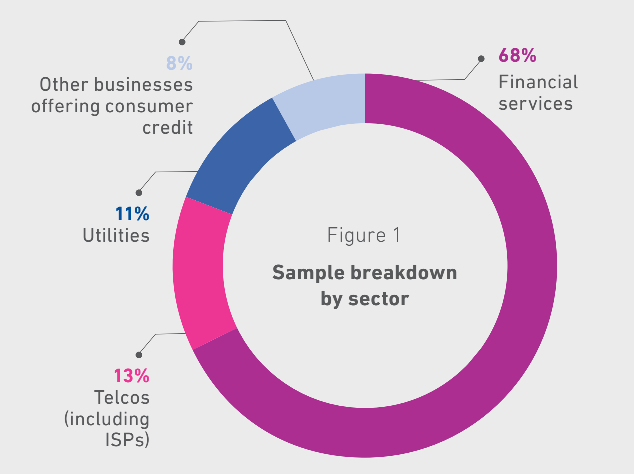
Benchmark report

Optimising originations

The challenges, priorities and moving forward

Methodology

Experian conducted a survey to look at how originations is evolving to address increasing competitive threats and drive business value. Produced by Insight Avenue, an independent specialist B2B and technology research agency in September 2019, the study surveyed 205 individuals with responsibility for or input into decisions relating to consumer credit risk analysis in business across Australia and New Zealand with at least 50 employees. Organisations that were surveyed came from financial services, telecommunications and utilities and a variety of business functions were included, such as Credit Risk, Business Strategy, Collections, Compliance, IT, Operations and Digital.



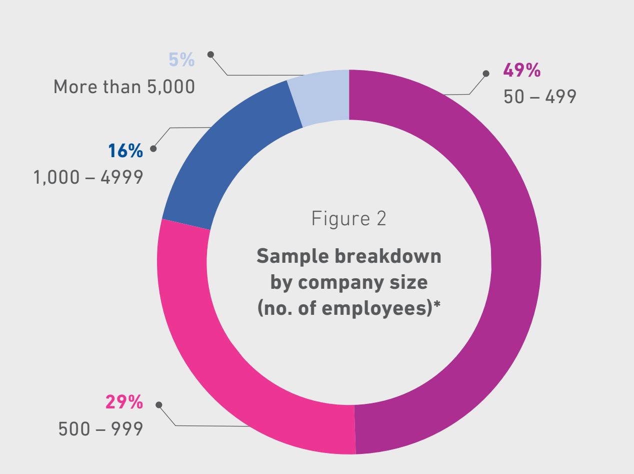


Figure 3 - **Sample breakdown by financial services sub-sector**

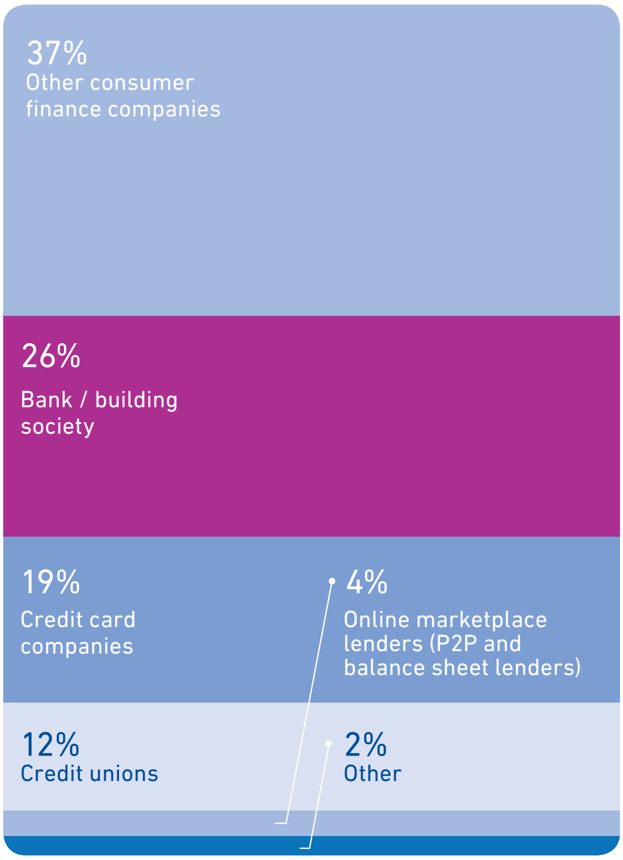


Figure 4 – **Sample breakdown by job function***

*May sum to 99% or 101% due to rounding.

Contents

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Executive Summary

Digital disruption is accelerating the pace of credit decision making, expanding understanding of borrower behaviour and creating new opportunities to enhance the customer experience. This research finds digital disruption is the "new normal" and organisations are challenged by customers, compliance as well as by competitors, whilst focused on driving cost reduction and operational efficiency. Open Data and Open Banking are likely accelerating the need to transform across the customer lifecycle, with originations being the starting point. Businesses identify many shortcomings in their current originations processes and can readily identify areas and key performance indicators (KPIs) needing improvement. There is a sense of urgency in plans to overhaul originations and a need for practical advice on how to best enhance originations in order to positively impact the whole customer lifecycle.

> "Comprehensive Credit Reporting (CCR) and Open Data provides organisations with an opportunity to transform regulatory change into a responsible growth, enhanced customer experience and improved operational efficiency opportunity. This is most pronounced at the point of origination, reinforcing the need to invest in agile and adaptable capabilities to process, govern, decision and ingest data"

Although originations teams vary in their approaches, they are unified by an appetite to evolve. Access to data and automation emerge as cornerstones of improvement ambitions, alongside a recognition that skills, culture and innovation also play a key role in driving originations agility. This ultimately propels customer acquisition to become the benchmark for other parts of the customer lifecycle and business.

Key insights from the research

Disrupt or be disrupted

The main business challenges over the next two years

67%
Cost reduction / efficiency pressures

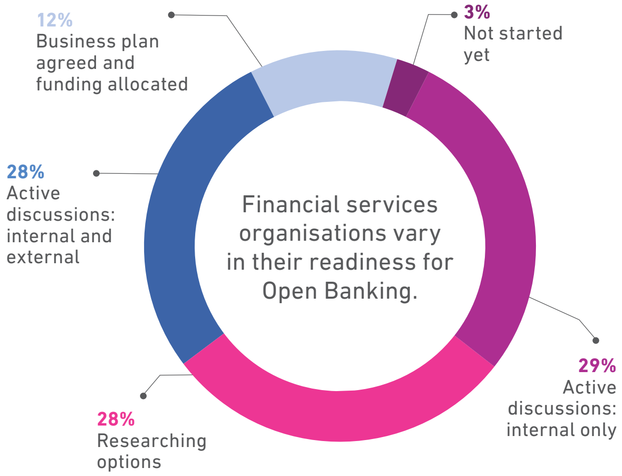
60%
Increasing customer expectations

54%
Competitive pressure

51%
Ensuring regulatory compliance

89%
of all businesses say disruptive competitors are forcing them to rethink how they manage the entire customer lifecycle

76%
of financial services businesses say responsible lending is a corporate imperative for them



71% say it is creating challenges as they rethink processes and relationships with customers, although 72% see it as a force for good for the industry and consumers alike. Other sectors are further behind with Open Data - 66% see it as a force for good and 73% say it is creating challenges.

Originations: The first frontier

71%

of businesses see optimal performance in acquiring new customers as extremely important more so than in...

47%
Verifying customers and reducing fraud losses

42%
Managing risk to reduce credit losses

39%
Meeting compliance obligations

Currently, only around a quarter to a third of businesses see their risk analysis performance as excellent with no scope for improvement in any of these areas – lowest for acquiring new customers (26%).

Investment in these areas has typically increased in the last two years.

86%

Invest in acquiring new customers

and to a lesser extent for managing risks to reduce credit losses (69%), meeting compliance obligations (66%) and verifying customers and reducing fraud losses (62%).

The area most likely to be ranked first for investment over the next two years is...

48%
Acquiring new customers

22%
Managing risk to reduce credit losses

84%

Say getting originations right helps them improve across the entire customer lifecycle.

Pain points and performance priorities

Top 5 challenges facing businesses in originations

1 **90%** **Need tailored approaches to credit risk analysis depending on the financial product**

2 **89%** Increasing volume of applications

3 **87%** Lack of efficiency in credit risk analysis

4 **85%** Increasing or evolving fraud and security risks

5 **84%** Keeping up with the latest credit risk analysis methods / dynamic credit risk ecosystem.

Data sources most likely to be currently used to inform originations decisions are internal data (72%), followed by positive data (49%) and external data (49%). Data sources most likely to be planned in the next 12 months are device intelligence (52%), income verification data (45) and socio-economic data (45%).

Areas where businesses are looking to improve performance in the next two years to effectively compete include

96%
Time to unconditional approval

93%
Time to conditional approval

90%
Cross-sell / up-sell performance

89%
Customer experience feedback

88%
Percentage of fraudulent applications

88%
Loan origination costs

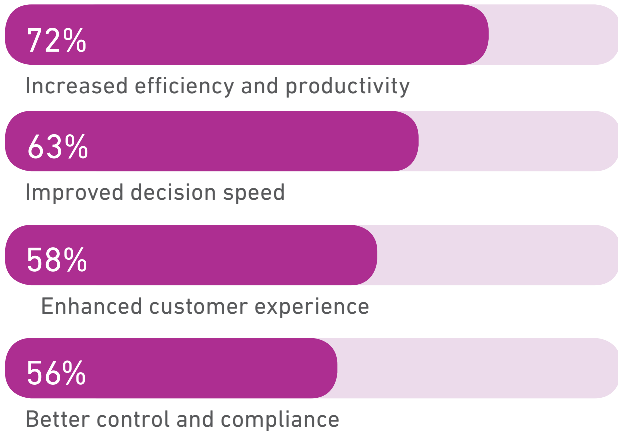
66%

say they are concerned about the implications of using alternative data on compliance.

Is automation the answer?

From start to finish, currently an average of 51% of the originations process is automated with businesses looking to increase this to 59% over the next 12-24 months to optimise business outcomes.

Key expected outcomes from automating originations data and processes are...



Key barriers to increased automation of originations are cost (65%), lack of technology skills (53%) and effort involved in moving from legacy systems and processes (50%). Secondary challenges are integration challenges (43%) and inertia / reluctance to change (41%).

Moving forward with originations

Organisations highlight a number of ways their originations process could be improved. They are most emphatic about definite improvements in enhancing originations agility (66% say this could definitely be improved, 30% probably – 96% total improvement). Other areas where they think they could definitely or probably improve are in the ability to leverage alternative sources of data to sell more and better manage credit risk (95%), more training / upskilling across the business in credit risk analysis (94%), automated compliance and know your customer (KYC) checks (93%), more use of machine learning techniques (92%) and building interactive tools to foster customer engagement (92%).

Typically, most organisations say they can process an emergency change to system strategy within 1-4 hours (45%), 31% taking up to a day. **13% can do this within 1 hour.**

Typically, organisations would expect a revenue uplift of **7-10% (46%)** in the next two years if they invested more into originations performance (providing all the necessary tools, analytics, skills and investment).

81% say they are interested in practical help around how to improve originations in their organisation.

67% think they need to make significant improvements to originations performance in the next 12 months so as not to lose customers and revenue.

Disrupt or be disrupted

Businesses in Australia and New Zealand offering consumer credit are facing unprecedented disruption in the market as new fintech models challenge traditional approaches. Alongside this, customers have more knowledge and choice than ever before resulting in higher expectations and a reduced tolerance for a sub-optimal customer experience.

Organisations highlight challenges from all sides, as shown in Figure 5. Perennial cost reduction and efficiency pressures grapple for attention with increasing customer expectations, competitive pressure and the ever-present need for regulatory compliance. These challenges are forcing businesses to re-evaluate their operating models in order to remain competitive and fit for purpose.

In fact, 89% of respondents say that disruptive competitors are forcing them to rethink how they manage the entire customer lifecycle.

Within financial services, responsible lending is also an ongoing concern with 76% identifying this as a corporate imperative. As well as this, there is much hype and speculation around Open Banking and what this will mean for the industry. Although 72% of financial services respondents see it as a force for good for the industry and consumers alike, 71% admit it is already creating challenges as they rethink processes and relationships with customers. Figure 6 shows that financial services businesses vary in their readiness for Open Banking too - 12% have a business plan agreed and funding allocated. Similar proportions are researching options (28%), having active internal discussions (29%) or active internal and external discussions (28%). Other sectors such as telco and utilities are a little further behind in their readiness for Open Data, whilst three-quarters (73%) voice concerns about the challenges this poses.

Against this backdrop, the spotlight falls on originations and how this function is performing in the face of such disruption.

Figure 5 - **Business challenges in the next two years**

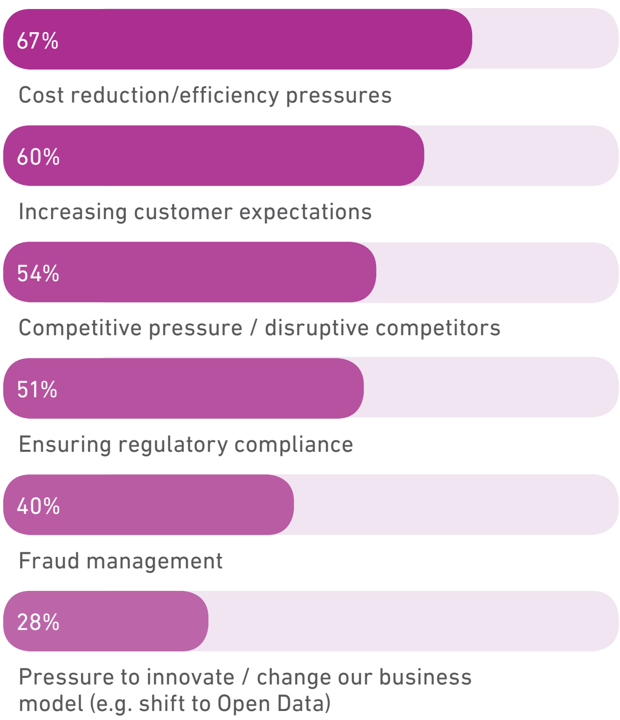
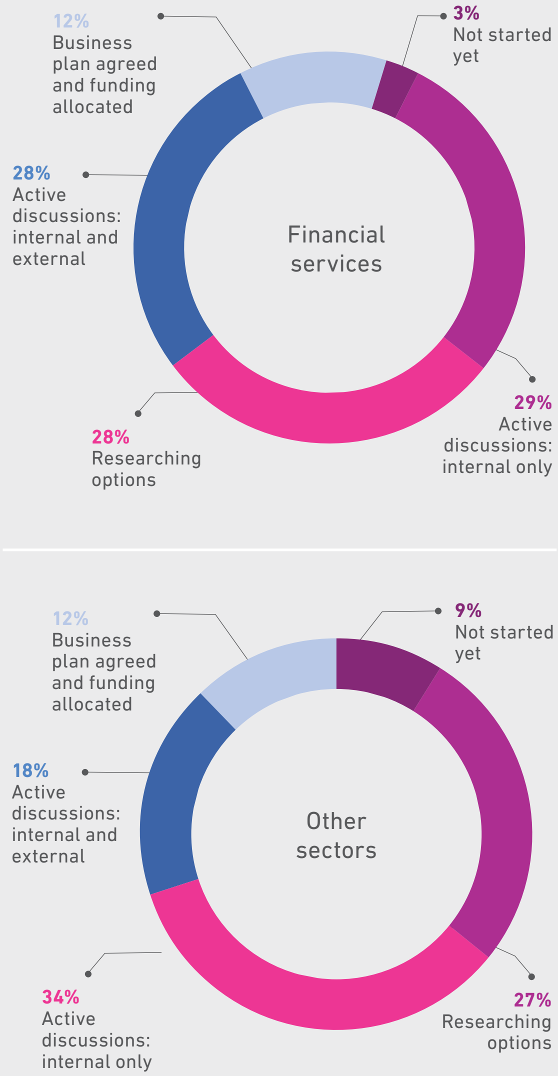


Figure 6 – **Readiness for Open Data / Open Banking**



89% of respondents say that disruptive competitors are forcing them to rethink how they manage the entire customer lifecycle

Originations - The first frontier

Originations (customer acquisition) is, for customers, the first touchpoint with a lending business and for a business, the first chance to optimise both the quantity and quality of the customers it acquires. Figure 7 shows that businesses see optimal performance in acquiring new customers as extremely important (71%) – more so than in verifying customers and reducing fraud losses (47%), managing risk to reduce credit losses (42%) and meeting compliance obligations (39%).

Having established the importance of originations as the first frontier of customer contact, the research explores current performance here and in other areas. Currently, only around a quarter to a third of businesses see their risk analysis performance as excellent with no scope for improvement in any of these areas – 35% for meeting compliance obligations, 34% for managing risk to reduce credit losses, 33% for verifying customers and reducing fraud losses. This drops to 26% for acquiring new customers – showing the biggest gap between importance and actual performance. Investment in all of these areas has typically increased in the last two years – particularly in acquiring new customers (86%), and to a lesser extent for managing risks to reduce credit losses (69%), meeting compliance obligations (66%) and verifying customers and reducing fraud losses (62%). Furthermore, the area most likely to be ranked first for investment over the next two years is acquiring new customers (48%) followed by managing risk to reduce credit losses (22%).

Increased investment in originations over the last couple of years does not appear to be delivering for everyone and with more investment likely over the next few years, it is critical that businesses have a clear plan around what this originations investment will ultimately deliver in terms of measurable outcomes and real business value.

With 84% of respondents saying getting originations right helps them improve across the entire customer lifecycle, there is a strong appetite to optimise performance here.

Figure 8 shows three originations team typologies in businesses within Australia and New Zealand. These range from "Traditional and resistant to change, with focus on keeping the lights on (31%)" to "Stable but flexible when needed and focused on gradual improvement (55%)" through to "Experimental / agile / curious – willing to try new things and fail, then learn and adapt (14%)". All typologies face challenges but with a third showing resistance to change, mindset appears to be as important as anything else in the quest to optimise originations.

Figure 7 - **Importance of optimal performance over the next two years***

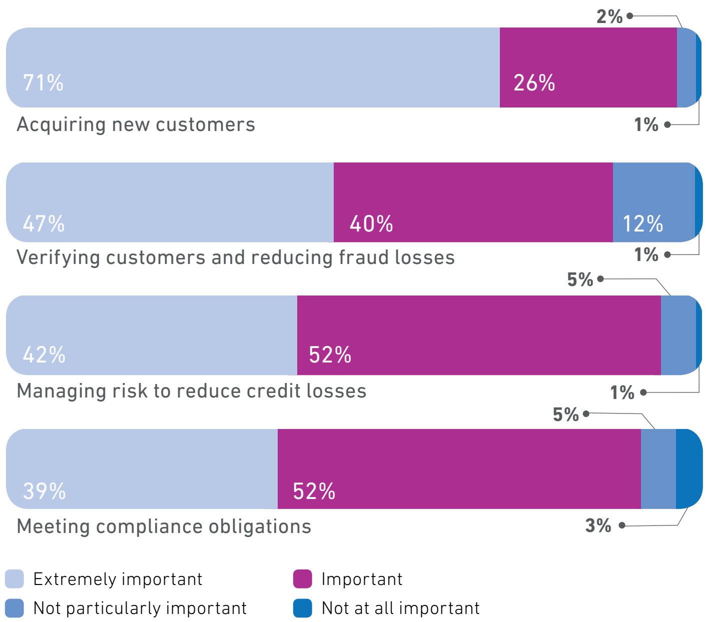
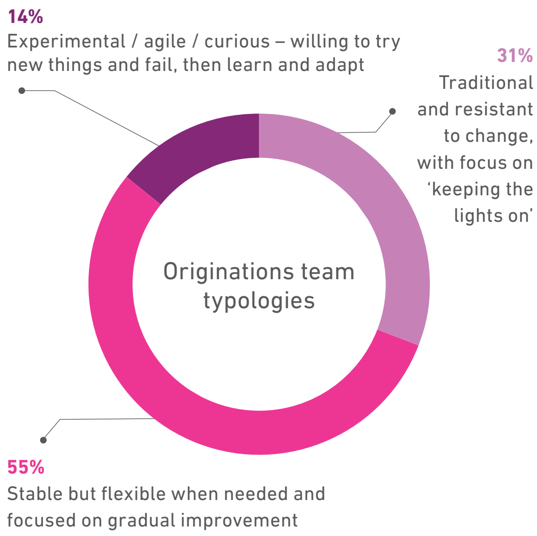


Figure 8 - **Originations team typologies**



*May sum to 99% or 101% due to rounding.

With **84%** of respondents saying getting originations right helps them improve across the entire customer lifecycle, there is a strong appetite to optimise performance here.

Pain points and performance priorities

With a performance deficit in originations, it is important to highlight where the key pain points reside and what is making the process of acquiring customers so difficult. Figure 9 shows the extent to which businesses consider different elements of originations to be a challenge.

The top element considered to be a significant or moderate challenge to businesses in Australia and New Zealand is the need for tailored approaches to credit risk analysis depending on the financial product (90%).

This was followed by an increasing volume of applications (89%), lack of efficiency in credit risk analysis (87%), increasing or evolving fraud and security risks (85%) as well as keeping up with the latest credit risk analysis methods / dynamic credit risk ecosystem (84%). Together, these point to a lack of agility in the originations function and processes and the need for a more holistic approach moving forwards.

Data is the fuel for optimising originations forming the foundation of any all customer acquisition decisions. The data sources most likely to be currently used to inform originations decisions are internal data (72%), followed by positive data (49%) and external data (49%). Data sources most likely to be planned in next 12 months are device intelligence (52%), income verification data (45%) and socio-economic data (45%). Data, by its very nature is dynamic. Sources of data are constantly evolving and decisions around optimal data sources ideally involve return on investment (ROI) and risk analysis, as well as regulatory impact. With two thirds of respondents saying they are concerned about the implications of using alternative data on compliance, businesses are treading carefully and likely to take a “wait and see” approach.

Moving forward, businesses are keen to address originations performance in several core areas over the next two years in order to effectively compete. As shown in Figure 10, these include time to unconditional approval (96%), time to conditional approval (93%), cross-sell / up-sell performance (90%), customer experience feedback (89%), % of fraudulent applications (88%) and loan origination costs (88%). Ambitions and stakes are high as originations is thrust under the company spotlight as a competitive differentiator and time will tell whether these improvements fully materialise.

Figure 9 – **Challenges in current originations process***

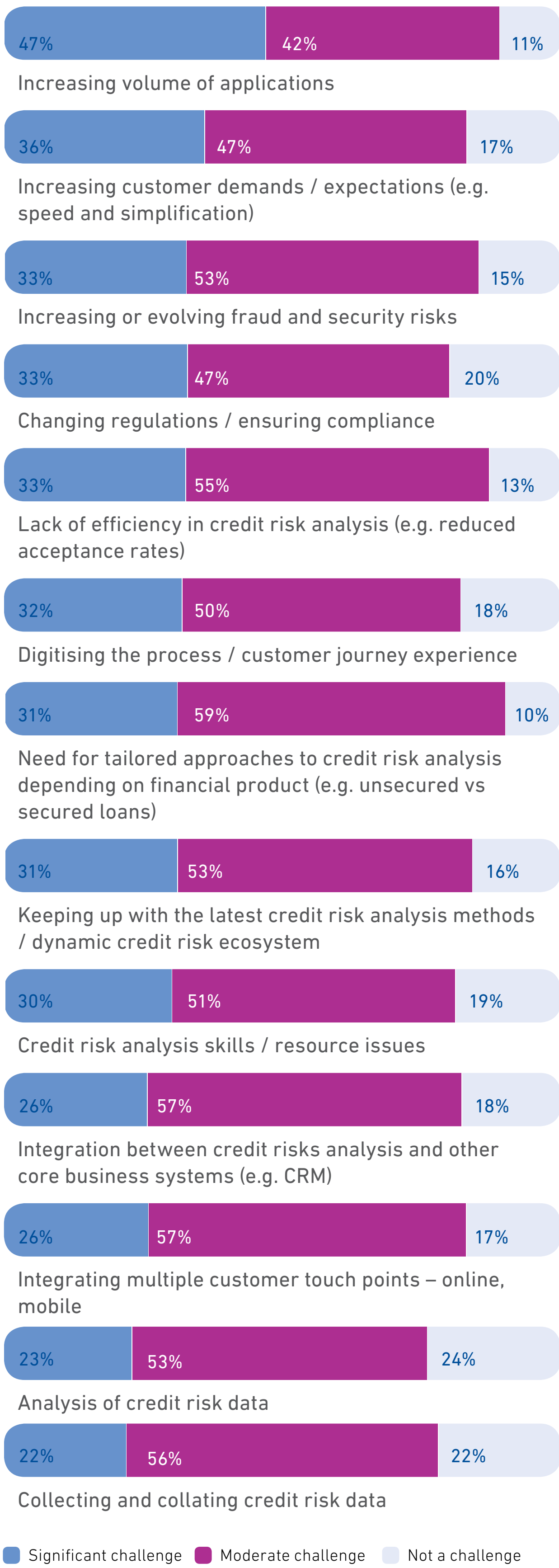


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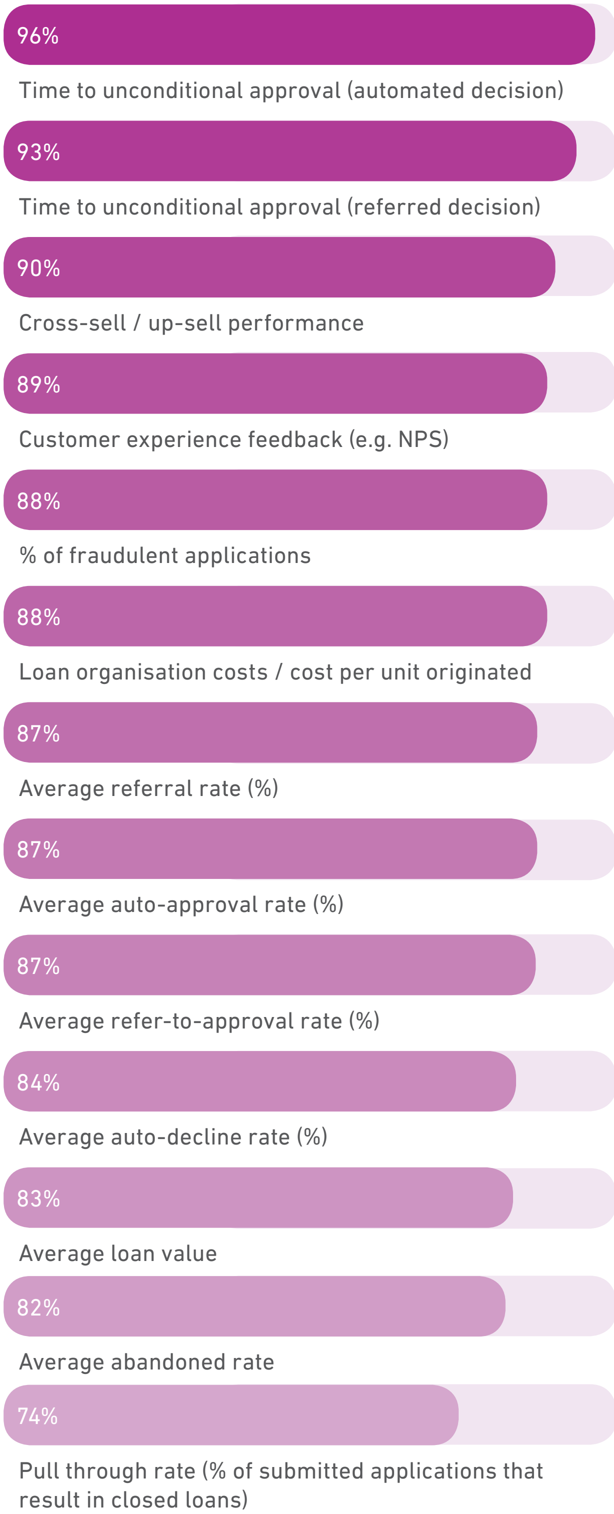
Figure 10 – **Performance priorities in the next two years to effectively compete**



Section 4

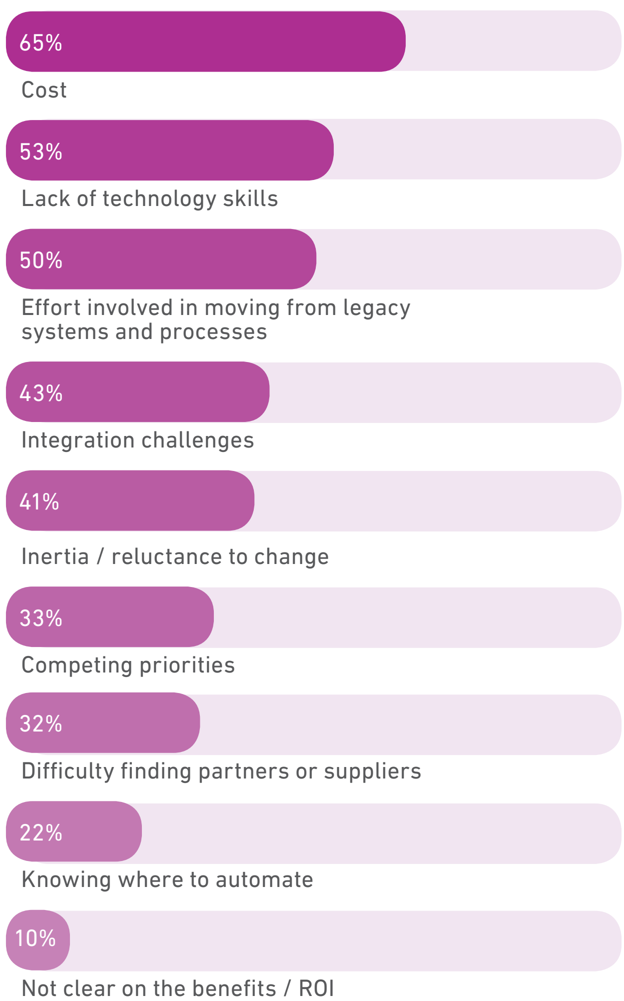
Is automation the answer?

Many businesses grappling with cost pressures and a need to be more operationally efficient turn to automation. The originations process is no exception.

From start to finish, currently an average of 51% of the originations process is automated with organisations looking to increase this to an average of 59% over the next 12-24 months in order to optimize business outcomes.

It seems there are considerable barriers to fully automating originations over the next few years. Figure 11 identifies the key barriers to increased automation as cost (65%), lack of technology skills (53%) and effort involved in moving from legacy systems and processes (50%).

Figure 11 – **Barriers to increased automation of originations**

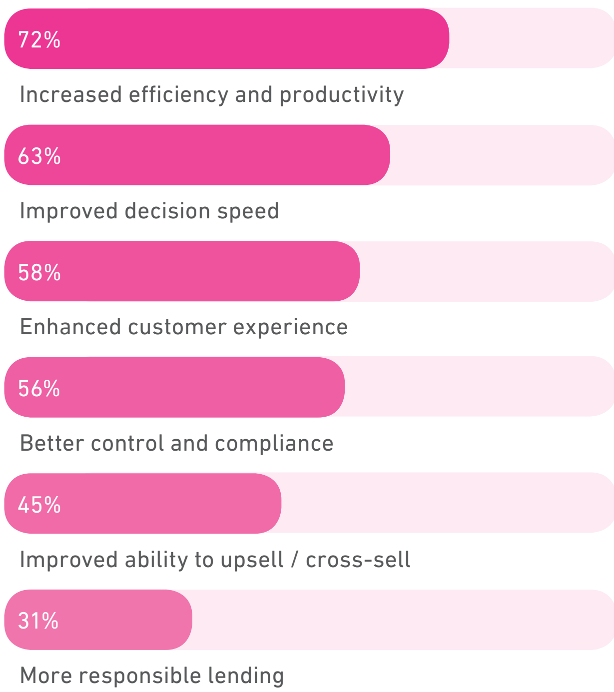


From start to finish, currently an average of **51%** of the originations process is automated with organisations looking to increase this to an average of **59%** over the next 12-24 months in order to optimise business outcomes.

Secondary barriers are integration challenges (43%) and inertia / reluctance to change (41%). Improved measurement of outcomes and ROI may go some way to addressing some of these barriers, but many of these are more embedded in the culture of originations departments, and even the wider organisation, alongside skills shortages and concerns about how to balance the old and the new with the minimum of operational disruption.

Organisations recognise the benefits of automation citing the outcomes they would expect from increased automation of originations data and processes as increased efficiency and productivity (72%), improved decision speed (63%), enhanced customer experience (58%) and better control and compliance (56%). These closely align as counterpoints to the business challenges they highlight as concerns over the next two years (shown in Figure 5), raising questions about why originations is not automating more quickly and more extensively. Ultimately, organisations must challenge their own “automation paralysis” as nimbler competitors more readily embrace technology and data to enhance the whole customer lifecycle.

Figure 12 – **Expected outcomes from automating originations data & processes**



Moving forward with originations

Agility has been a corporate imperative for many years as market conditions, customer requirements and technology demand businesses to be both more responsive and more proactive. The research explores several areas of agility in originations – including the ability to process an emergency change to system strategy and adjustments to origination policy rules as well as to originations solutions. Typically, most organisations can process an emergency change to system strategy within 1-4 hours (45%), 31% taking up to a day. Just 13% can do this within 1 hour, suggesting there is scope to improve agility here.

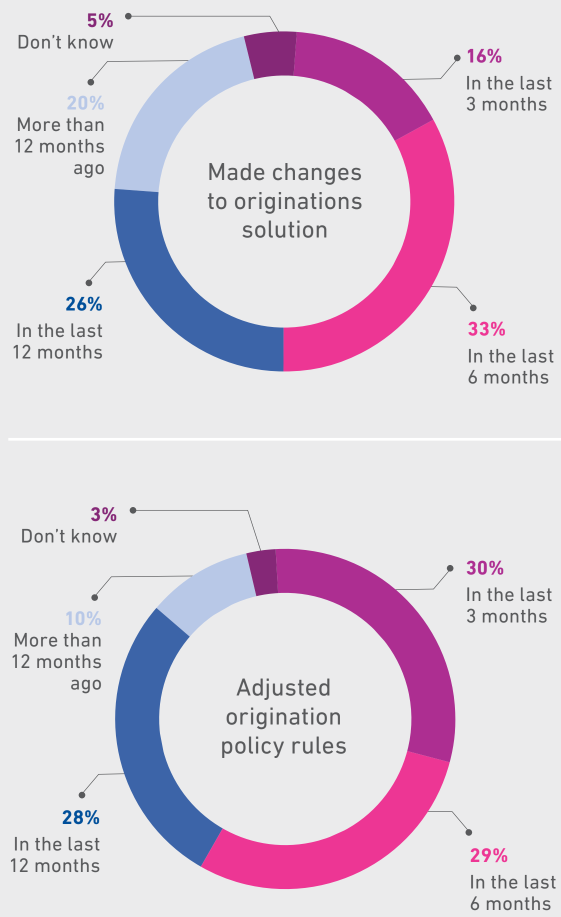
Figure 13 shows that 30% of organisations have adjusted origination policy rules in the last 3 months, 29% in the last 6 months. Furthermore, 16% have made changes to their originations solution in the last 3 months, 33% in the last 6 months. 1 in 5 have not made changes to their solution in the last 12 months.

Organisations readily highlight ways their originations process could be improved, as shown in Figure 14.

96% of organisations are most empathetic about improving originations agility (66% say this could definitely be improved, followed by a further 30% saying probably).

Other areas where they think they could definitely or probably improve are in the ability to leverage alternative sources of data to sell more and better manage credit risk (95%), more training / upskilling across the business in credit risk analysis (94%), automated compliance and KYC checks (93%), more use of machine learning techniques (92%) and building interactive tools to foster customer engagement (92%). These improvements range from tweaks and marginal gains to wider transformation of the entire originations process, and point again to an urgency to improve. In fact, 67% think they need to make significant improvements to originations performance in the next 12 months so as not to lose customers and revenue.

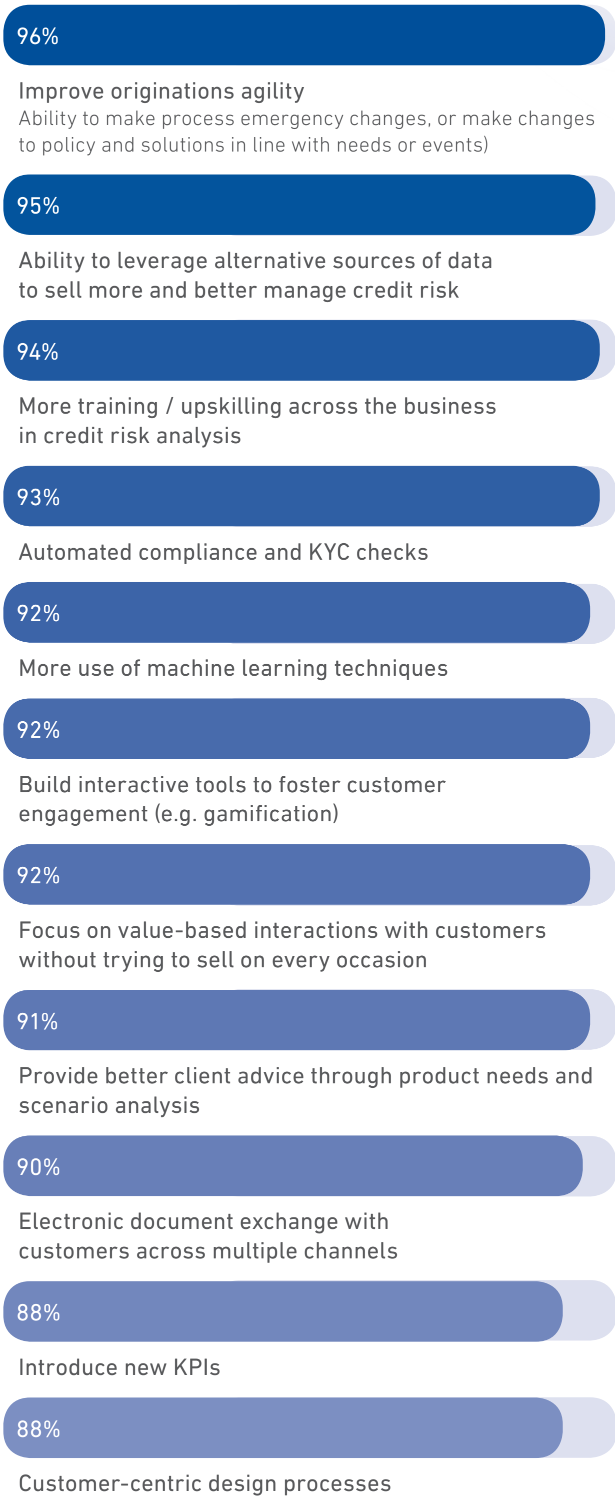
Figure 13 – **Agility in originations policy and technology**



In terms of ROI, typically organisations would expect a revenue uplift of 7-10% (46%) in the next two years if they invested more into originations performance (providing all the necessary tools, analytics, skills and investment). Yet, with evident barriers around automation, there is a need for clear strategy, measurement and an approach that tackles shortcomings on a technical, cultural as well as operational front. With 81% saying they are interested in practical help around how to improve originations in their organisation, the appetite to evolve is evident. Accessing expert advice is the next step to ensuring originations becomes the beacon of best practice it has the potential to be in lending businesses in Australia and New Zealand.

96% of organisations are most empathetic about improving originations agility (66% say this could definitely be improved, followed by a further 30% saying probably).

Figure 14 – **Ways originations process could be improved**



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We have 17,200 people operating across 44 countries and every day we're investing in new technologies, talented people and innovation to help all our clients maximise every opportunity. We are listed on the London Stock Exchange (EXPN) and are a constituent of the FTSE 100 Index. Learn more at experianplc.com or visit our global content hub at our global news blog for the latest news and insights from the Group.

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