

Case study

**BMW
GROUP**

Financial Services



Helping BMW Group Financial Services ensure good customer outcomes by identifying customers at risk of becoming delinquent with Experian's Arrears Foresight

 **experian**TM



BMW Group Financial Services is an established and award-winning captive auto-finance lender.

Being part of the wider BMW Group, BMW Group Financial Services provide credit to purchasers of both new and used vehicles. BMW Group Financial Services was concerned about how the pandemic would impact its borrowers' ability to keep up with loan repayments and identified the need to assess its customers' resilience to find those that were likely to fall into arrears quickly and accurately so that they could be supported more effectively.



The challenge

As the pandemic developed, it became clear to BMW Group Financial Services that its impact would be significant and not short-term.

Unemployment had risen to the highest level in three years, and redundancies reached a level that hadn't been seen since 2009. All of this happened while the government introduced new measures and customers opted for payment deferrals to cushion the blow.

Borrowers had been able to take out a payment deferral since April 2020, with millions taking them out across a range of credit products. The regulator had asked lenders not to report these to credit bureaus, meaning many lenders could not accurately assess if their borrowers had taken out payment deferrals with another lender.

For BMW Group Financial Services this led to uncertainty around identifying which customer were most likely to enter arrears and so most in need of expert support. Thus, the pressure to quantify this risk and to devise the best strategy for both BMW Group Financial Services and its customers was on.

BMW Group Financial Services recognised it was better for their customers if they took a pro-active stance and approached Experian to better understand their existing customers and their diverse range of needs.

BMW Group Financial Services asked the following questions to help understand the range of outcomes for customers, and formulate strategies to support their collections operation.

01

Can we predict/model our customers' likelihood to have other payment deferrals?

02

How will the increase in unemployment impact specific sectors and portfolios?

03

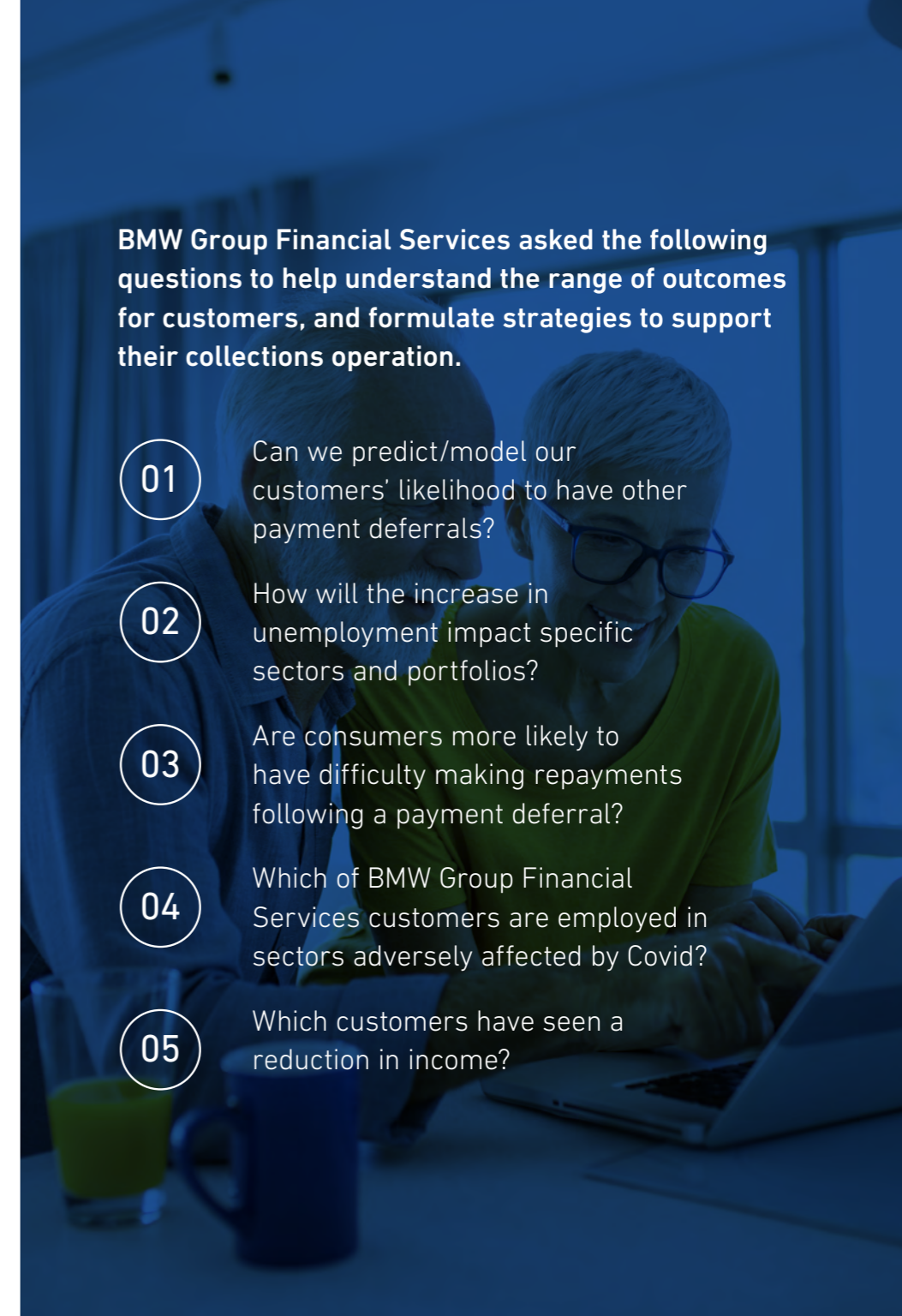
Are consumers more likely to have difficulty making repayments following a payment deferral?

04

Which of BMW Group Financial Services customers are employed in sectors adversely affected by Covid?

05

Which customers have seen a reduction in income?



The solution

To understand the impact of the pandemic on BMW Group Financial Services customers, Experian pulled together our market-leading Bureau data and award-winning economic forecasts to produce a framework to predict which customers were most at risk of falling into arrears.

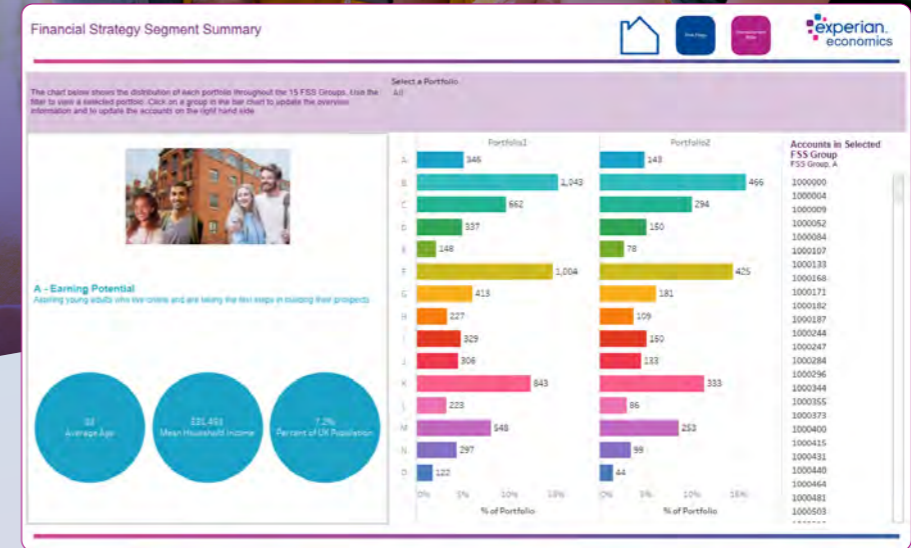
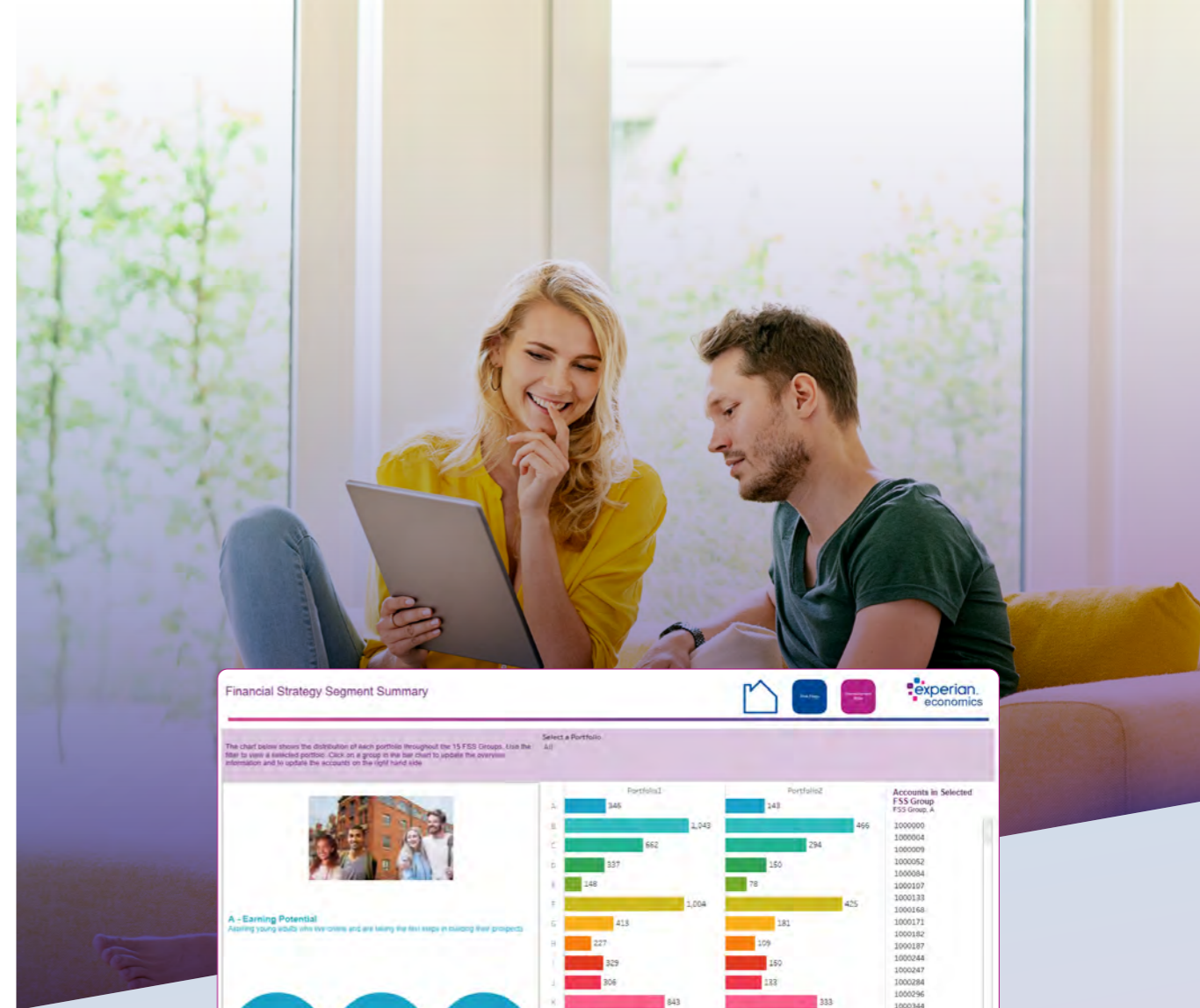
The key data assets were:

unemployment risk data, modelled Payment Deferral, CATO Income Shock and Delphi for Customer Management (DCM) scores.

The methodology we developed to forecast the potential arrears emergence was simple, transparent and resilient to the changes in the economy. Our foresight tool brought together unemployment forecasts, the latest Bureau Insights, as well as traditional credit risk indicators in the form of DCM scores. The tool first segmented each of these data fields into three categories and assigned each a Red/Amber/Green flag. For example, suppose a borrower

has a low risk of unemployment. In that case, they are assigned a Green unemployment flag, a medium risk is Amber, and finally, a high risk of unemployment is Red.

With the segments now defined we modelled BMW Group Financial Services exposure to the riskiest parts of the credit population, i.e. Red – Unemployment Risk, Red – Income Shock, Red – Payment Deferral and Red – DCM score (4 reds). The matrix analysis was carried out in Tableau, and a full account level file was returned.



Results

The insights generated a clear and powerful analysis, and BMW Group Financial Services was able to use these findings toward its strategy to supporting customers, providing expert, one-to-one telephone support for those most in need and ensuring the best customer outcomes in such uncertain times.

BMW Group Financial Services was able to use the Tableau dashboards to identify the customers who had the highest risk of falling into arrears. From an operational perspective, they were able to prioritise their proactive outbound calling to those most in need and help understand a customer's individual situation to provide them with tailored next steps.

BMW Group Financial Services also used the data to work through potential resource implications, for example, estimating how many outbound calls they would have to make and how many inbound contacts they were likely to receive. The analysis gave BMW reassurance around understanding the right levels of resource required to support customers during this time and ensure that one-to-one customer support was prioritised to those most in need.

“

Experian has helped us better understand the financial situation of our customers. This insight has helped inform our support and communications strategy to help those individuals worst affected by the pandemic. Experian's data and insights have supported BMW Group Financial Services ability to better navigate the uncertainties brought about by COVID-19.

The arrears foresight tool has also assisted us to determine customers who have experienced a significant increase in credit risk. This has been a useful support tool when calculating our Credit Risk Provision under IFRS9.”

Ben Stewart, Credit Risk Manager from BMW Group Financial Services.



Find out more

To learn more about Experian's IFRS 9 Credit Loss Insight (ICLI) tool, contact your Experian representative, or email us at



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