

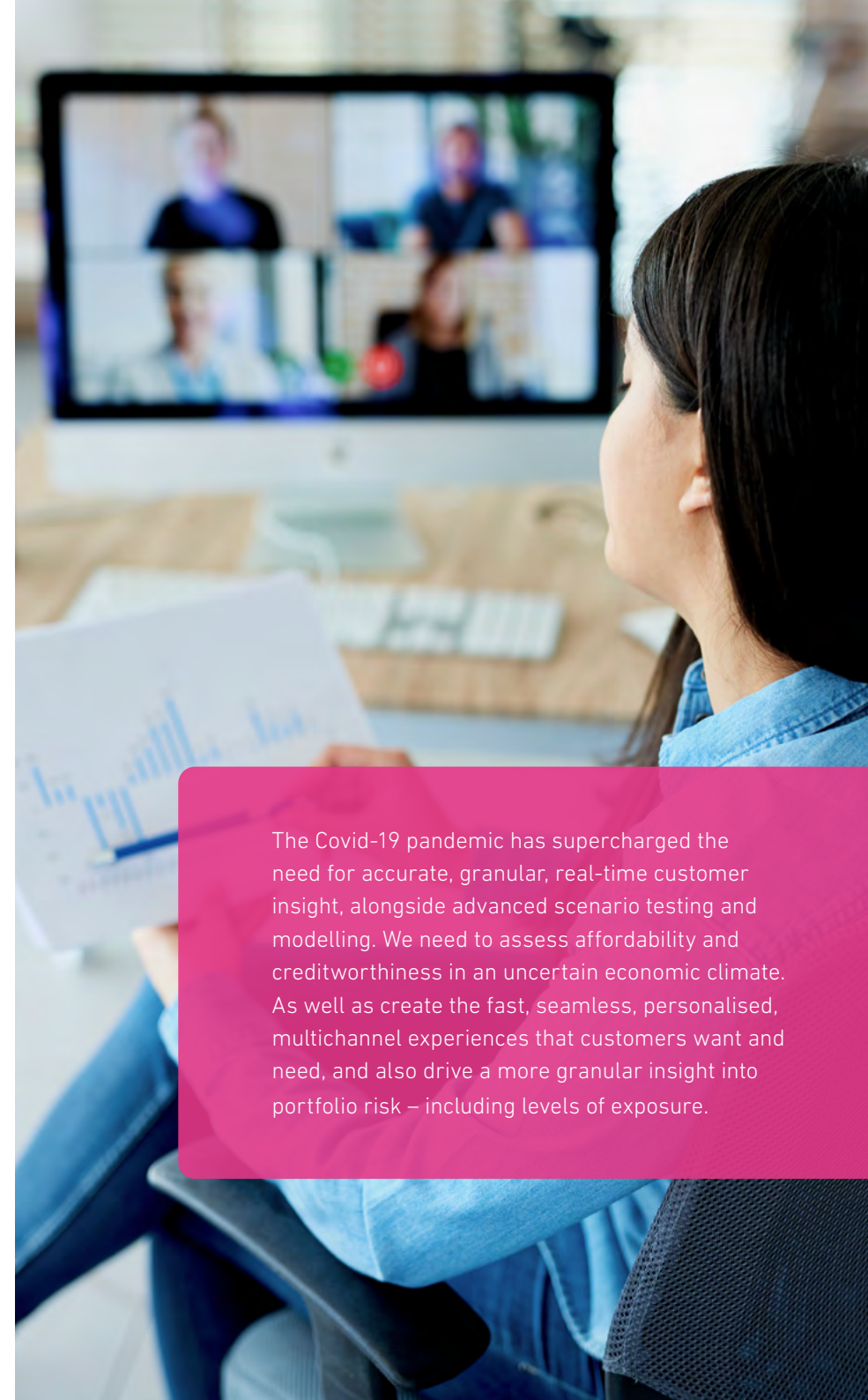
Analysing the future: from individual customers to the next big paradigm shift

How agile analytics can drive your recovery, resilience and growth, and help you navigate the rapidly changing world

Introduction

The pace of change is like nothing we've experienced before. The need to rapidly accelerate digital transformation has never been greater. How can businesses adapt to this new reality and unlock the full potential of advanced analytics to drive recovery and resilience? Not in 1-3 years but now in 1-3 months.

Nobody in living memory has ever faced a situation like the one we're living through. In such uncertain times, we need to create clarity. This can be achieved by interrogating the phenomenal amount of data that now exists in new ways. With new tools, we're able to understand the challenges and opportunities better than ever before.



The Covid-19 pandemic has supercharged the need for accurate, granular, real-time customer insight, alongside advanced scenario testing and modelling. We need to assess affordability and creditworthiness in an uncertain economic climate. As well as create the fast, seamless, personalised, multichannel experiences that customers want and need, and also drive a more granular insight into portfolio risk – including levels of exposure.

About this report

In this report, we explore what customer insights businesses need to balance recovery, risk and resilience in a world transformed by disruptive technologies, new socio-economic models and of course, the Covid-19 pandemic. Customer insight is critical, as is innovation in how insight is achieved and applied. We explore the challenges and opportunities identified by leading CXOs and decision-makers across the UK and EMEA.



As well as assessing the national scale of Covid-19's economic impact, we've been helping our clients understand their portfolios and economic exposure. Our intelligent analytical environment and modelling tools include these bespoke scenario modelling and revisions for loss forecasting.



Everything has changed

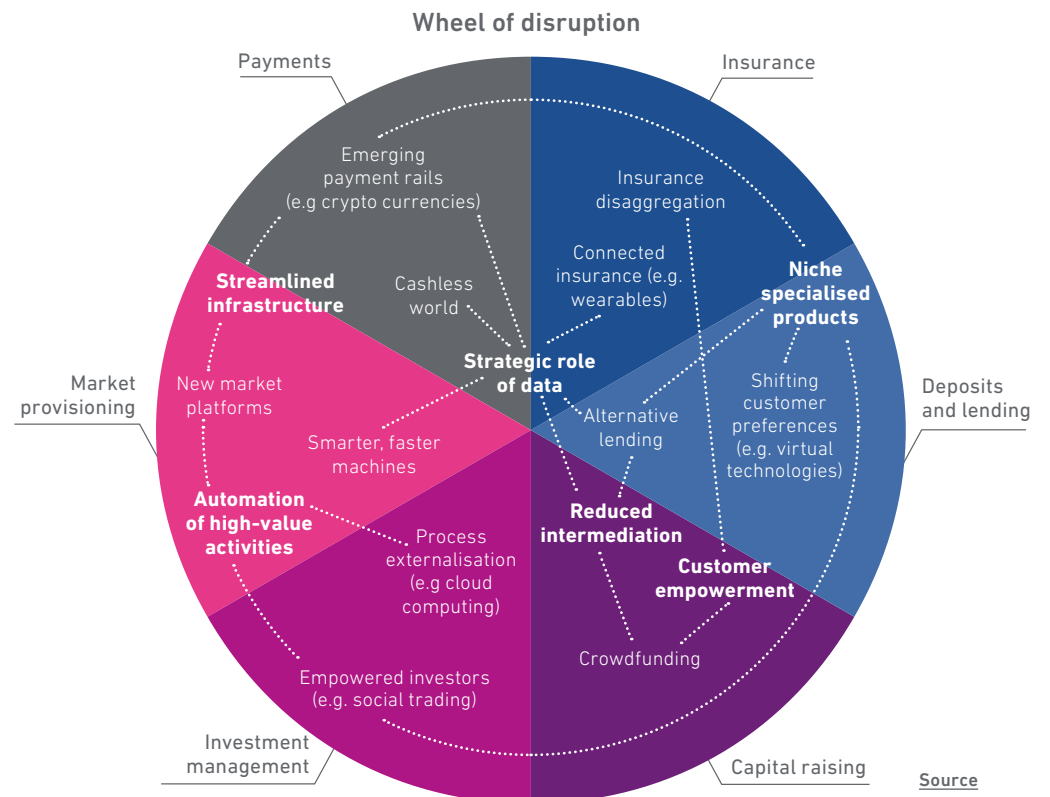
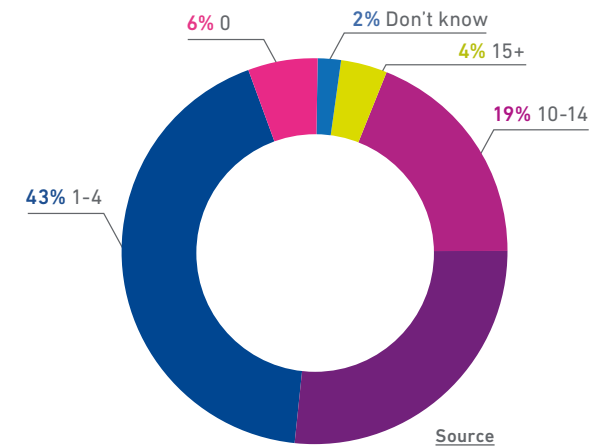
It's clear the Covid-19 pandemic has driven a comprehensive and lasting shift in consumer behaviour, expectations and values. It has also taken us past a technological tipping point with businesses investing in data, analytics and technology like never before.

Access to the right combination of insight, analytical expertise and consistently accurate, up-to-date, complete datasets will fundamentally improve customer insight, and in turn, relationships. Success in the era of personalisation hinges on agility and the ability to move at the speed of the market – or even faster. Plus, the addition to scale.

The opportunities are out there, but there are many critical challenges ahead too.

A number of megatrends are affecting our markets over the longer term and shaping our operating landscape. These include new digital journeys, changes in the way consumers access digital financial services linked to the emergence of data, and the need for sophisticated analytics to verify and interpret this data.

Shifting timelines
Average number of years that Covid-19 has accelerated companies' digital communications strategies



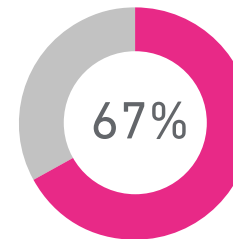
Rethinking resilience, risk and reward

Certainty can be just as important as value

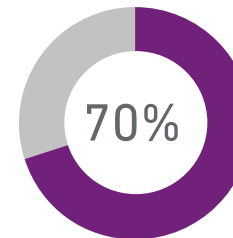
One of the most telling findings of our research is that 67% of customers would like to know which financial products they are pre-approved for, before they apply. This is, in some cases, an even more important consideration for customers than the overall value of the product. Pre-approval saves them time, reduces anxiety in the application process, and ensures that their credit rating is never compromised due to a failed application.

Another highly significant statistic is that 47% of customers would welcome pre-population of application forms with their data. This is supported elsewhere in our research; a significant percentage of customers making online applications dropped out because they were asked for information that was too detailed or not readily to hand.

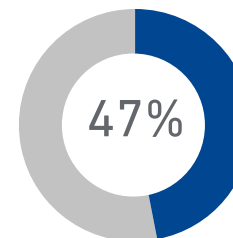
How the customer need aligns to business strategies



67% of customers would like to know which financial products they are pre-approved for, before they apply

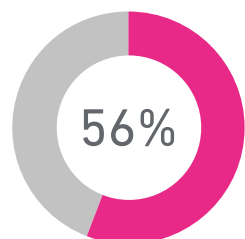


70% of consumers would like online advice during an application (e.g. live chat)

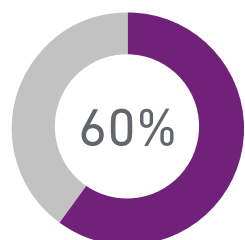


47% of customers would welcome pre-population of application forms with their data

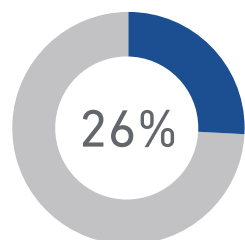
Advanced analytics and customer insight will drive recovery and resilience



Around 56% of firms expect to be trading at pre-pandemic revenue and profit levels within the next 12 months. More than 80% expect to recover their position within 18 months

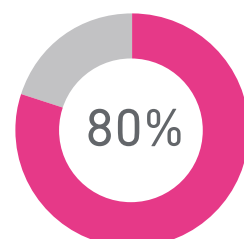


Decision-makers have been fast to adapt and respond, adopting defensive strategies. These include improving customer engagement and boosting productivity, with around 60% of firms also pursuing aggressive growth initiatives



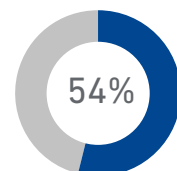
It's clear there's no going back to pre-pandemic business models, with lack of automation across all commercial functions now an acute challenge for more than one in four (26%) businesses

Machine learning (ML) and artificial intelligence (AI) will be used business-wide

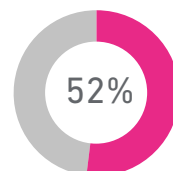


Up to 80% of firms' budgets for advanced analytics and customer insight have now been increased or are being fully retained.

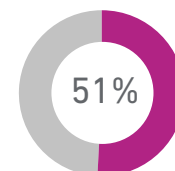
Decision-makers plan to expand adoption of data and analytics to drive customer insights for acquisition, marketing and product development



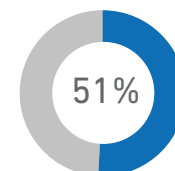
of firms are increasing their use of ML/AI for customer service



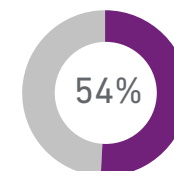
to create personalised offers



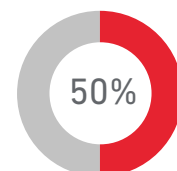
for data management



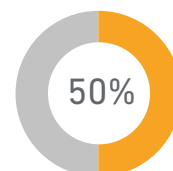
for fraud prevention



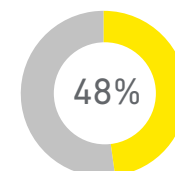
for risk management



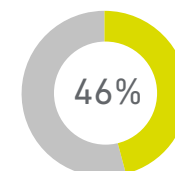
for customer onboarding



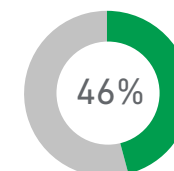
for product development



for customer lifecycle management



for acquisition targeting



for collections

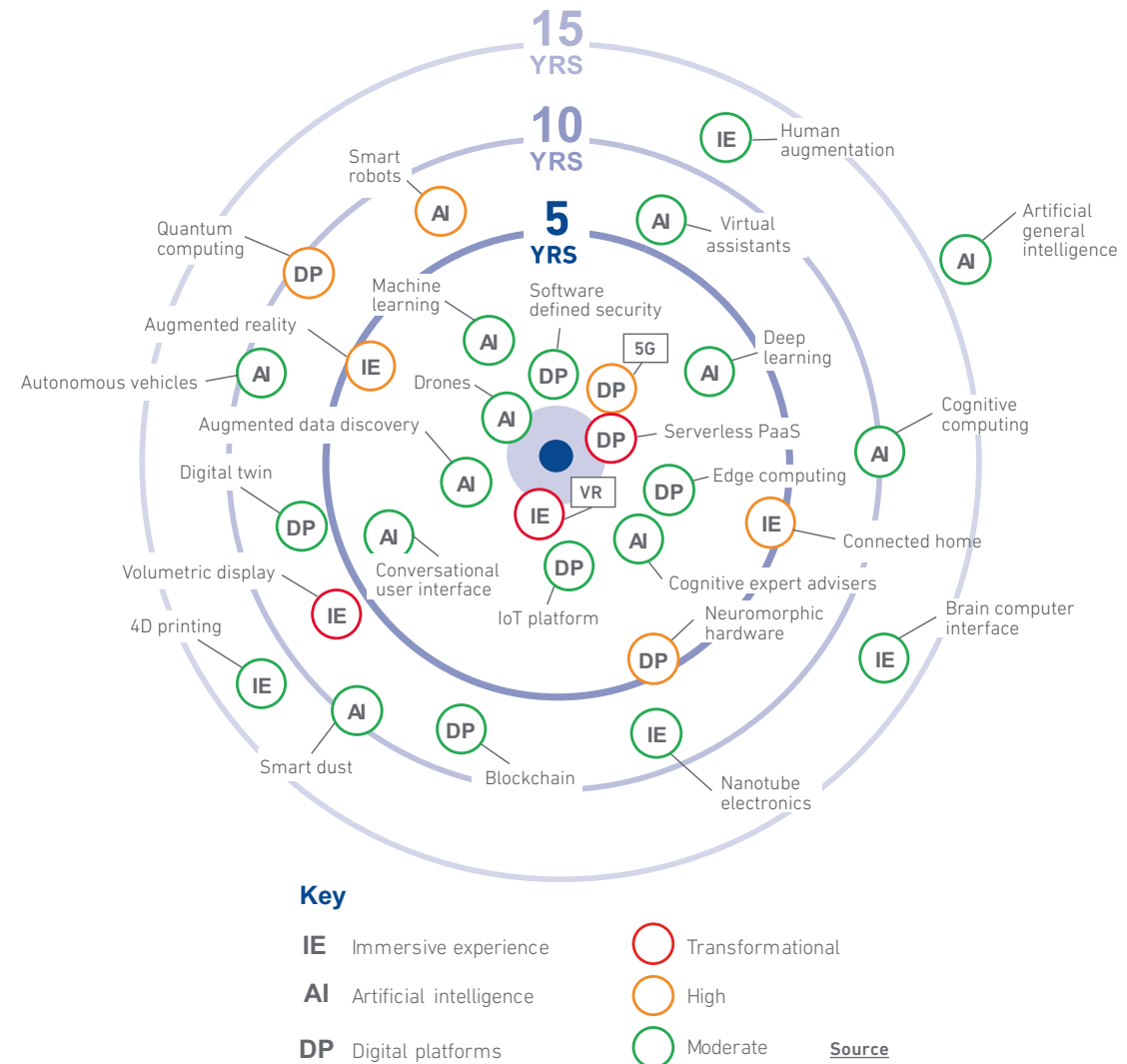
Disruption will be key to staying agile and adaptable

Analytics can make your business a disruptor, by helping it become ever-more customer centric. In turn, it can also help you comply with regulation. But agile, advanced analytics rely on continual augmentation – faster data, faster technology, faster outcomes, all constantly updating.

It's key to use technology and analytics platforms that allow for this continual enhancement and self-learning through machine learning. Having analytically rich capabilities that continually update and augment will ensure you are always ahead, agile and adaptable.

With innovations like 5G and quantum computing just around the corner, you will need to put yourself in a strong position to respond to multiple technological shifts over the next few years, alongside major socio-economic changes driven by climate change.

Emerging technology, and its forecast transformative potential



Understanding an individual takes multiple data sources

Gaining insight from rich and varied data sources is key to improving customer insight. Transaction data provided by open banking, for example, will enable you to manage and support your customers as individuals, strengthened by bureau data and the UK's formidable credit data sharing ecosystem.

There are a range of additional data sources (traditional and new) which can provide vital supplementary data insight. For example:

1. Through our own modelling of transactional data, we have seen a significant benefit for customers who have a limited credit file. By utilising transaction data in the credit scoring phase, consumers could potentially boost their credit score, with 30% experiencing a +20 point increase. By adding this supplementary data it improves insight around behavioural trends in scoring strategies which complements bureau data.
2. Currently, the official unemployment rate is stagnant, sitting just below 4%. Through our own analysis (where we have supplemented official figures with additional factors – including payroll

data for example) we have calculated the rate to sit closer to 6%. Through further modelling, which includes factoring in a record quarterly drop in the number of self-employed people, we believe that the eventual unemployment rate will rise to near 9%. By underestimating unemployment, there is a risk of underestimating credit provision.

3. The pioneering development of web data insights, currently supporting credit risk strategies across EMEA, can follow even the smallest firm's digital footprints on the internet. It analyses public unstructured data gathered from the web, combines it with machine learning techniques, to develop models that enable companies to add another dimension to their credit risk matrix for portfolio assessment. This extra layer of insight also boosts 'traditional' credit scores by 20%, while even offering high predictive power as a standalone score.

We've continued to invest in new organic and inorganic capabilities that are enhancing insight into customer liquidity in retail and commercial banking. We believe a deeper understanding of your customers' financial stability, capacity and behaviours through trend analysis and early warning signals, will be imperative to managing risk.



How do you determine risk from opportunity right now?

There are areas of the economy at risk, but also areas which will grow faster than others. We have modelled this through the creation of our confidence index. Each indicator is ranked amongst local areas and transformed to a specified exponential distribution to generate a score for each area. These scores derived from six indicators are combined using appropriate weighting to form an overall confidence index.

Within our index, we can map regions and local areas against risk, or opportunity. Currently, areas within the Greater South East dominate the top ranks. Parts of the South West languish at the bottom of the spectrum, with Birmingham's performance the weakest among the UK's largest cities. For businesses, having clear, up-to-date insight and foresight into these changing trends will be key to understanding customers' financial wellbeing and risk.

Resilience Index

LEAST AT RISK

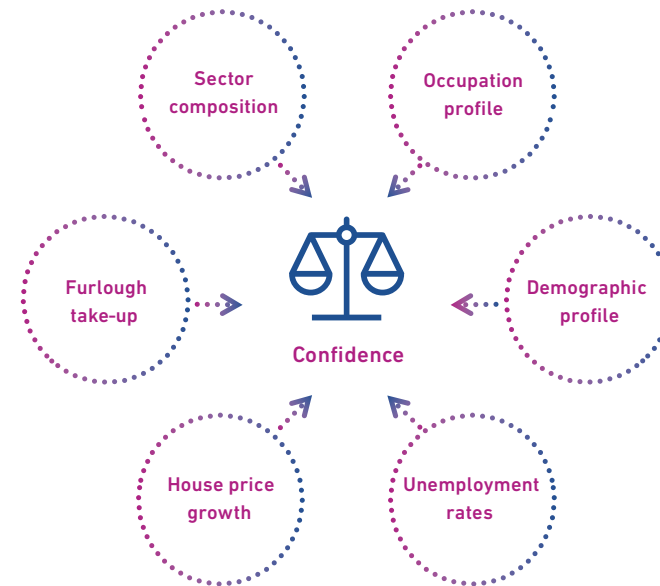
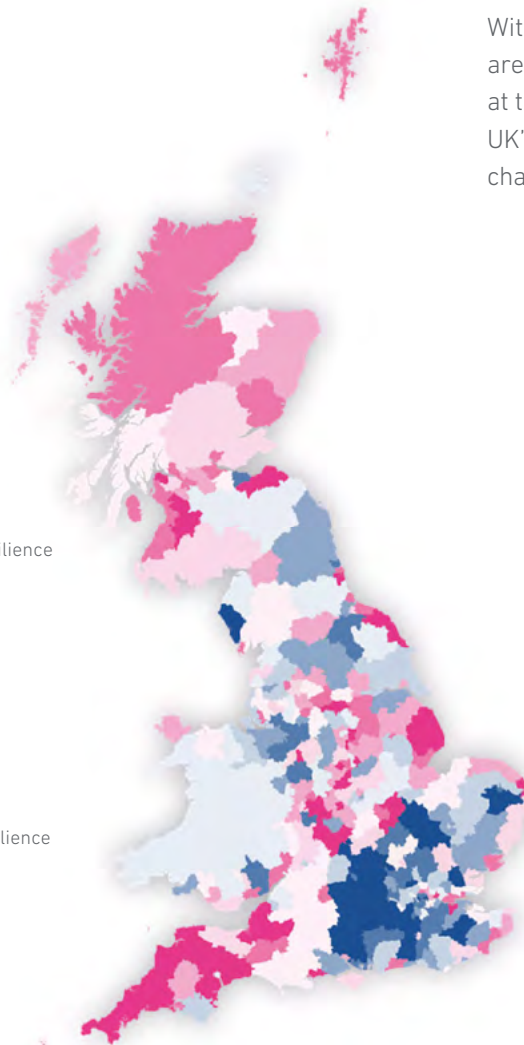
South Cambridgeshire
West Berkshire
Reigate and Banstead
Windsor and Maidenhead
Basingstoke and Deane
Hart
Wokingham
Surrey Heath
Mole Valley
Barking and Dagenham
Cornwall
Torridge
Sunderland
Sandwell
Sedgemoor
Isles of Scilly
East Devon
Torbay
Gravesham

MOST AT RISK

High resilience

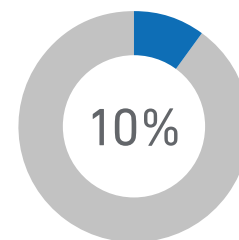


Low resilience



Metrics have changed and become more complex

In order to understand trends, granular analysis that considers regions and individuals is imperative.



We expect 10% of the furlough population to lose their employment

Customers who were financially vulnerable before the crisis began are seeing their situations worsen. Others with a usually strong financial track record are looking at unemployment, financial exposure and genuine hardship for the very first time. To add to the complexity, gaining a true picture of customers' financial health has been tricky with government support like the furlough scheme masking risk in the short term.

We expect 10% of the furlough population to lose their employment and our modelling shows the potential additional impact of that in terms of income shock. Further modelling of areas such as emergency payment holidays, highlights that if 10% of the emergency payment holiday population default, the impact will be 80% greater than we saw in the 2008 financial crisis. If 20% default, then the impact will be 200% greater. This impact is likely to affect both low and high scoring customers, so not just those seen as high-risk, but those currently seen as a good risk. This makes it more important than ever to continually assess the latest data and insights.

Advanced analytics will help you discover and navigate new metrics

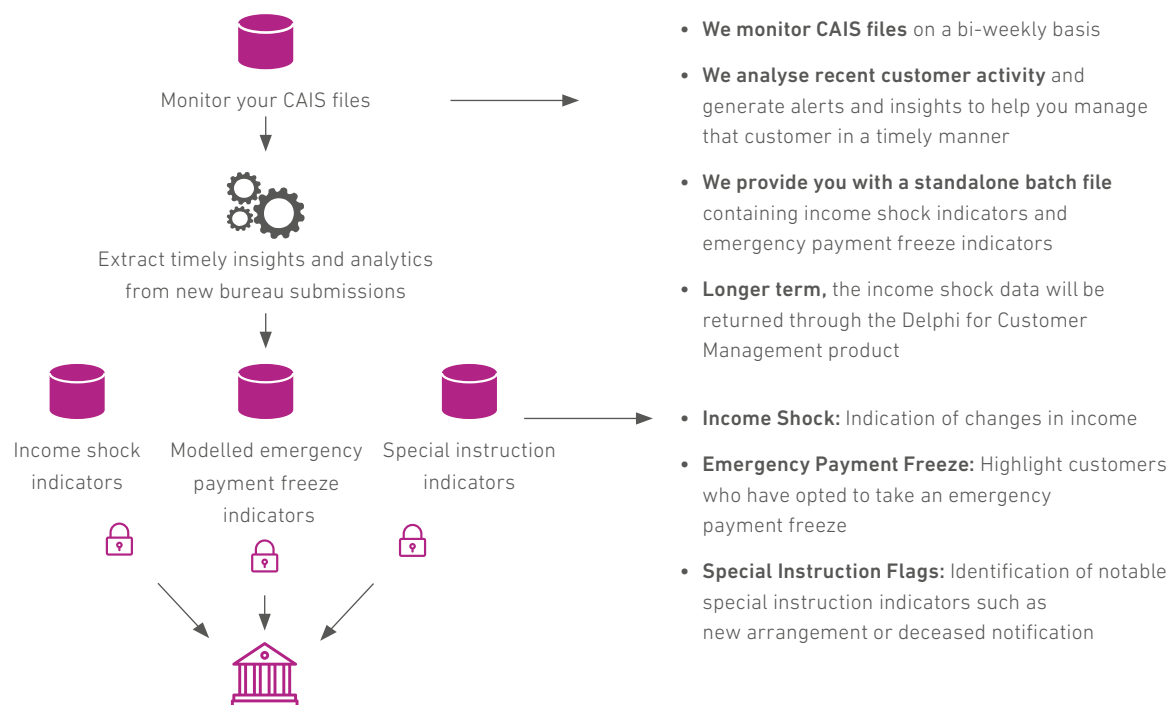


To understand the volatility in consumers' financial capacity, it's now critically important that you have the ability to recognise signals from your data, in order to understand what action is needed. Advanced analytics can enable you to do this quickly and effectively.

Being able to determine which patterns are common for each individual, and which are indicators of impending stress, will help you manage your customers and wider portfolio far better. For example, the changing fortunes of different sectors and geographical areas during the pandemic is having a huge impact on employment, local economies, and ultimately, individuals.

Several key consumer metrics have already emerged, including income shock, income stability, and indebtedness. Our analytical experts have created tools that can help provide a modelled indicator of change. Available instantly, this will give you the ability to immediately improve your insight and actions by integrating ready-made tools, purposely designed to solve unclear challenges such as these.

Modelled indicators plug the payment holiday data gap



What's going to happen next?

With so much statistical analysis being performed at present to understand the changing environment, you can also access a wealth of data insights and analysis. But now more than ever it's important to understand what it's telling you, and dig beneath the top layer.



Rapid, relevant scenario modelling

With further economic turbulence ahead, you can't rely on affordability at the point of application. You need to continually assess whether lending will be affordable for individual customers as their circumstances evolve and create an environment where you can test scenarios and accurately assess exposure and loss. You also need the ability of foresight into when affordability has changed and what will happen if it changes – to the individual and your portfolio. That's why effective, ongoing scenario modelling is crucial.

Tools like Experian Ascend, our analytics-on-demand platform, can provide vital access to greater data insights, alongside analytical models that help you understand and test future change – and compare your performance and KPIs against the market. Our ongoing investments in data, analytics and technology have enabled us to create a sandbox environment for you to test and learn. Enabling you to assess the impact of change at a granular level, for example, what would happen if food prices go up, or interest rates.

Advanced analytical platforms, such as a sandbox environment, allow you to understand the impact of changes to your current policy rules in the live environment. For example, you could identify any exposure caused by economic stress, new segment groups to target, or what products would be suited to which customers.

Scenarios led purely by macro-economic or traditional credit drivers may no longer enable you to plot a successful path forward. Quite simply, they were built before today's challenges were even imagined. So it's time to develop, test and integrate new scenarios. We combine macro-economics with the potential progression of the pandemic, regulatory response, shifting supply and demand and regional differences in both impact and response. Whether through our Ascend platform, or purpose built models by our expert economists and analysts, we can help you provision and prepare.

Read more about Ascend

Deeper customer insight will unlock new opportunities

Customer insight combined with a greater emphasis on affordability is good for both consumers and lenders. It enables providers to support people in personalised, relevant ways and provide experiences that strengthen trust and loyalty; while reducing risk and lightening the load for collections teams. Nurturing lifelong relationships with new and existing customers will also support your recovery and resilience.

Experian have an unrivalled breadth and quality of data. We're in a unique position, to be able to look back, look at now, and look forward, thanks to our in-house, award-winning economic and data teams. Combined, our powerful data, analytical and economic insights can help you forensically understand your portfolio, including how it's economically exposed – or will be, and benchmark against the rest of the market.

We've been gathering data on UK consumers for over 30 years. Every month we add over 750,000,000 records from over 600 of the largest and most up-to-date sources who supply their data - in real-time, daily, monthly, quarterly, depending on what's most appropriate – into our consumer credit bureau.

Depth and breadth of data

750m

We add over 750 million records from over 600 of the largest and most up-to-date sources in the UK into our consumer credit bureau every month

Data quality

30 years

For over 30 years, we've managed the UK's largest and most comprehensive source of consumer information

Wealth of experience

5,000

Our data, people and processes are trusted by over 5,000 clients and millions of consumers

Addressing the shortfall in trusted tools

Providing the support your existing customers need, and the fast, affordable lending that new customers are looking for is key. It's essential you understand what credit you can realistically and responsibly offer to each individual, and on what terms. You need to build a clear picture of who's exposed, how extensively, and how that's likely to unfold in the short and longer term.

Delving deeper into profiles will help you understand individual impact. Being able to differentiate between consumers with the same credit profile will help you produce better segmentation and ultimately mitigate risks.

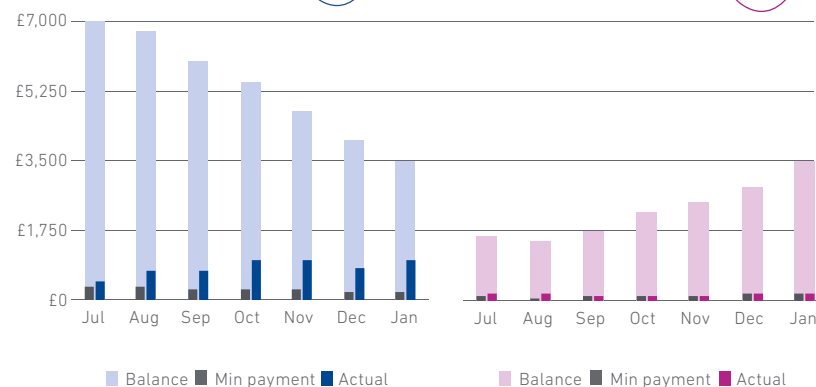
When it comes to evaluating risk and making critical lending decisions, the tools and models you trusted just a few months ago, may no longer be robust or relevant enough, including statistical data sources. Everything will need reviewing and recalibrating, with the focus on clear-sighted, ongoing affordability, rather than historical creditworthiness, from onboarding onwards. In many instances, there is also a need to add supplementary, non-traditional data to ensure you are fully understanding the picture to the granularity required. Analytics are only as good as the data they are working from. And this age-old saying is evermore important to ensure you are fully prepared and aware.

Protecting the future

Scoring today... but one person will look very different tomorrow



Scoring tomorrow... but how can you pre-empt change?



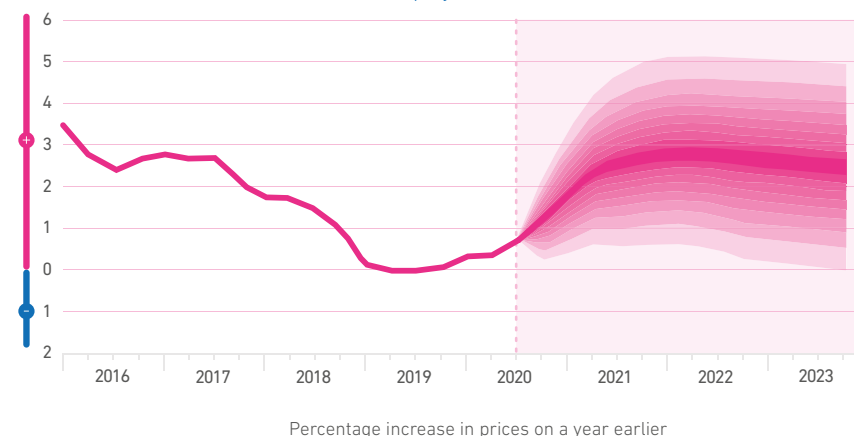
Since the pandemic began, we've been building robust, evidenced scenarios that map the likely impact of the crisis on the UK economy. This includes critical factors such as unemployment, inflation, credit availability and sterling depreciation. Building an in-depth understanding of the implications of various likely scenarios is fundamental to stabilising and protecting your portfolio. We can help you create portfolio-tailored unemployment curves, meet your IFRS9 modelling requirements and calculate Expected Credit Loss (ECL) forecasts in just a few clicks.

Our latest models and scenarios can help you answer many critical, and timely questions. How many customers have payment deferrals with other lenders, and on what products? How will increases in unemployment impact specific sectors and your portfolio? Are consumers more likely to go into arrears after a payment deferral? How would we be impacted if there was a second Covid-19 wave? The breadth of our data and analytical expertise can help you quickly, at scale, answer many critical questions. Helping you understand the range of outcomes for your customers and plan upscaling of the collection's operation.

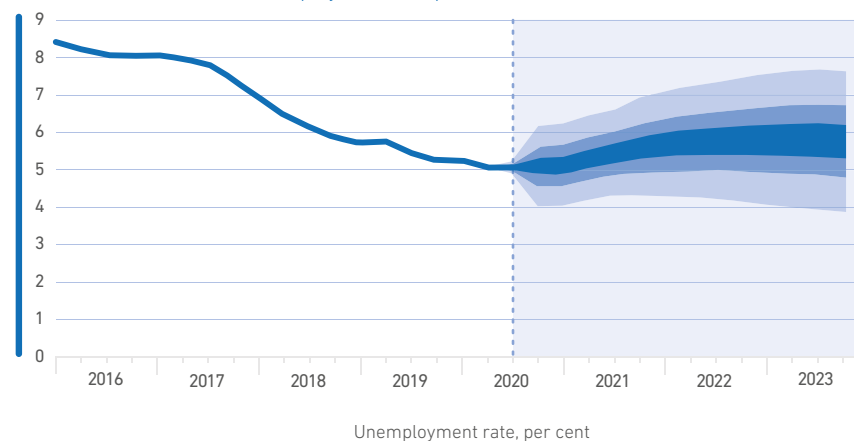
If someone according to all of our insights is indicative of risk, we can attribute an unemployment risk indicator that is supplemented with a prior risk indicator, to give a probability of default. This can be presented in value, and volume – helping you understand the likely reality by applying an estimated probability of arrears based on the combination of risks. We can then forecast collections, helping you with foresight and action.

IFRS9 Expected Credit Loss calculation include forward looking probability weighted economic scenarios

CPI inflation projection (narrow bands)



Unemployment rate projection (narrow bands)



Data in a time of changing metrics

In an ever-evolving world, data continues to be one of the biggest assets – including the data held by you, us and new data sources including open data. But what counts is the ability to combine and analyse data from all those sources to extract the insight you need.



Experian are innovating to help you harness the open data opportunity

We're leading the way with open data, driving value for our clients and consumers. Open data means we can introduce new services such as affordability checking tools, personal finance management and recommendation engines. The Experian Open Data Platform (ODP) has a repository of over 150 Application Programming Interfaces (APIs) that can be used to power digital services by providing access to demographic, lifestyle, financial and non-financial product information with consumer consent.

The recency of this data is key – there is a time lag before arrears are visible on the credit bureau. But open banking gives insight based on current financial position and potentially a much more accurate and up-to-date view of financial stress.

In these difficult times, we understand that businesses need ready-analysed, actionable data and insights, complete with best next actions, risk analysis and a clear commentary on how all of this flows through to portfolios.

We have a whole range of products and services that offer powerful economic and regulatory analytics. They equip you to assess the impact of the pandemic on your portfolios, meet your regulatory reporting obligations and plan for the future based on reasonable, supportable assumptions.

We can also develop appropriate, effective, highly granular models that consider the different variables in play. This gives you clearer, more accurate forecasts of what's to come. What we provide goes beyond just insights; offering you the interpretation, consultancy and support you need to put your plans into action at pace.

Conclusion – You can't always predict the future but you can prepare for it

Partnering with a company that's already invested in analytics, will help you rapidly increase your analytical capabilities and data insight in 1-3 months, not 1-3 years. Our data scientists and analytics consultants are here to help you determine the best strategies for your business. Our analytically advanced capabilities can equip you with the ability to test the impact of business scenarios before rolling them out, respond to changing market needs, fast; access the latest analytics techniques through our services data; reduce risk; and upskill your own analytics teams.

Our varied portfolio offers the latest tools, models and techniques to solve the most complex problems, and improve your insight and foresight. From specific capabilities that can enhance specific tasks, to full-strategic design, to empowering you with self-serve tools. Our three decades of analytical expertise spanning bureau, custom and regulatory analytics, coupled with unrivalled market and portfolio insights, provides the tools designed for today, and tomorrow.

Sources:

<https://bit.ly/35WsCns>

<https://on.ft.com/33NpXtx>

<https://bit.ly/2RLuUgW>

<https://bit.ly/35RfSP3>

We're also working with many industry leaders to perform bespoke, granular scenario testing to give a better view of portfolio risk, helping to drive strategies for change that will protect the near future.



Visit our continually updated Covid-19 content hub to see how we can help:
www.experian.co.uk/about-us/covid-19-resources

Visit now

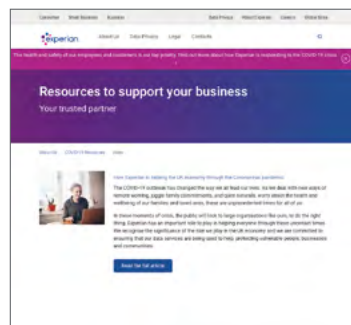
Sign up to our insight webinars held monthly covering Consumer and Commercial Credit trends:

Register now

Read our supplementary content:



Download paper



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

The insight contained within this report is prepared using research performed on both Experian data and external data sources, in addition to market research. All sources, unless referenced, are from Experian insight.

The information contained within this report is designed to help businesses manage the complexity brought by a national crisis - and is a summary of key areas and capabilities. Experian are making this information available, in the public interest, to help firms understand the breadth of change and requirements needed in order to better support, and protect, consumers and businesses nationally.

To understand more about the breadth of market-leading capability Experian has, or to access further detail on the impact of Covid-19 on consumers, business and lending portfolios - please contact us.



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

© Experian 2020.

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.