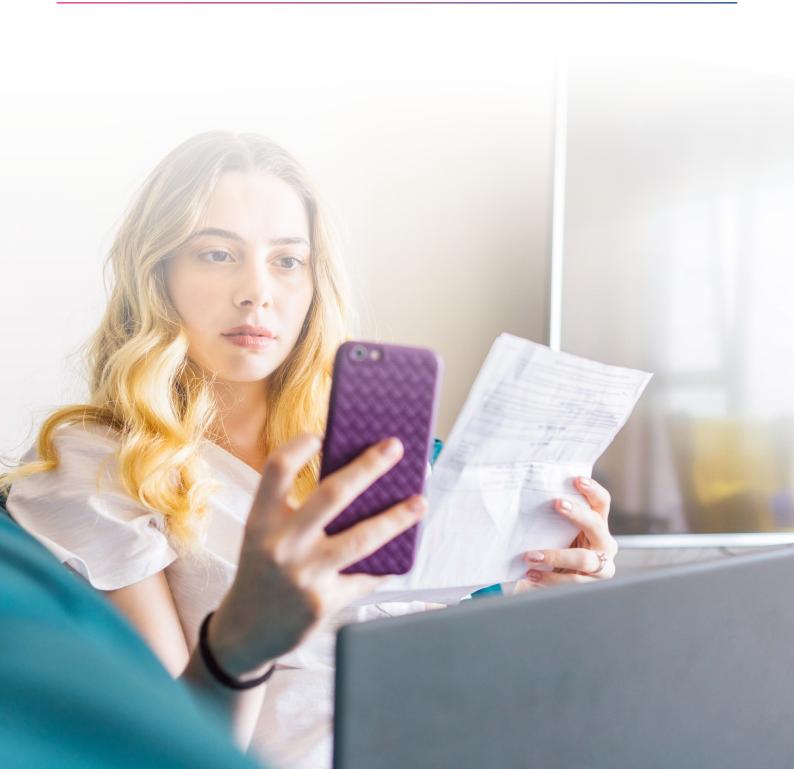# Data and analytics: the cornerstones of a credit decisioning platform

Foreword

The lending market is in an unprecedented state of flux. In the UK, this is being fuelled by post-Brexit disruptions, uncertainty caused by Covid, global supply-chain issues, and a cost-of-living crisis.

The rapid growth of slick, innovative lending products from new market entrants like Buy Now, Pay Later (BNPL) and FinTech companies is also increasing uncertainty for lenders. And digital services are changing customer expectations: increasingly, they expect instant decisions from lenders available around the clock.

It feels like there's a constant need to develop smarter lending strategies that will grow your portfolio and bring in new customers.

But this cannot be at the cost of due diligence.

As the economy, market and regulatory expectations continue to evolve, being able to maintain pace and comply, while minimising risk to your business and customers, is essential.

The need for decisioning platforms capable of accurate, granular detail is critical. Lenders must predict, monitor and react to how people are spending. This means having the most holistic picture possible of a customer.

In this paper, we look at the issues facing credit decisioning, and the steps being taken to help lenders make fast, accurate decisions while minimising their risk exposure.

Key discussion points include:

→ Making accurate risk assessments in a fast-changing market

→ The technological and market changes driving consumer financial behaviour

→ The disruption caused by cloud-native lenders and Buy Now, Pay Later models

→ How cloud-based platforms can help lenders innovate and minimise risk

Change is constant and accelerating

Over the past few decades, numerous political, social, economic, technological, and environmental factors have influenced human behaviour, adapting needs and increasing the pace of change.

We're on the cusp of Web 3.0, driven by immersive, integrated technologies like the Metaverse, remote working, and social media. This is accelerating people's embrace of digital, especially online spending, which continues to rise as people find new, convenient and secure ways to transact - such as the Buy Now, Pay Later model.

All of this means that people are sharing more data than ever, and in more ways than ever. Yet some lenders still don't have visibility of the full scope of data, needed to make accurate assessments.

Are you seeing the full picture?

Having access to a wider range of data sources can also help you uncover new insights into customer behaviours and previously unknown financial commitments. Additional data sources, including econometrics, digital payslips, affordability data, Buy Now, Pay Later commitments and more, can help you evaluate with more clarity and confidence.

Are you making the most of technology?

Advances in artificial intelligence and machine learning enable you to do so much more with your data. We're harnessing machine learning best practice and cloud-based tech to deliver advanced modelling capabilities that can help you achieve better predictability, reduce risk and make more confident, relevant decisions. Plus, you can explore the potential of machine learning tools for your wider business.

Are you looking at the wider environment?

A rapidly-growing area of concern for lenders are rising environmental challenges, and Environmental, Social and Governance (ESG) commitments. These need you to show how your business integrates ESG practices through its operations. As well as highlighting new risks, they can also inspire new opportunities.

Either way, the credit risk framework is changing right before our eyes, and lenders are wondering how to factor in a new set of variables.

Adaptability is everything

The need for an agile, insightful and powerful credit decisioning engine has never been more apparent. You need to consider far more than someone's spending and borrowing history. It's a bigger, more complex and interconnected picture. Now, you have to take an increasing number of factors into account when considering a customer's suitability to commit to, and make, repayments.

Conversely, tech-savvy consumers have come to expect instant decisions from lenders. The ease of an application process can hold just as much appeal as the product itself – with some customers settling for lesser deals in favour of faster approvals. Driving this is a raft of new lenders entering the market with the ability to quickly build custom credit packages through a fast, mobile, flexible, cloud-based infrastructure.

There's also an additional threat emerging from tech companies like Amazon, Apple and Alibaba, now launching their own financial services and credit cards[1].

It's putting more pressure on traditional lenders to create slicker, more seamless solutions with less friction and drop-out. Ensuring a decisioning process can compete – without compromising confidence, product integrity and due diligence – can deliver new acquisitions, and prevent you from losing out to more agile competitors.

Finding the right data sources, and using them in the best way, is key to making accurate, meaningful forecasts based on fact.

[1]https://www.experian.co.uk/blogs/latest-thinking/wp-content/uploads/sites/13/2021/08/EXPERIAN-REPORT_-Democratising-data_-analytics-and-technology.-May21.pdf

Making the invisible **visible**

Since Klarna launched in the UK in 2014, the popularity of Buy Now, Pay Later (BNPL) has exploded.

Over a third of Britons (37%) have already used this form of credit, and almost half of 25 to 34-year-olds choose to defer payments with interest free, short-term BNPL some of the time.

But to think that this is a new trend adopted by younger consumers is a mistake: the average age of a Klarna customer is 35 years, and its fastest growing demographic are aged 55+.

While people see BNPL as a simple, quick and convenient way to pay, few see it as a form of credit. Because BNPL lenders rarely charge interest, and only a few charge late payment fees, it adds to the sense that it's an easy way to pay and not credit.

This has muddied the waters for traditional lenders. Until now, credit bureaux couldn't see how many BNPL accounts a consumer might have, and whether this could affect their ability to repay their credit.

At Experian, we've established the UK's largest database of BNPL data from some of

the sector's biggest names, including Klarna, Laybuy and Zilch. At the moment, the data isn't used in credit scores, or in our existing scorecards, but it offers you one of the most complete views of UK consumer borrowing.

Being able to see this data is critical to protect lenders and customers. It encourages responsible spending, helps limit risk, and enables lenders to offer services their customers can afford.

Our BNPL data is updated monthly to include consumer transactions, overall balances and payment performance. It also shows indicators like the number of accounts a consumer holds, their average balance, current balance, usage, payment arrears and delinquencies.

You can access raw data, and a suite of 72 decision-ready BNPL characteristics to interrogate and build into their models. It improves your ability to make accurate, informed lending decisions now, while potentially avoiding problems later.

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[2]https://www.klarna.com/uk/blog/why-consumers-choose-klarna/

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Most importantly, BNPL data sharing provides lenders with access information on the credit behaviour of consumers that was previously unseen. This is of particular significance given the popularity of BNPL products, how people use these products to manage their personal finances and the squeeze on people's incomes.

Data in the cloud.
Feet on the ground.

Some of the biggest lenders have built their own in-house bespoke solutions. However, there's a risk that this can quickly become an outdated legacy system struggling to keep up with new products and regulation.

Overhauling an IT system is costly, time-consuming, and not without its own risks: downtime, network integration, security, hardware depreciation, ongoing maintenance, and other factors, can slow the process. Even keeping pace with change involves constant attention and fine-tuning.

However, a cloud-based engine can remove these issues, opening up many more possibilities. These include rapid deployment, easy integration with your current data and setup, and scalability. Costs are reduced as there's no need for a large investment or physical installation, leaving you more time to focus on your customers rather than your IT infrastructure.

At Experian, we're continuously investing to make our world-leading data, analytics and machine learning more agile, accessible and affordable for all.

Our PowerCurve dynamic credit decision platform is highly flexible due to its interoperable nature. It's enriched with no-code, self-serve capabilities, making it highly agile and allowing you to get the most out of it from the start. Plus, you can access our exclusive BNPL data, and deploy models through just one platform. It's been created to enhance business performance, and customer outcomes, too.

Why automate decisioning?

ACCURACY
Getting lending decisions right is essential to minimising risk and keeping good customers happy.

OPPORTUNITY
Discover new market opportunities without increasing risk.

AGILITY
Data and analytics are key to spotting and taking advantage of emerging consumer behaviours.

IDENTIFY RISK
Predict the individuals, companies, and parts of your business that pose the most risk.

Cloud-based credit decisioning: do more for less

A cloud-based decisioning platform can let you access new, rich and more relevant datasets with greater stability and security.

Make faster, fairer and justifiable outcomes for customers – without bias, at every point of the customer life cycle. And for a lower total cost of ownership compared with an on-premise solution.

Even better, a cloud-based platform can be customised. Add or remove functionality when you need, and only pay for the services that you actually use. Streamlined systems make it possible for you to manage everything using just one source.

Powered by on-demand data, and innovative technologies like artificial intelligence and machine learning, a cloud-based decisioning system gives you access to cutting-edge analytics. It's possible to test various scenarios and multiple analytics before going live, ensuring optimal results. Automation further speeds up application processes and can reveal opportunities to cross and up-sell.

Credit history
Has an applicant been able to keep up with their existing credit commitments? Do they have an outstanding CCJ? Run affordability checks, faster and with greater accuracy.

Fraud
Are there any indicators of potential fraud? Does the information in a credit application match existing records?

Identity
Confirm the applicant is who they say they are. Quickly spot the bots and verify real identities.

Affordability
Can applicants afford to take on more credit? New data sources let you see a more holistic, detailed customer view, including existing and new credit agreements.

Leeds Building Society cuts mortgage decisions in principle to 11 seconds

The Leeds Building Society wanted a new, digital front-end to improve the customer experience through automation. This would also help make back-end maintenance easier.

To do this, they needed to include the controls and constraints used by different business areas. We worked with them to incorporate these into a flexible, scalable and efficient decisioning system. It benefits The Leeds Building Society, their customers and their broker network.

It let Leeds Building Society improve support for their existing products and expand their portfolio to new markets and customers.

Accuracy has been improved, risks reduced, and they've nearly doubled their Net Promoter Score.

The most noticeable difference has come from the switch to an automated decisioning process. 80% of decisions are now automated enabling the Leeds Building Society to offer a decision in principle for mortgage applicants in just 11 seconds.

Five key areas. One outstanding result.

1. **Transforming** the digital customer journey

2. **Including** many more data variables

3. **Improved** efficiencies

4. **Better** credit-risk assessment strategies

5. **A modern**, agile more capable IT architecture

Reasons to consider a cloud-based credit decisioning system

The beauty of using a cloud-based credit decisioning platform is that it can act as an extension of your current set-up. Integrate and deploy in a matter of weeks. Reduce costs while increasing your ability to model, optimise, minimise risk and maximise customer satisfaction.

Add extra functionality, as and when you need

The modular nature of a cloud-based credit and risk platform offers you plenty of flexibility. Simply plug-in additional functionality whenever you see the need. Or, add your own rules for even more accuracy when modelling. And all without the need to wait for technical support.

A holistic view of the customer lifecycle

Lenders need to make fast and fair decisions at each stage of a customer's lifecycle. This extends far beyond traditional crunch points like payment holidays and defaults. With sophisticated cloud-based functionality, you can see through increasingly complex factors, revealing more detailed customer behaviours.

Combine data sources for greater accuracy

Combining datasets from various sources, and integrating them into predictive scoring models and policy rules, lets you make improved decisions, and create personalised, accurate evaluations.

Advanced modelling with AI and ML

Artificial Intelligence and Machine Learning – once the preserve of large, global organisations – let you test and learn, manage and monitor strategies with precision, and safe from real-world outcomes. Evaluate opportunities in detail and explore the impact of compliance. Find and deploy robust, optimised models, and discover customers you can lend to with confidence.

Safer, more assured customer experiences

New cloud-native lenders are creating quick, slick customer experiences. And the kind of datasets that were once only available to big lenders are now readily accessible for all. This means you're able to not only compete, but also to innovate and outpace competitors, without increasing exposure to risk.

Cost effective

Along with avoiding the outlay for an on-premise solution, you only pay for the functions that you need. Being able to run and adjust models and on situations and individuals can let you accurately predict outcomes while avoiding real-world costs.

Go to market, on the go

A cloud-based platform can be accessed from anywhere, and from multiple devices. This can speed up response and let you build, execute and adjust digital journeys and decision strategies while on-the-go.

Why Experian?

In a world of constant, accelerating change, you need better, smarter and faster analytics to stay ahead.

At Experian we've invested significantly in data, analytics and cloud-decisioning to help lenders make confident credit decisions at both portfolio and customer level. We've spent 30 years working closely with 900 clients in 82 countries, from small start-ups to large, global enterprises. Our understanding of data is second-to-none.

As a long-term partner to some of the most agile and ambitious lenders, we've developed decisioning models and strategies ready for both today and tomorrow. We believe you don't just need a vendor of decision engine software, you need a partner who's a proactive extension of your own team, who can provide the best data, analytics and innovative decisioning in one quick to deploy solution.

We're leading the way.
We've been helping lenders make intelligent decisions for over 30 years. Recognised by leading analysts and cited within Forbes' top 100 most innovative companies, we are constantly innovating, and working to solve complex problems, increase efficiency and drive innovation – at speed and scale.

Breadth and depth of our data. Quality of our insight.
With access to credit information on over 92% of UK consumers, updated monthly from 600 of the UK's largest and most up-to-date sources of consumer information, the breadth, depth and quality of data available to generate actionable insight to inform your decisions in unrivalled.

A choice of access methods.
Gain instant access to Experian and third-party data via APIs and SaaS, which you can configure to meet your needs – across the entire customer lifecycle.

The speed you need.
New data sources can be deployed within as little as a week.
We help reduce operating costs through greater automation. Speeding up decision-making, and time to market. Giving you instant access to new data services as soon as they are released.

Greater agility and control.
You can test, build, deploy and monitor Machine Learning models, decisions and strategies through a simple-to-use, intuitive platform that's controllable and configurable by you.

Pay as you use.
Scale as you go. With low-cost cloud architecture and no setup costs.

Improved decision making.
Customer centric, data-driven decisions that can increase conversion and growth, while reducing credit and fraud risk.

We invest in our customers' future.
We're shaping the future of data, analytics and technology. Customers get access to the latest updates and features. Plus new services such as advanced analytic models and scores.

PowerCurve. The dynamic, powerful, cloud-based decisioning platform.

Remove complexity and uncertainty from your decisioning process with PowerCurve, our modular, cloud-based credit and risk-analysis platform. Fast, easy to use, agile and scalable, it's a great way to ensure your customers can access fair, affordable credit at every stage of their lifecycle.

Preconfigured scenarios mean you can start using PowerCurve straight away. Import your own or third-party data and add your rules to create a custom decisioning package in no time.

Being modular means PowerCurve can grow with you. Add extra functionality and services as and when you need. And pay only for those you use.

Harness powerful artificial intelligence and machine learning to help model, test, and optimise for the best results. Apply your own rules to unlock new insights into your customers' behaviour. Automate decision-making, credit monitoring and fraud detection across the entire customer lifecycle, and free yourself to focus on new opportunities that can help you innovate and stay ahead of competitors.

And because it's cloud-based, PowerCurve is always up-to-date. Forget costly investments, say goodbye to maintenance and downtime, and keep on innovating using relevant datasets and powerful analytics programs. What's more, you can do all of this remotely, enabling you to respond to market and compliance changes as soon as they happen.

And in times of rapid change, this can help you stay ahead of the curve.

To learn more about PowerCurve, visit **www. experian.co.uk/business/platforms/powercurve**