GREATER AGILITY THROUGH AUGMENTATION AND TRANSFORMATION

A B2B insight report, exploring investment barriers and opportunities across artificial intelligence, machine learning and cloud technologies.

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Taking the pulse of UK financial services

As technology advances, so too do lenders' abilities to gain insight from vast amounts of data in order to make **faster, more accurate decisions** about their customers.

With the UK in the midst of an economic crisis, the need to make better decisions to protect struggling consumers, identify pockets of growth and improve the customer journey, becomes increasingly important.

But where is the sector right now when it comes to getting the most out of data and technology – and in particular artificial intelligence (AI) and machine learning (ML)? **We decided to find out.**

Experian surveyed over 200 representatives from UK financial services companies to gauge current attitudes to AI, ML and cloud technologies. In addition, we performed additional qualitative analysis through small group think tanks and roundtables. Our aim was to explore how companies are using AI and the cloud, where they're seeking to invest and what they perceive to be the barriers for greater adoption.

What did we find out?

Growth, lower operating costs and agility are the key drivers of change.

AI and ML continue to be adopted
Data Management, Fraud Risk decisioning and Credit Risk Modelling are key areas where ML & AI is currently being maximised across enterprise.

ML & AI are limited in value due to a lack of technology
Companies struggle with the technology to operationalise it, and the skills in house to be able to manage and monitor to the full effect.

Cloud technologies are desired
This is driven by the need to move faster and standardise data and analytic ingestion. Majority of more mature plans are driven by augmenting existing technologies as opposed to replacing.

Monitoring and assessing existing processes is a critical task
Capital, customer risk and affordability are all areas of focus for improving real-time understanding and supporting actions, not only at a customer level, but also when it comes to prioritising business investments and strategies.

Data isn't divorced from decisioning
Data is desired where improvements have been identified across processes e.g. affordability / capital modelling. However, the common problem is not data driven, it's technology driven. Firms want access to the right technology to help them; integrate any data from anywhere, apply advanced analytics and monitor and amend at leisure.

Digitisation continues to dominate investments
Improved customer experience, conversion and process digitisation to increase automation are top areas of focus. Especially throughout Originations. Feedback loops and journey assessments are new areas being rolled out in order to assess friction and journey inadequacies.

Business performance improvements to date are driven by

72% Automated credit decisioning

72% Artificial Intelligence

67% Enhanced analytical authentication

Monitoring is a key theme across areas

Financial behavioural monitoring is a key area of focus yet has demonstrated low success to date in terms of tangible value/outcomes*. Enhancing processes, driven by ML, new data and behavioural profiling are seen as the mechanisms needed to support improvements and drive better customer outcomes. Companies also want to improve their understanding and monitoring of credit usage and portfolio analysis (including capital).

*4 in 5 firms are able to identify at risk customers, through modelled data, however less than 10% have been able to automate any actions to those customers.

At the core, firms want to improve their **analytical capabilities**

The majority of businesses are looking to invest in and enhance existing AI models – rather than build new ones.

89%

say improving the customer digital journey is extremely / very important – but enhanced AI models are needed to achieve this.

17%

Have currently managed to fully migrate to the cloud. We are seeing a significant rise in investment planned in the next 12-36 months across credit risk decisioning and ML/AI driven automation.

33%

of businesses find the explainability of complex ML models to be their biggest challenge when adopting AI.

1 in 5

intend to implement AI and more automated decisioning to manage customer credit risk in the future, but...

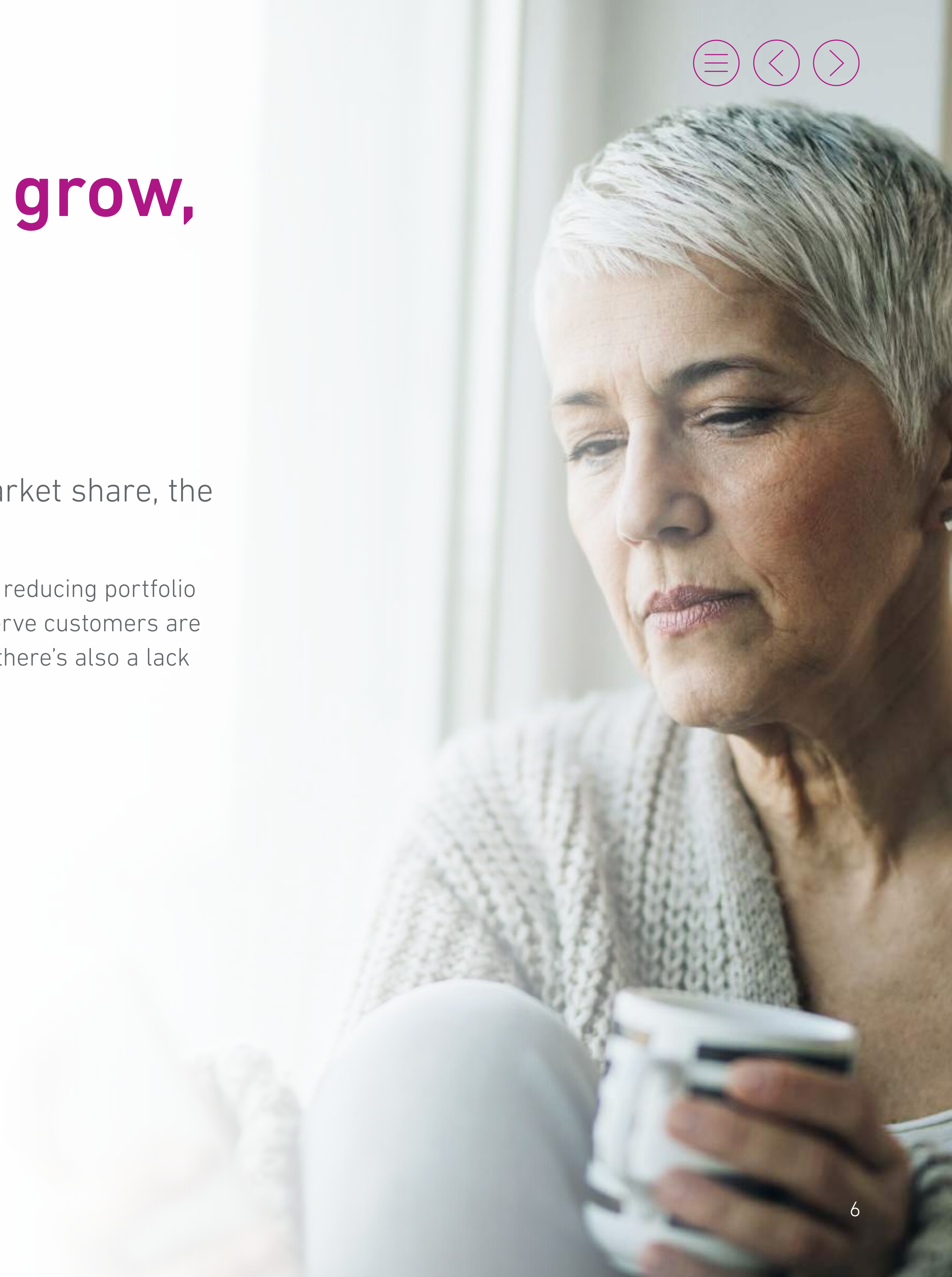
...there are barriers to AI / ML implementation.

These include operational complexity, lack of evidence of effectiveness and the manual overheads involved in deployment.

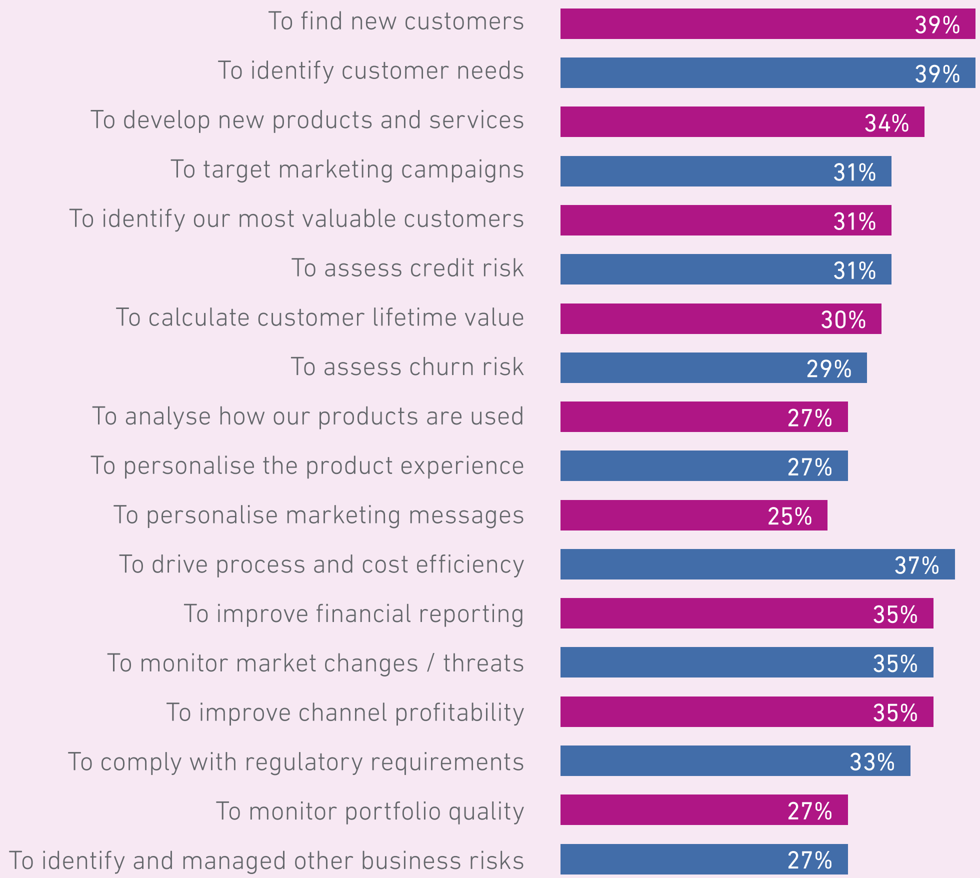
Lenders are looking to grow, and see analytics and automation as key

While the lenders we surveyed want to grow their market share, the focus is on ensuring that growth is profitable.

They also want to improve customer outcomes and experiences, while reducing portfolio risk and default rate. The problem is that rising costs to acquire and serve customers are causing a profit burden. This is exasperated by rising competition, but there's also a lack of automation and technology to reduce operating costs.



Firms are planning to expand the use of data and analytics to use customer insights for acquisition, marketing and product development...



Understanding segment risk remains a critical requirement, in order to strategically inform growth initiatives.

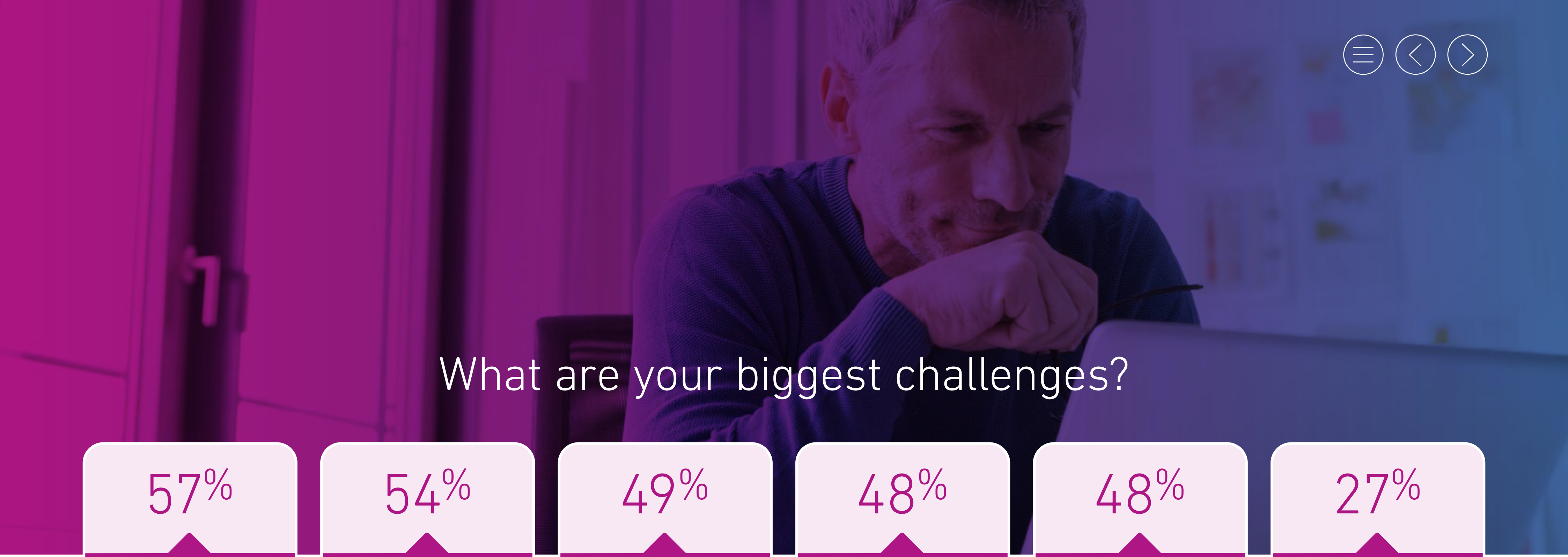
Monitoring is a key focus

Lenders want to monitor capital, market and customer risk and opportunity, but this is hampered by current approaches being based on models, rather than what is actually happening.

Right now there is also an inability to confidently drive customer treatments and strategies. Behavioural profiling will, therefore, become more of a focus in the next one to two years.

Another issue is that next-best actions are ineffective due to; lack of quality and breadth of data, lack of automation in driving actions and outdated or non-existent technology/tools to support effective customer-level strategies. These are all heightened in complexity due to the Consumer Duty regulation, which 4 out of 5 businesses are also focusing on.

Lenders also want to reduce cost through a range of actions including by reducing risk and default rates, increasing the lifetime value (LTV) of existing customers, and by automating actions and treatments.



What are your biggest challenges?

57% Cost to serve customers

54% Cost to aquire

49% Collection cost

48% Customer churn

48% Level of bad debt

27% Increased activity from existing competitors

26% Lack of automation

26% Legacy technology systems

25% New competitors moving into our space

24% Increased exposure to fraud

23% Lack of sufficient budget

Improving existing AI to **unlock the benefits**

Investing in ML, Advanced Analytics and Cloud Technologies has long been a priority for many Financial Services companies.

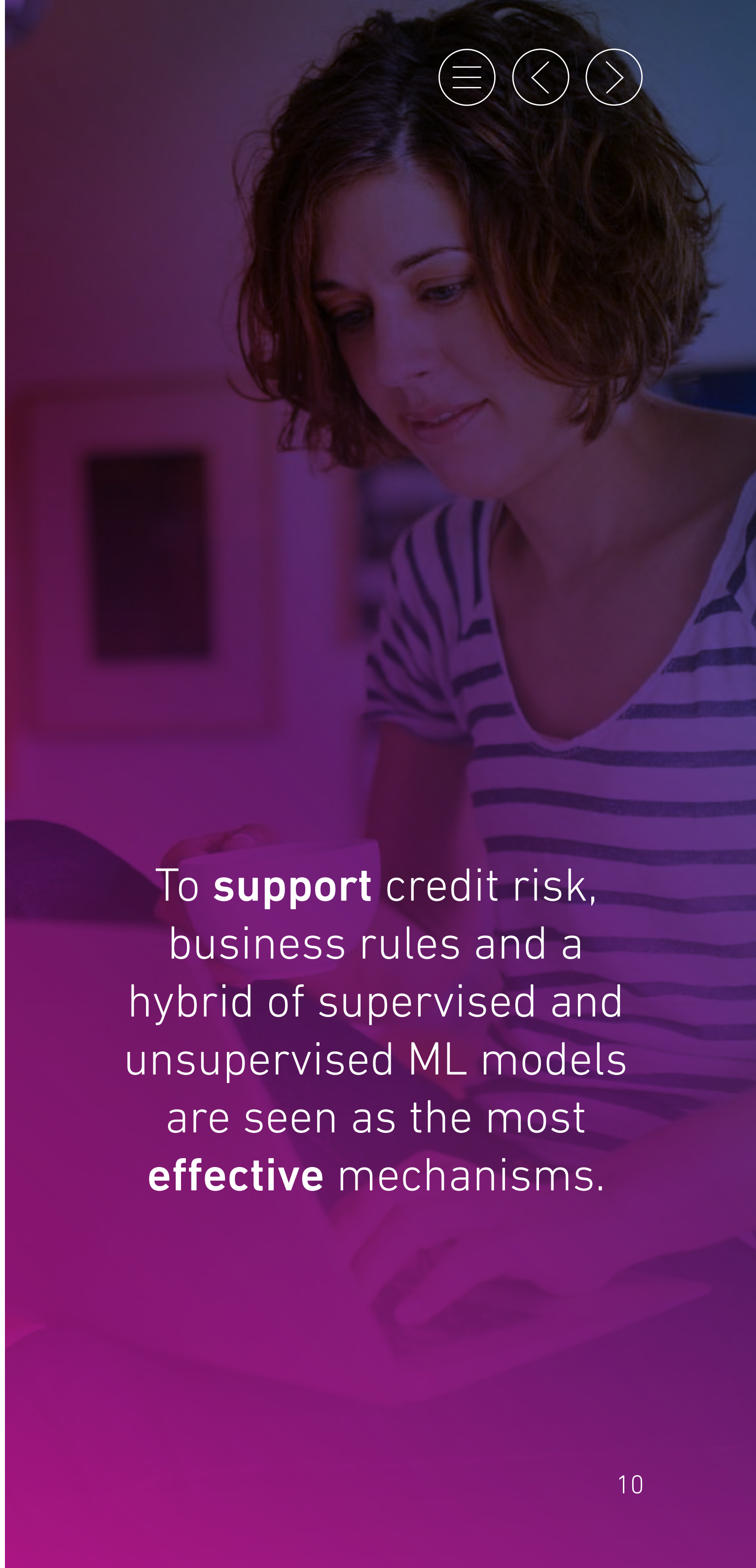
What our latest survey reveals is that most companies today are less interested in introducing new techniques or building new AI, and more focused on improving the performance of their existing models in order to:

Make faster, more accurate customer decisions

Enhance the customer journey

Crack down on rising fraud

Maintain compliance with industry regulation



To **support** credit risk, business rules and a hybrid of supervised and unsupervised ML models are seen as the most **effective** mechanisms.

Top 3 strategic investment priorities for businesses

1

Recalibrating / improving the performance of existing AI models to enhance customer decisions.

2

Preparing for Open Banking and ensuring they are compliant.

3

Maintaining compliance with regulators against a backdrop of increased demand.

Responding faster to customer needs

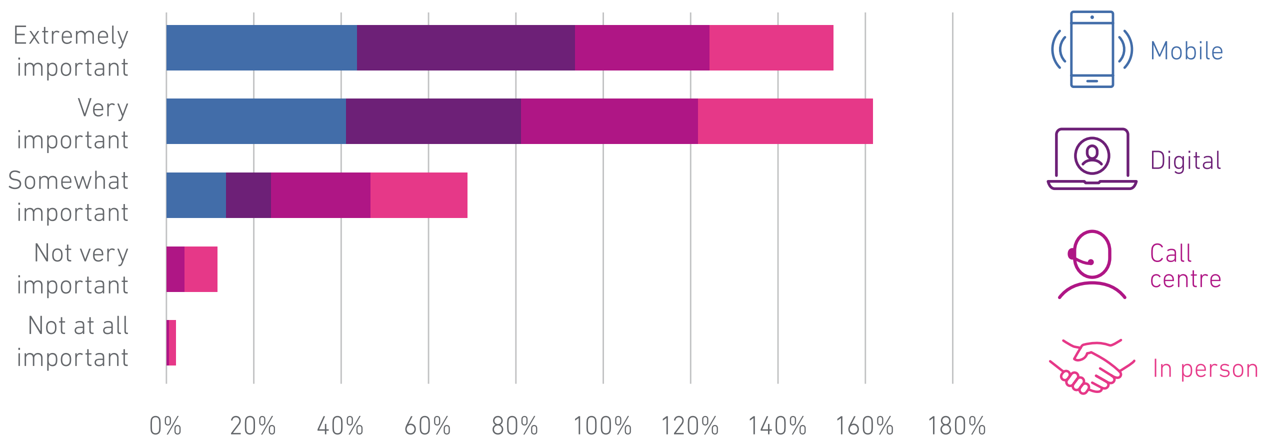
The companies we spoke to are particularly interested in monitoring existing customers so they can spot early signs of stress caused by the cost-of-living crisis and move quickly to protect them – something optimised AI can help with.

Enhancing the customer journey

The pandemic accelerated the move towards more digitised journeys – and AI plays a significant role in that. As our survey shows, almost nine out of 10 companies say that improving the customer digital journey is either very or extremely important to them.

That's not surprising. Being able to offer a slick journey – where people are offered the right products at the right time, the application process is simple with minimal friction, and appropriate support is there when needed – is the key to maintaining a competitive advantage in a difficult market.

Thinking about the past 6 months, how important were the following channels as it relates to generating revenue for your business



Respondents told us that the main reasons their customer journeys had improved in 2021 were:

- Enhanced AI models, which help to make better customer decisions
- Stronger security across mobile / digital channels
- Investments made in more digital and automated operations

Looking to the **future**

We also asked what companies needed to do to continue improving the customer journey and their decision making in the future.

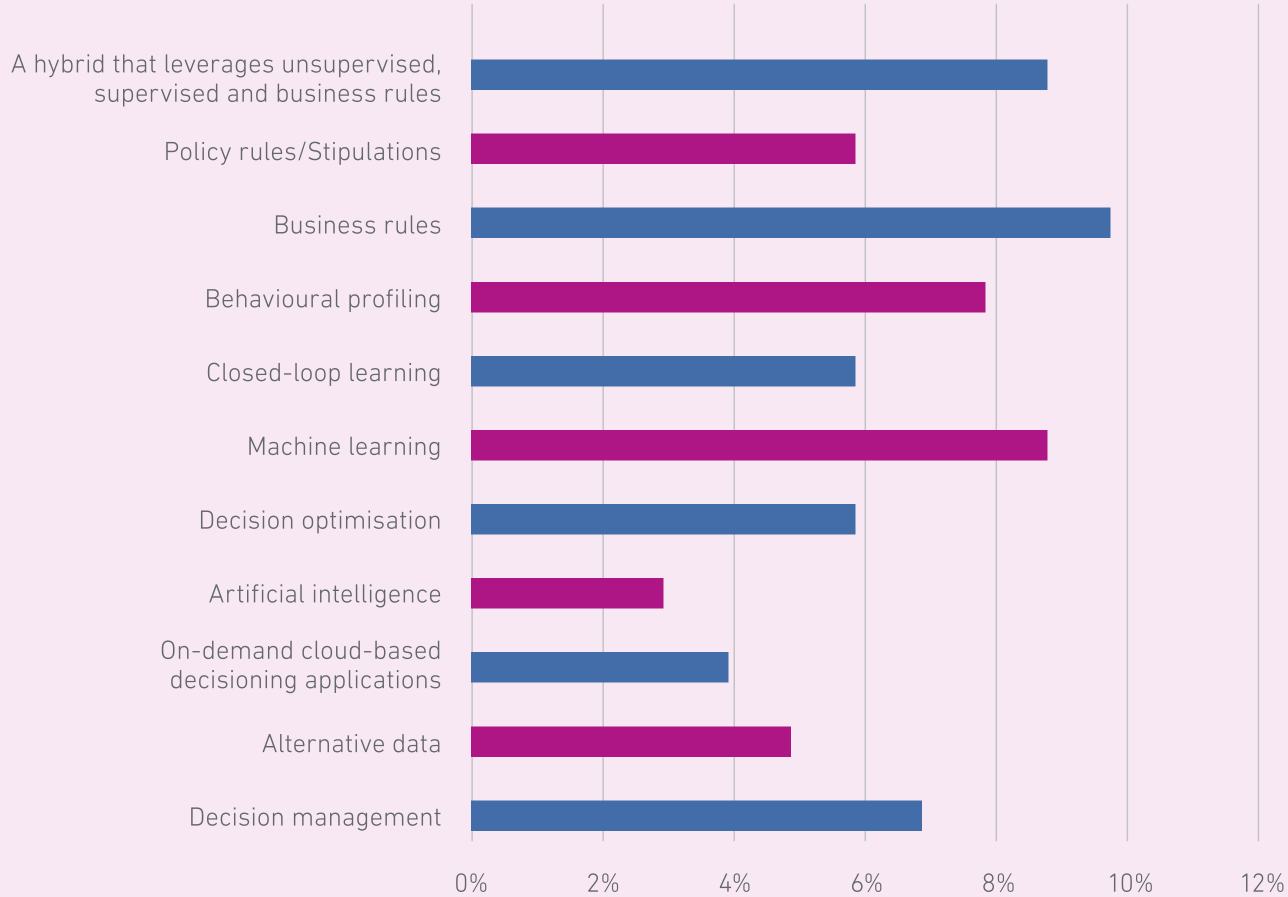
The top three answers were:

Enhanced AI models, which help to make better customer decisions

Increasing digital acquisition and digital engagement

Gaining a **better understanding** of their customers

For each solution(s) you are using related to credit risk/customer default on loans/credit worthiness, indicate the effectiveness



Where are you planning on investing in the next 12-months?

12% Understanding better customer base

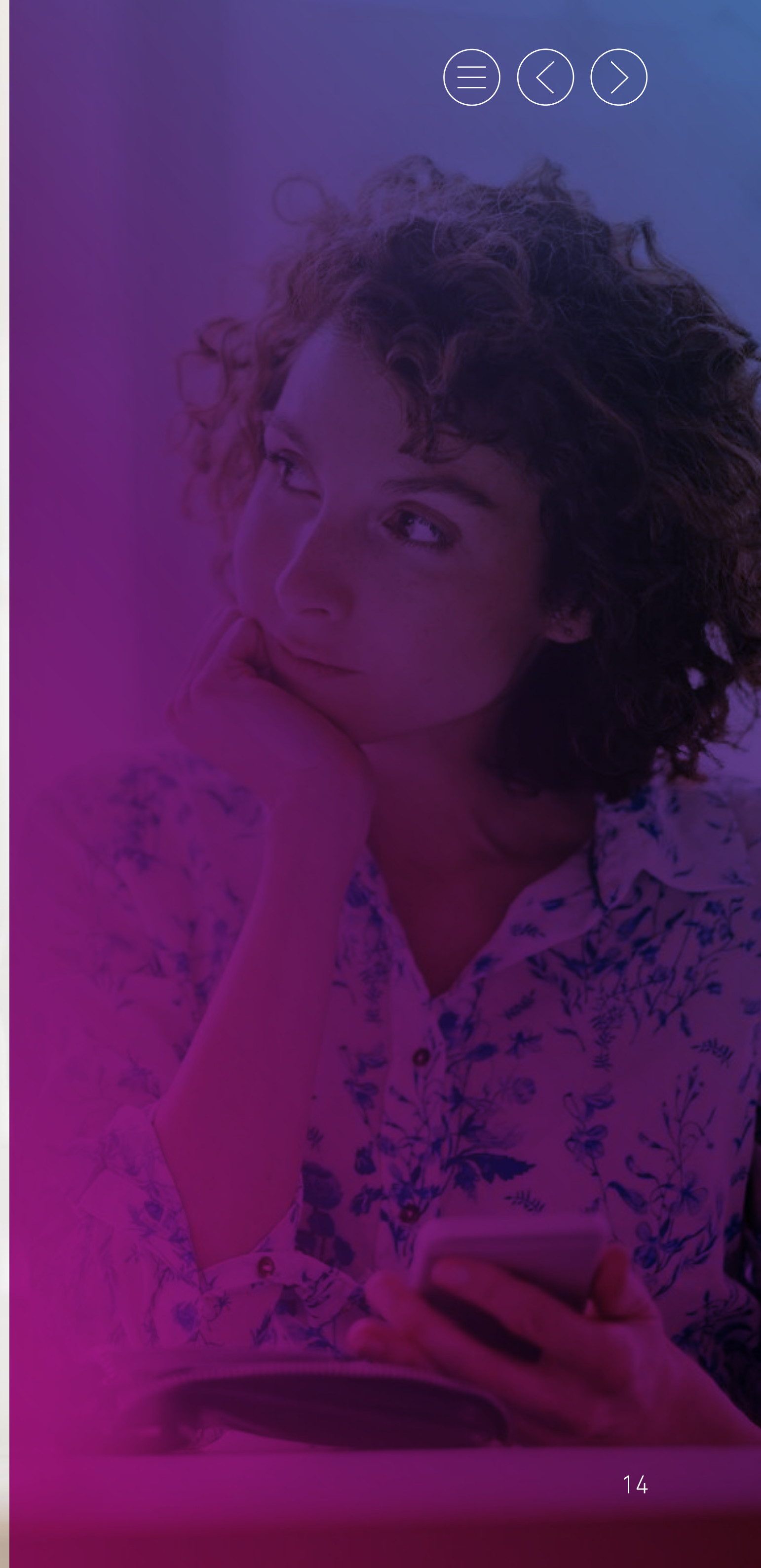
9% Improving model optimisation & deployment

9% Managing credit risk and evaluating capital and liquidity

8% Implementing new analytics methods and building new AI models to improve decisions

9% Recalibrating performance of existing AI models to improve decision

5% Automating and managing customer decisions



Hybrid working remains – but are the technologies up to it?

Many companies continue with hybrid models of working for their employees, but lenders tell us that the technology they use is often inadequate at driving efficiency and effectiveness to support remote ways of working.

Managing demand across channels and functions within a hybrid model is also putting stress on businesses, and this has only been exasperated by the economic climate.

Consolidation and analytic adoption remains key

30-40%

of firms are looking to consolidate business functions, such as Analytics / Data Science in order to improve the skills gap and functional outputs.

Cloud is seen as an enabler of digitized operations – but is currently proving dysfunctional due to a lack of a centralised architecture.

70%+

have started to or have completed cloud migration. IT schedules, complexity and budget are some of the main reasons why some companies haven't fully switched to the cloud.

Which statement best describes the integration of your organisation's digital services to the public cloud (externally hosted)?

41% Our organisation has fully migrated our digital services to the public cloud

20% Our organisation has not migrated any of our digital services to the public cloud

36% Our organisation has migrated some of our digital services to the public cloud

3% I don't know

The reason for decisioning systems having low effectiveness is predicated off an inability to offer access to additional data, manage quality of data, or leverage / enable effective advanced analytics.

However, those who are more mature and progressed in their migration are yielding benefits, with seven out of 10 enjoying lower operating costs, as well as being able to carry out more effective credit risk assessments.

Please identify what obstacle(s) or challenge(s) have prevented your organisation from fully migrating your services to the public cloud?

- 6% — Not enough evidence of effectiveness
- 6% — Not a compelling enough Return on Investment (ROI)
- 17% — Cost/budget
- 15% — Higher competing priorities/lack of internal support
- 23% — Implementation complexity/IT schedules
- 14% — Operational complexity
- 9% — Unclear or conflicting internal decision processes
- 15% — Compliance or regulation issues concerning a solution
- 12% — Overcoming organisational silos
- 14% — Legacy issues
- 5% — No business case has been made

Winning the battle against fraudsters

As technology progresses, criminals are using ever more sophisticated methods to commit credit fraud, making identity verification increasingly challenging.

Around 40% of respondents in our survey say they're highly concerned about the risk of fraud, while half are experiencing more fraud losses than in previous years.

The most common problem comes from synthetic identify fraud – using a fictitious composite identity to open accounts. The main methods for combatting this issue and others include two-step authentication, physical biometrics and document verification.

However, our survey revealed that many companies want to add more advanced methods, such as behavioural biometrics and machine-learning models.

Our **annual fraud report** delves further into how organisations are responding to today's fraud challenges.

49%
of lenders experienced more fraud losses in 2022 than in previous years.

Shifting from the old to the **new**

In today's challenging economic environment, lenders are looking to respond quickly to changes in customers' financial circumstances and identify opportunities for growth.

As such, the overarching theme is accessing cloud technologies that enable any data, or any advanced analytic models to be deployed, monitored and maximised – without complexity or cost.

When companies assess and manage credit risk, we're now seeing a distinctive shift from traditional techniques to more advanced ones.

As our survey shows, lenders are now looking to:

1. Get more from their AI
2. Automate more decisions
3. Invest in on-demand, cloud-based decisioning applications

89%

of businesses we surveyed say that creating a buy-now-pay-later service is a very / extremely important priority.

By working with Experian lenders have advantage over accessing new and rich data sources, such as BNPL data, as soon as its available.

Focus on fintechs

When it comes to those in the fintech space, businesses tell us they want greater automation – in fact 97% are either starting to roll out AI and ML to automate decisions, or have plans in place to do so. A quarter are in the early stages of rolling out technology but say there's still progress to be made.

Just 16% have implemented AI and ML across a limited number of products, but still haven't used it for more complex processes, suggesting there's some way to go.

The leaders we surveyed are looking for AI and ML to support them in a number of areas including:

- **Regulatory compliance**
- **Understanding their customers**
- **Authentication and onboarding**

Nearly 30% of fintechs surveyed identified risk management as a main driver for AI adoption, highlighting the ongoing need for companies to meet increasingly strict regulatory requirements in the UK and Europe.

For many fintechs there are concerns over the ethical use of AI and the volume of data available to be able to use models effectively and gain a positive ROI. The Ultimate goal is to be able to automate interactions and strategies into the customer journey, however current strategies are not adequate enough to allow for this risk.

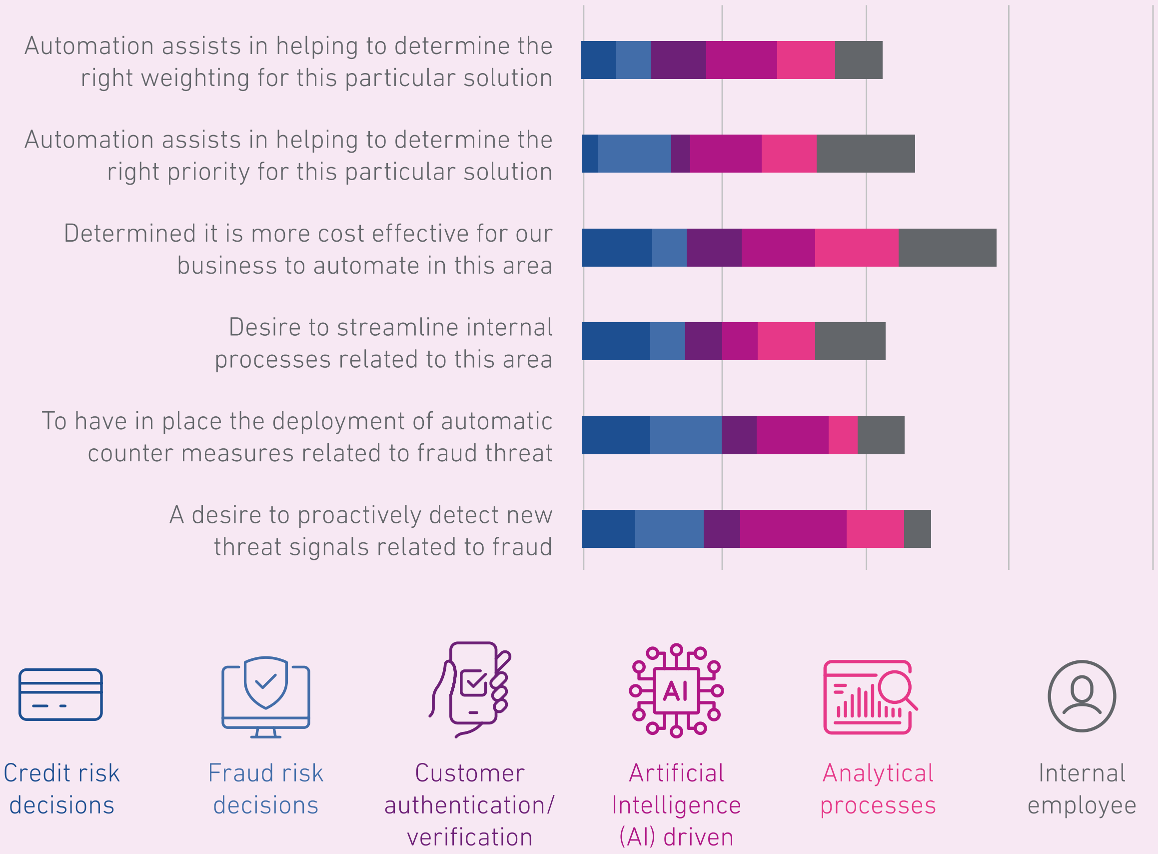
A serious commitment to **enhance technologies**

From our research, we believe the next 12 to 36 months will see a shift in budget and focus as lenders make a commitment towards enhancing technologies.

Increased investment areas

- AI / ML and cloud technologies are key investment areas, alongside automation and the digitisation of operating systems.
- Typically, there has been 8-10% more financial investment in improving credit-risk decisions in the last year versus the years prior.
- While fraud risk decisions have seen the biggest increase in investment over the last few years, there are further increased investments planned over the next one to three years.

What are the reason(s) that there has been more financial investment put towards these specific areas of automation in 2022



What are the key drivers for rolling out automation, AI and machine learning in your organisation? (Select top three)

Gaining insights into data and trends	16%
Straight through processing	19%
Value-added services	22%
Reducing costs through improved operations	25%
Improving digital customer experiences	27%
Risk management	28%
Enhancing scoring and modelling processes	43%
Innovation and competitive advantage/growth	54%
Compliance	64%

To what extent does your organisation use AI and machine learning to automate decisions? (Select the most appropriate option)

0%	We do not use AI and machine learning for credit decisions
2%	We have implemented AI and machine learning for fully automated credit decisions
3%	Credit decisioning is a mostly manual process for our credit risk teams
16%	We have rolled out AI and machine learning for certain products but are still working on the more complex/higher risk use cases
24%	We have started rolling out AI and machine learning for for automated credit decisions but there is some way to go
55%	We have a strategy in place to roll out AI and machine learning for credit decisions

Sustained investment areas

- More is being invested in AI/ML-driven automation.
- Investment on average has increased 25% in the last three years already.

Considerations and requirements when it comes to investing

- Purchasing decisions are typically led by regulatory policy demands.
- 72% are looking to outsource credit management in the next few years.
- Outsourcing of analytics and cloud service solutions is common, with few looking to build in house.

Needs-led requirements for investments

- The drivers of investment are cost reduction, streamlining operations and the ability to deploy new measures to counteract threats, such as fraud and the economic environment.
- From a purchasing view, sourcing new technology as an architecture is a critical requirement and priority.
  However, emphasis and priority are also placed on specific needs such as limit strategies / improving models as shorter-term improvements.
- Lack of evidence is preventing implementation of ML, whereas concerns over regulation are preventing greater use of AI.

Breaking down the barriers to next-level analytical decisioning

Financial Services companies want to invest more in AI, enhance their models with better analytics and different data sources, and make faster, more accurate decisions to serve their customers.

But as our survey highlights, companies face barriers to enhanced AI and machine learning techniques including cost, technical complexity, lack of internal support and concerns over effectiveness.

Barriers to enhanced AI and ML

27%
Increased activity from existing competitors

26%
Lack of automation in our tools

26%
Legacy technology systems

25%
New competitors moving into our space

24%
Increased exposure to fraud

23%
Lack of sufficient budget

Experian is uniquely placed to help you overcome these obstacles, thanks to our strength in data, decisioning and analytics.

Start the journey to improved AI

To maximise every opportunity, you need data, insight and analytics you can count on. That's where we come in.

We believe that data has the power to positively transform lives, and work to turn data into something meaningful.

So you can trust the decisions and insights it gives you. You can make business critical decisions with the kind of confidence that only comes from knowing you have the best credit risk analytics. You can grab every opportunity, with Analytics and Decisioning tools that make it simpler to optimise your customer originations and digital journeys. This applies across the customer lifecycle. Because only we have the data and analytics that enable a backward and forward-looking perspective at every stage.

For over 30 years Experian has been helping lenders make intelligent decisions. We provide decision management to the 7 biggest banks, as well as to a vast array of large and small organisations across a range of industries, including new fintech and start-up companies. Recognised by leading analysts and cited within Forbes top 100 most innovative companies five years in a row – we are constantly innovating, and partnering with industry to solve complex problems, increase efficiency and drive innovation – at speed and scale.

Our next generation decisioning and analytics platforms operationalise rich data and advanced analytics – while harnessing best in class data, too.

Through our cloud-based decision management systems, these attributes are integrated to automate instant decision-making at scale, unlock value, 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 any customer – consumer, or commercial.
All while being more efficient, accurate and customer centric.

All of our solutions are configurable, putting you in control of your strategy. We can offer rapid-start pre-configured decision systems with integrated data services and workflows, or dynamic systems allowing for customised workflows and integrations. With advanced analytics in your hands, you'll stay ahead, and stay agile, with confidence borne from data-led insight, not instinct.

Use our preconfigured options or create your own. Then manage it yourself, or let us do it all for you.

To find out more about **how Experian can support your investment in AI and machine learning**, please contact our expert team:

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