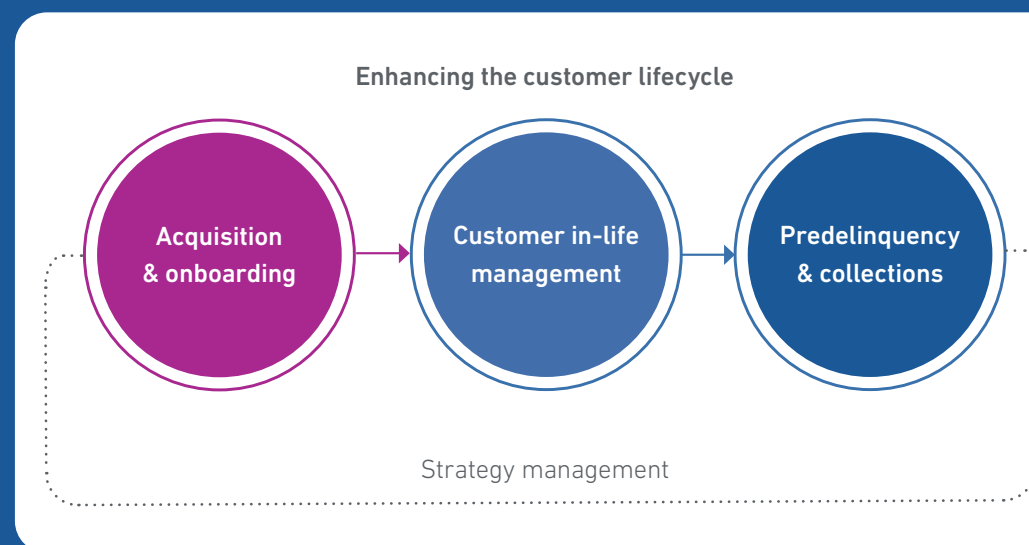
Growth is fuelled by acquiring the right customers, with whom you can build lasting relationships that deliver long-term value for your business. By effectively architecting digital originations and acquisitions, Experian can help fintechs retain their digitally disruptive approach, while helping mid-market and established financial organisations maintain a competitive edge in an always evolving, always dynamic credit market.

Our automated decision management platform, complete with integrated analytics, uses the power of data to better identify and evaluate potential customers and help you make instant decisions. From identifying customers for targeted marketing campaigns through to enhancing customer prequalification, we add value at the earliest stages of customer engagement.

The best originations decisions don't just take into account an individual's current situation; they look forward too. By integrating economic forecasts and other factors such as demographic insights, you can enhance your understanding of any likely future changes to a customer's circumstances. Access to new data models, including bureau indicators, provides additional layers of intelligence to support your decisions and actions. Add to this an understanding of behavioural trends identified through data, and you can better evaluate an individual's future willingness and ability to make repayments.

Further still, integrating the product marketplace into your analysis will ensure you always offer the right products and services, to the right people, at the right time, via the right channels.

By combining our predictive analytics with your business strategy rules, you can ensure the products you offer customers are desirable, suitable and affordable, enabling you to personalise the entire customer journey, increase approvals, and reduce risk.



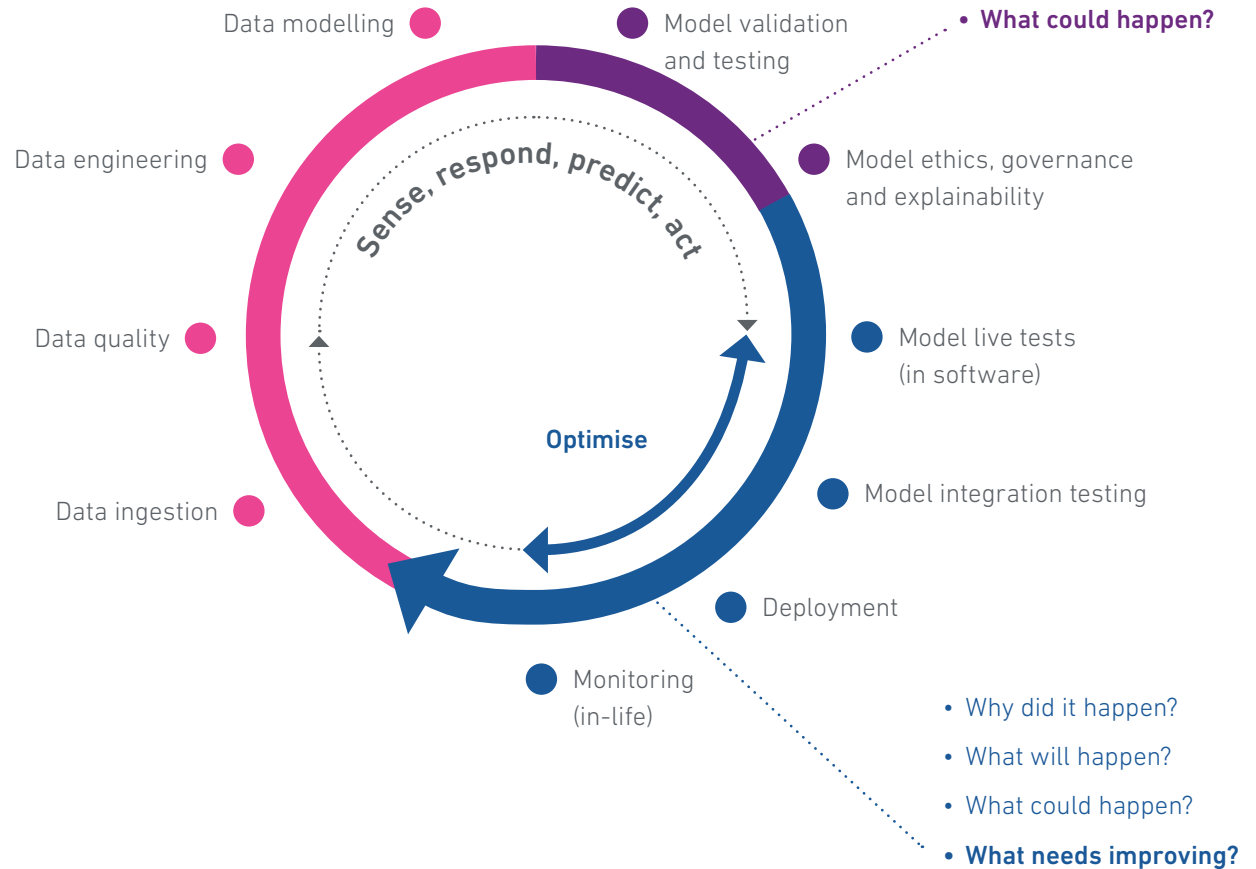
Customer management: Building trust and loyalty

While a great deal of focus is placed on originations as a way to grow your business, ongoing customer management is critical to unlock value throughout the customer lifecycle. In a highly competitive market where growth is most likely to come from increasing market share, effective customer management is vital to build customer satisfaction and loyalty, while mitigating collections risks.

Once customers are onboarded it's important that the data analysis and communication does not stop. Creating strategies that allow for more personalised communication not only engenders trust and builds stronger relationships, it enables you to better design strategies based on current customer needs.

In the new world of intelligent decisions and actions, you can now help a customer before they even know they need help. From supporting them in times of need to being there with the right products and services in the moments that matter. With an agile, data-driven decision platform, you can constantly assess your customers' suitability and desire for products, and respond to their individual needs and changing circumstances.

Our approach to decisioning allows you to run analytically advanced processes that help you understand the what, the why and the if



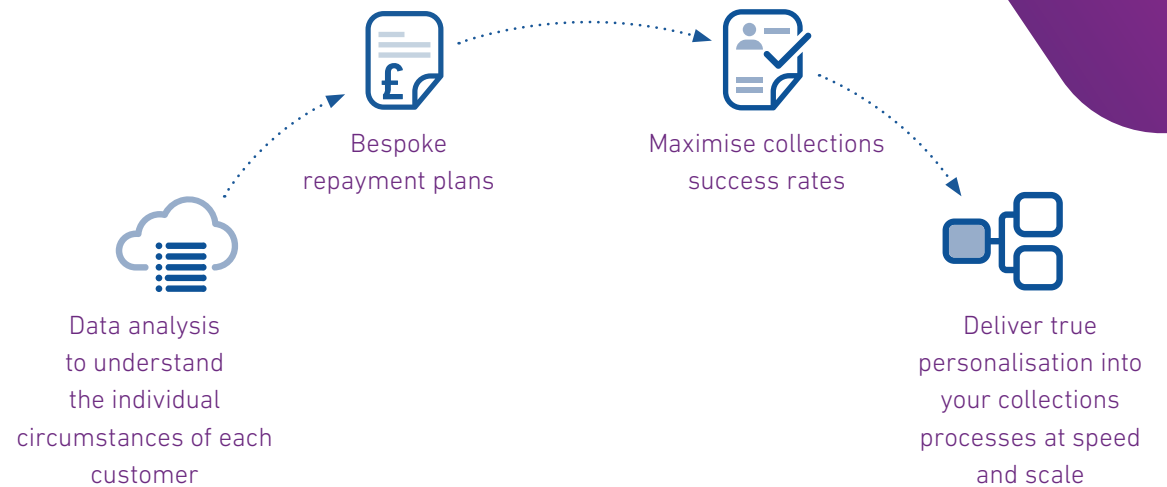
Collections: Treat customers fairly to maximise success

For some customers, arrears are unfortunately inevitable. Managing these customers appropriately and fairly is crucial. A missed repayment or an unpaid bill could mean that a customer is in financial difficulty. Or that they simply forgot to pay. Or that they may have decided not to pay, despite having the means. It's essential for you to distinguish between these customer types quickly and efficiently, to put appropriate and effective collection strategies in place.

The success of your collections strategy isn't just about ROI – it's about doing the right thing for your customers and growing long-term value. Not just to support regulatory compliance, but to build stronger, longer-lasting, more mutually beneficial relationships, and enhance your reputation as a fair, socially responsible business. This is more important than ever in the current economic and social climate, where competition is fierce and customers expect personalised experiences.

Using advanced data analysis to understand the individual circumstances of each customer enables you to create bespoke repayment plans, that take into account specific needs and preferences. It helps ensure payments are both affordable and appropriate under the FCA criteria. It also helps you to dramatically improve the customer experience, which in turn helps maximise collections success rates, provide sustainable returns, and increase lifetime value.

By combining data analysis and advanced automated technologies, building individual treatment plans for each customer no longer needs to be labour-intensive and time-consuming. With artificial intelligence and machine learning on your side, you can deliver true personalisation into your collections processes at speed and scale.



Agile decision-making for a fast-changing world

Harnessing data, technology and expertise to mitigate risks and unlock opportunities

The key to managing customers effectively, to provide optimal customer experiences and minimise collections difficulties, hinges on the decisions you make at every stage. Those decisions depend on access to accurate, up-to-date data, backed by expert analysis and automated decision-making tools.

We have the expertise, insights, data and technology to help you make the best customer decisions throughout the customer journey at pace, in a fast-changing marketplace.

Insights for the entire customer lifecycle

We provide expertise and informed analysis to support your business every step of the way.

Our benchmarking and market opportunity analysis can help you to identify prime new sectors, and to launch new products or services. Our support includes connected strategies to help you identify your best customers, where they are, and how to target and acquire them.

That leads to seamless onboarding and helps you create an environment for continuous engagement with customers, bringing greater value to your relationships.

Our tools also enable you to treat customers differently and fairly in the collections process, as individuals. You can improve recoveries through relevant, targeted actions, reduce costs through improved automation of decisions, and employ best-practice collection techniques to enhance your strategies.

A strategic partnership for success

Through a partnership with us, you can access the most up-to-date and comprehensive data and analytics to build strategies, business models and services unique to your needs.

Our fully customisable, interoperable cloud-based SaaS platforms enable you to automate and operationalise decision-making, credit monitoring and fraud detection – across the entire customer lifecycle. Giving you the opportunity to integrate real-time, industry-leading data-driven insights from multiple sources into every decision and action – from originations to customer management and collections. All backed by the latest intelligent analytical tools, so you can continuously test and improve your customer identification, acquisition and management strategies.

Key actions for lenders:

- Identify indicators of risk – access new data sources
- Understand portfolio performance, benchmark against peers, and identify where your risks are
- Apply affordability assessments across the customer lifecycle
- Improve automation from end-to-end of the customer journey – supported by behavioural and customer-led strategies
- Monitor performance, test, learn and adapt. Ensure you remain effective as the economy changes

Experian Decisioning solutions span the entire customer lifecycle. Our Strategy Management focuses on repeatable customer decisions based on access to relevant data and customer insight to power customer journeys.

About Experian Decisioning

In a competitive market, every customer decision, action and interaction makes a difference. Each stage of the customer journey is rich with opportunities to truly understand who your customers really are and grow the value of the relationship.

Decisions and next best actions – designed by your rules, exactly as you choose

Our next generation decision management platform integrates and operationalises rich data and advanced analytics, combined with our unique expertise. This automates instant decision-making and next best action at speed and scale, unlock value throughout the customer lifecycle, and supercharge your performance – end to end. From finding, understanding and connecting with new audiences, to making credit and lending simpler, faster and fairer for every customer – consumer or commercial. All while being more efficient, accurate and customer-centric.

The benefits

- Gain a single customer view through data connectivity
- Reduce churn, fraud and credit risk
- Determine what's affordable at each stage of the lifecycle
- Increase customer satisfaction, engagement and lifetime value
- Ensure models and provisioning are performing
- Deploy change fast with speed and scale of decisioning
- Save money through more efficient decisions and our pay-as-you-use service

Cost effective, flexible and future proof

Available cloud-hosted or on-premise, our agile decisioning solutions are modular and configurable. Giving you the tools and insight you need to drive straight through processing of every decision, create fast, frictionless, personalised customer journeys, and build meaningful, valuable relationships. Choose from rapid-start, pre-configured solutions with integrated data services and workflows, or dynamic, bespoke systems enabling customised workflows and integrations.

Our next generation decisioning system includes and integrates solutions for:

- Originations – onboard more profitable customers using adaptive and targeted approaches
- Customer Management – proactively and intelligently manage each customer, to support growth and mitigate risk
- Strategy Management – use insightful acquisition strategies to respond to customer and market changes fast
- Collections – personalise collections processes to recover debt in a fair, efficient and compliant way

Experian has been helping lenders make intelligent decisions for over 30 years. We support the seven biggest banks with decision management, as well as large and small organisations across a range of industries, including new fintech and start-up companies.

Recognised by leading analysts and named among Forbes top 100 most innovative companies for five years in a row, we are constantly innovating and partnering with industry to solve complex problems, increase efficiency and drive sustainable growth. To find out more and to arrange a free demo or consulting review please get in touch.

Our approach

Experian consultants are central to our partnership with you, providing constant guidance and support to identify the right tools and strategies for your business. By providing continuous insight and analysis as the external landscape changes and new customer needs arise, our mutual partnership helps you to make the most effective and accurate decisions, transform the lives of your customers and build a successful, profitable business for the long-term.

We are continually refreshing our resources and insights

[Visit resource hub](#)

Join our 2021 Insights Webinar Series covering the latest economic and credit trends.

[Register now](#)



Registered office address:

The Sir John Peace Building, Experian Way,
NG2 Business Park, Nottingham, NG80 1ZZ
T: 0844 481 5873
www.experian.co.uk

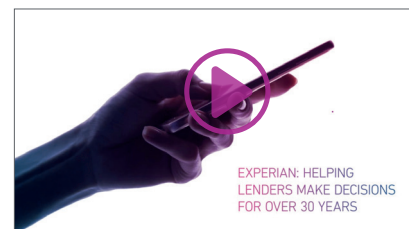
Contact us:

Business.Enquiries@uk.experian.com

Stay up-to-date with our latest thinking,
by bookmarking our thought leadership portal:

www.experian.co.uk/latest-thinking

Watch our Decisioning film:



© Experian 2021.

Experian Ltd is authorised and regulated by the Financial Conduct Authority. Experian Ltd is registered in England and Wales under company registration number 653331.

The word "EXPERIAN" and the graphical device are trade marks of Experian and/or its associated companies and may be registered in the EU, USA and other countries. The graphical device is a registered Community design in the EU.

All rights reserved.