# Navigating a new era of credit risk decisioning

Global Decisioning Report 2021

# Introduction



**The pandemic has changed nearly everything—and consumer credit is no exception. Data, analytics, and credit risk decisioning have always been important. But, as we enter the beginning of the end of this global crisis, their role is even more significant. Consumers face uneven roads to recovery, with some ready to spend again and others still mired in pandemic-related financial stress.**

Navigating this varied landscape requires a deep understanding of customer needs on both ends of the spectrum. It also demands that lenders rethink their data sources and recalibrate credit models to better understand current customer profiles. This period of the great deferral, the aggregate impact of payment assistance programs, coupled with changes in spending and savings behaviours, requires lenders to look beyond traditional approaches to decisioning.

We've designed this report to help. Experian conducted a global survey to learn more about how consumers are stabilising their finances and how businesses are returning to growth. The research comprises of three waves of data collected from June 2020 through January 2021. The nearly 9,000 consumers and 2,700 business respondents represent ten countries: the United States, United Kingdom, Brazil, Germany, France, Spain, India, Japan, Singapore, and Australia.

The research results reveal the importance of lenders prioritising digital transformation, the role of advanced data and analytics in enhancing the customer experience, and how contextual decisioning can improve credit outcomes.

### 5 Key business priorities in 2021:

As lenders prepare to navigate a changed world, they're prioritising digital investments to help:

1. Implement new machine learning models for customer decisions
2. Increase digital acquisitions and engagement
3. Understand their customer base (affordability, value, behaviour)
4. Automate customer decisions
5. Increase value of existing customers

"Digital transformation has two pillars — automation and insight. The future of credit risk decisioning means requesting less of your customers without sacrificing relevant, safe and convenient experiences."

Donna DePasquale, Executive Vice President of Global Decisioning at Experian

Research insight

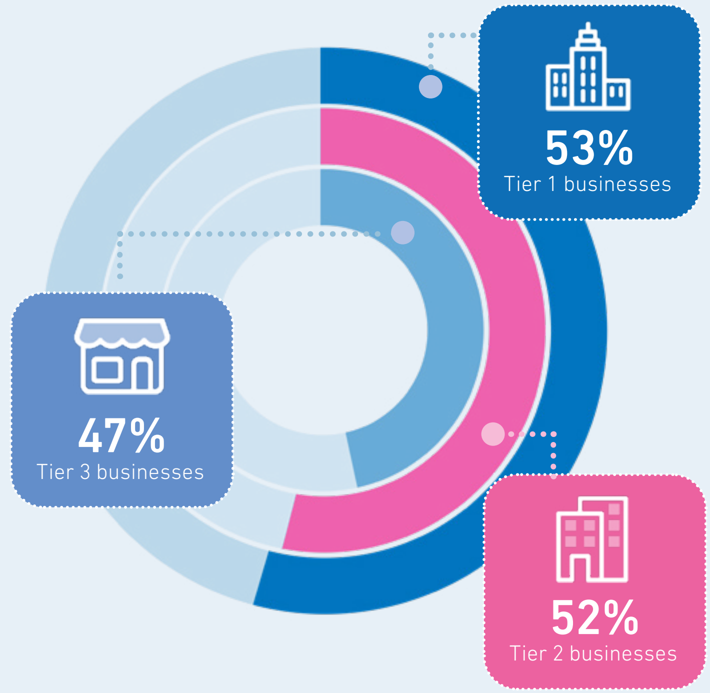
# The pandemic fallout is impacting everyone differently



As we move into the latter stages of the pandemic, consumers and businesses are experiencing an economy that reflects two extremes. Some people fared well and even flourished through the crisis. Others got hit exceptionally hard and have a long recovery ahead of them.

The same happened with businesses. About half of businesses said their operations have somewhat or completely recovered from the impact of the pandemic. Others are still navigating pandemic-related challenges. The results vary widely by company size and industry. A key difference, however, is that companies who adapted to serve customer needs digitally are faring much better.

## Globally, businesses of all sizes report their business operations are recovering, but there's still a way to go




Tier 1 businesses have greater than $1B in revenue, Tier 2 have $50M to $999M, and Tier 3 have $10M to $49M.

## Financial worries persist across the globe

### Worldwide

1 out of 3 consumers remain concerned about their finances

1 out of 3 consumers are also worried about their employment

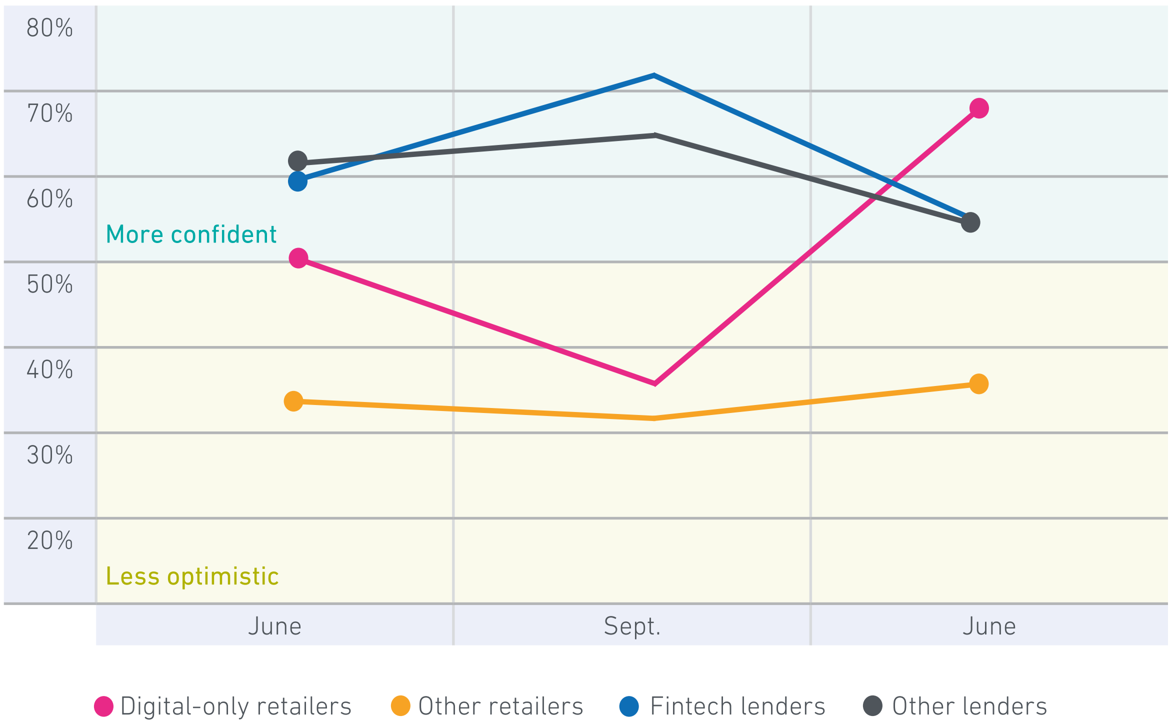
### Local markets

Consumers who say financial challenges such as paying bills and managing credit use are their top concern varies by country, but have eased from June 2020 to January 2021. The differences may reflect, in part, payment holidays, extensions, or government support provided to individuals. Over the course of the crisis, those receiving support reported less financial concern—at least for now.

| | June 2020 | September 2020 | January 2021 | % change June 2020 to January 2021 |
|---|---|---|---|---|
| **Global** | **42%** | **37%** | **33%** | **-9%** |
| India | 66% | 56% | 52% | -14% |
| UK | 30% | 28% | 20% | -10% |
| Germany | 34% | 23% | 23% | -11% |
| US | 40% | 32% | 30% | -10% |
| Australia | 37% | 36% | 27% | -10% |
| Singapore | 53% | 45% | 44% | -9% |
| Japan | 38% | 38% | 31% | -7% |
| Spain | 45% | 33% | 38% | -7% |
| Brazil | 48% | 49% | 44% | -4% |
| France | 21% | 25% | 15% | -6% |

## Confidence in the recovery of business operations is fluctuating across industries

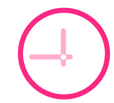
Early in the pandemic, Fintech and retail banks seemed to be more confident about their road to recovery. But as the pandemic progressed that sentiment waned, giving way to cautious optimism – a sentiment that may be aligned to the anticipation of delinquencies post-deferral. In comparison, confidence amongst digital-only retailers grew sharply from September to January. This may reflect a resurgence of government stimulus or aid to support consumers during lockdown across markets worldwide. Even as optimism grows, businesses are grappling with operational challenges that potentially slow progress.



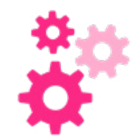

### Top 3 operational challenges reported by businesses

1. Actively monitoring/ predicting portfolio performance

2. Reducing time/ cost to build new or recalibrating existing analytical models



3. Managing increased consumer demand across channels



## The financial crisis abates but not for all consumers

Consumers globally experienced the financial impacts of the pandemic differently, depending on their sector of employment and income level. This has led to varied financial support needs and saving or spending behaviours.

Some people now have more cash than they had when the pandemic started—and now they're ready to spend. At the same time, for a significant portion, the financial stress of 2020 is still rippling across their lives.

## Some households are no longer reducing their discretionary spend

As the pandemic winds down, high-income households are ramping back up their spending. Survey respondents, who self-reported their income, indicated they are no longer reducing their discretionary spending as much as they were six months ago.

| | Households reducing discretionary spend June 2020 | Households reducing discretionary spend January 2021 |
|---|---|---|
| High-income households | 19% | 11% |
| Middle-income households | 20% | 16% |
| Low-income households | 21% | 19% |

High-income households are defined by households earning $100,000+ annually, middle-income households earn $50,000-$99,999, and low-income households earn less than $50,000.

## **Looking ahead:** Navigating an uneven recovery

As the pandemic recovery continues, the research shows consumers across a spectrum of credit needs. To succeed in this complex environment, businesses need to:

- Leverage advanced data and analytics to ensure a comprehensive understanding of the risk and opportunity in the portfolio as well as visibility into changes to customer profiles
- Proactively engage customers with new credit and other products to support those that are recovered and ready to engage
- Prepare for a potential wave of delinquency as payment holidays come to an end. Make repayment decisions easy for customers that are struggling. Offer online support and flexible terms that help customers solve their problems

Research insight

# Consumers went online, and have high expectations of the digital experience



The crisis shut down banking and retail locations around the world. Amidst the lockdown, consumers turned online to manage finances, connect with lenders, and buy essential goods and services. The pandemic especially accelerated digital adoption for older consumers and created a new digital imperative for lenders wanting to meet customers' evolving needs.

While the pandemic pushed consumers online quickly out of necessity, now that they are there—it's become a preference. Although some consumers are returning to traditional channels, overall digital gains are still holding above pre-pandemic levels. For example, our survey shows that ordering food and grocery shopping online remains up 20% since before Covid-19. Consumers have appreciated the convenience that online solutions offer. And they expect the service not only to continue, but to improve.

## Expectations of digital experience

**55%** of consumers have higher expectations of their digital experience since the pandemic began.

## Older consumers are engaging online

**43%** of consumers surveyed age 70+ reported digital banking throughout the pandemic

**14%** of consumers surveyed age 60-69 applied for a new loan or card online

## The evolving online experience

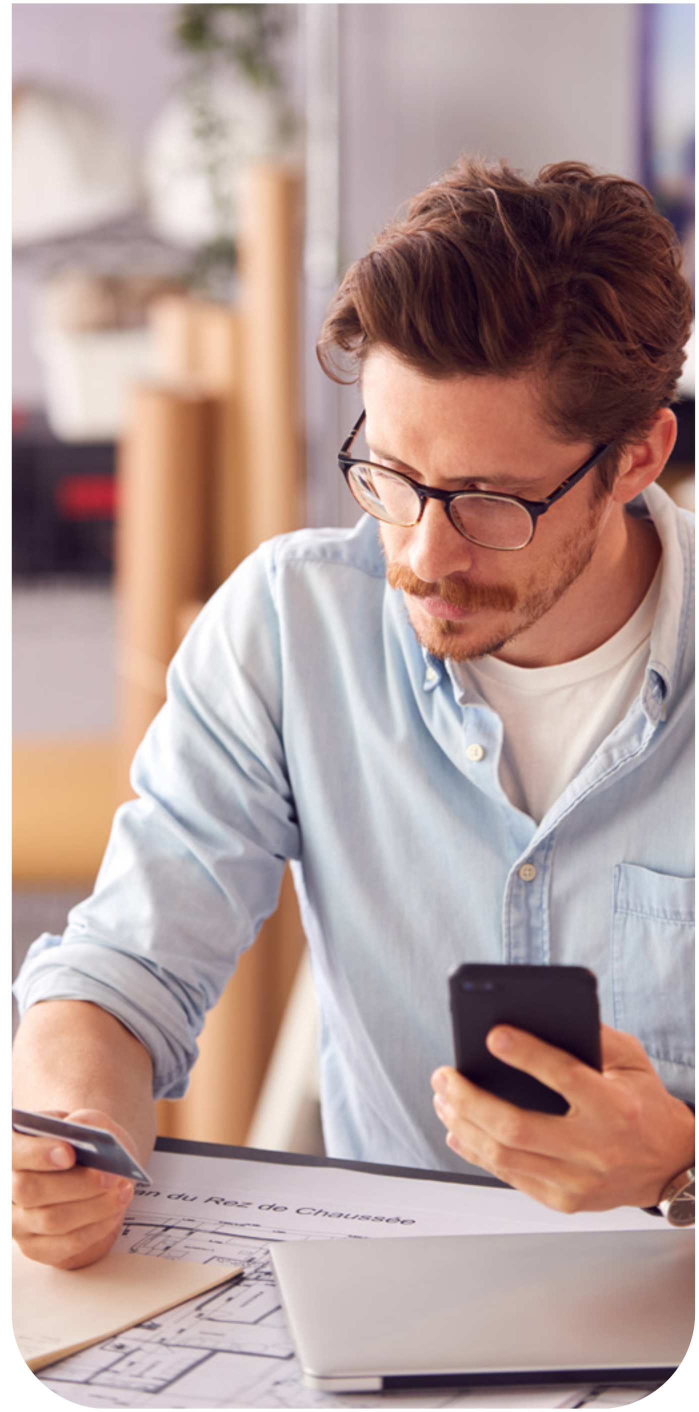
Many businesses met the digital moment, and consumers noticed when they did. Since Covid began, there's been a sizable change in the number of consumers that can get help online when they need. Yet, there's room for improvement—only 1 in 4 consumers are reportedly able to get in touch with a customer service representative during an online transaction.

| | Pre-Covid | January 2021 |
|---|---|---|
| I am receiving quicker customer service response | 6% | 26% |
| If I get stuck online, there's an easy way to connect with customer service | 7% | 24% |
| It is easier to get in touch with call centres or customer service | 5% | 22% |

Businesses recognise the importance of the digital customer journey. Most are looking to technology to support outcomes that smooth out the journey and foster a positive customer experience. Nine in 10 businesses report having a strategy in place related to a digital customer journey, and nearly half say that they put this plan in place as Covid-19 began.

**Nine in 10** businesses report having a strategy in place related to a digital customer journey

**49%** of businesses say that they put this plan in place as Covid-19 began



## The rise of self-service and new payment methods

The pandemic increased the already growing demand for digital self-service in terms of applying for credit and seeking out repayment support. Consumers don't just want—they expect—to be able to apply for credit when and where they need it, often using a mobile-friendly device.

Their expectations, however, aren't one-sided. In return for convenience and security, consumers report that they're more willing to provide additional personal data. Timely, meaningful credit and repayment offers, convenient interactions, and improved communication with lenders make the exchange worth it.

The convenience of digital channels is also creating the opportunity for new payment methods, such as subscription models and Buy Now Pay Later (BNPL). Both are occurring across a range of products and services, from cars to clothes to beauty essentials. In fact, 27% of consumers reported purchasing products using BNPL programs.

Traditional lenders will need to consider the needs that the emerging BNPL market meets. This includes making purchases easier for consumers by providing increased payment flexibility.

### A closer-look at key market trends: Buy Now Pay Later (BNPL)

- The U.S. market is fast growing and rapidly developing. Other markets (UK, EMEA, Australia, Brazil) are more mature by comparison, with higher penetration levels of BNPL usage.
- The payment model resonates with younger consumers, who do not view BNPL as debt, and want a method to spread out payments over time.
- Merchants perceive value from BNPL because of higher conversion rates and order values.
- Card networks and issuers are responding with a variety of new offers and partnerships to compete for customers
- Some economies are beginning to look at BNPL models to determine what, if any, special considerations are necessary to protect consumers.
- A uniform, global regulatory model is unlikely, but similarities are emerging.

Source: Bain & Company, May 2021

## Experian in action

At the start of the pandemic, with call centres and operational centres closed, many consumers had trouble connecting with lenders. They reported a range of issues from anxiety about financial health, to concerns around being able to afford essential services. With thousands of applications a week coming into banks across the world, businesses were inevitably struggling with demand.

Experian helped lenders provide their customers with financial assistance by delivering a digital self-service customer journey. Solutions leverage AI-powered virtual assistants, and a layered, cloud-first approach to enable online decisioning, and digital onboarding for new customers, as well as support for pre-qualified consumers for both forbearance and hardship.

"Connecting with customers meaningfully whilst delivering transparent and fair outcomes means businesses need to be able to quickly gather relevant data assets, in turn utilise advanced analytics, and then apply them in real time – quickly, easily, safely and with full explainability – to provide positive digital customer experiences."

Harry Singh, Senior Vice President of Decisioning at Experian

## **Looking ahead:** Develop a digital-first approach

Online customer experience and credit risk management are more connected than ever before. Businesses need technology that supports the entire customer journey, from onboarding to customer management to collections.

- Continue to improve the digital onboarding experience to remove friction and enable customers to move through the process quickly and easily
- Utilise automated decisioning to make fast, intelligent, compliant lending decisions, scaling the ability to handle the growing volume of credit needs
- Reserve human support for complicated cases that require a personal touch

Research insight

# Companies are adapting their data and analytics to a rapidly changing customer base



The data inputs generated by the pandemic have impacted credit risk models and machine learning applications in unexpected ways. For example, in some cases, widespread payment holidays and pandemic-spurred government assistance may be masking customers' true financial circumstances. Understandably, lender confidence in credit models has dipped as a result.

## A crisis of confidence?

Business confidence in consumer credit risk management analytics models —across businesses of all sizes—dropped over the past year. Smaller lenders have seen an even sharper decline.

| | June 2020 | January 2021 | %-point change from June 2020 to January 2021 |
|---|---|---|---|
| Tier 1 | 74% | 65% | -9% |
| Tier 2 | 66% | 60% | -6% |
| Tier 3 | 72% | 57% | -15% |

Tier 1 businesses have greater than $1B in revenue, Tier 2 have $50M to $999M, and Tier 3 have $10M to $49M.

Though the sentiment was common across industries, the retail banking and telecom sectors experienced the most significant declines in their analytics models. That's likely because they had the highest volume of activity. Retail banks have been servicing customers challenged by the pandemic, and telecoms have increased lending to support device purchases.

There were also some regional differences. Asia Pacific and U.K.-based businesses reported the most significant declines in confidence in their analytics models, with a 19-percentage point drop in both regions from the middle of the pandemic through January 2021.

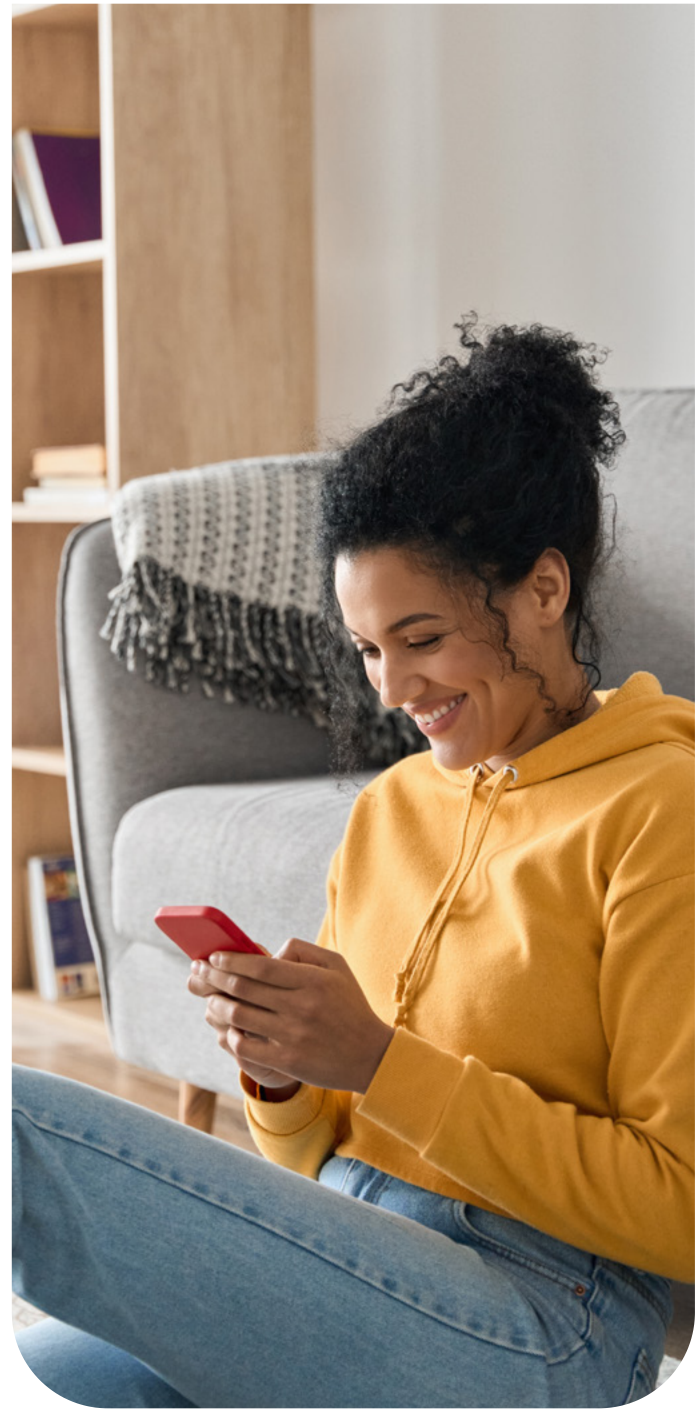
The pandemic's financial impacts on lending have businesses rethinking their data and analytics programs for the future:

**Nearly half** of businesses report that they're dedicating resources to enhance their analytics

**One-third** of businesses are planning to rebuild their models from scratch

Forward-looking companies will need to go beyond traditional data sources and leverage alternative and synthetic data. Machine learning solutions enable companies to utilise these non-traditional data sets quickly, explain what the data is revealing, and test new credit risk and forecasting models.

The result is a more accurate view of current portfolios and may also identify new leading indicators of potential risk.



## **Looking ahead:** Data and analytics for a new era

The current credit lending landscape requires advanced data and analytic approaches. To navigate the complexity with more confidence, businesses can:

- Employ alternative data sets (e.g. opt-in consumer data) to complement traditional data sets and improve overall analytics
- Leverage synthetic data via machine learning solutions to test and train machine learning models against various scenarios, highlight potential risks, and enable more proactive decisions
- Recognise data limitations and evaluate analytics models for potential bias to ensure credit access to all eligible customers

Research insight

# Contextual customer decisions create fair, efficient, and quality credit experiences



While the new landscape reveals the importance of a digital-first approach to meeting the needs of today's customers, the future is about more than providing services online. It's also about knowing customers well enough to anticipate their credit needs and using tools to automate the process and reduce the risk. This is what we call "contextual decisioning."

## Contextual decisioning in action

Contextual decisioning requires a powerful combination of machine learning tools, advanced data analytics, and automation technology. An end-to-end decisioning solution enables intelligent, compliant, insight-led decisions that maximise customer value across their lifecycle—whilst minimising risk.

For example, consider a customer that recently moved into a new home. An advanced decisioning solution highlights her increased spending on home goods, evaluates her risk profile, and determines whether she's a good candidate for credit.

The customer receives the offer at the perfect time—she's just exploring how to furnish her home. She can then apply for a credit card or use a Buy Now Pay Later solution to purchase furniture. The automated process requires no human intervention from the lender or company.

Months down the road, the digital decisioning solution may also highlight the customer's need for an increased credit limit or flag the account if there's early signs of trouble.

## Adapt— or lose customers

Instead of feeling intrusive or spam-like, contextual decisioning enables companies to meet customers right where they are and offer relevant products that fit with their life. It's what today's consumers expect and appreciate.

Investments in data and analytics, decisioning tools, and the digital experience help meet these expectations. These integrated solutions can prepare organisations for the potential pending wave of pandemic-related financial hardship, in addition to any other future challenges that customers or the broader market face.

For example, modern decisioning solutions improve the explainability of credit decisions for compliance review, the business, and customers. In addition, the innovative use of traditional and non-traditional data results in decisions that are fair and transparent to the customer and business alike.

**1 in 4** consumers have taken their business elsewhere because a company didn't adapt to their digital needs.

## Investing in improved decisioning

Companies around the world are using technology to enhance various aspects of decisioning across the credit customer lifecycle. Our research reflects what's most pressing today and provides hints of what companies may prioritise in the future.

Right now, businesses say they're most interested in:

- Managing compliance against a background of increased credit demand
- Strengthening the security of their mobile channels
- Increasing digital acquisition and engagement
- Integrating their remote workforce
- Building new AI models to improve decisions
- Automating and managing customer decisions
- Creating alternative payment paths for customers
- Delivering consistent decisions across online and offline channels

> "As companies look ahead, bringing together digital self-service, integrated decisioning, customer segmentation, and fulfilment-as-a-service in the cloud creates a data interoperability that enables them to scale or grow their business faster than ever before."
>
> Chris Fletcher, Senior Vice President of Cloud Platform & Decisioning Products at Experian

## **Looking ahead:**
## Decisioning done right

Digital decisioning solutions enable businesses to seamlessly serve digital customers, provide invaluable contextual decisions, and mitigate credit risk. When evaluating decisioning solutions, consider:

- Cloud-based decisioning software to rapidly scale to meet high volumes and customers with varied needs
- Low-code solutions that require little IT effort and allow business users to dig into models, better understand decisions, and utilise new datasets right away
- API technology integrates automated decisions into current processes and platforms as well as test the technology before purchase

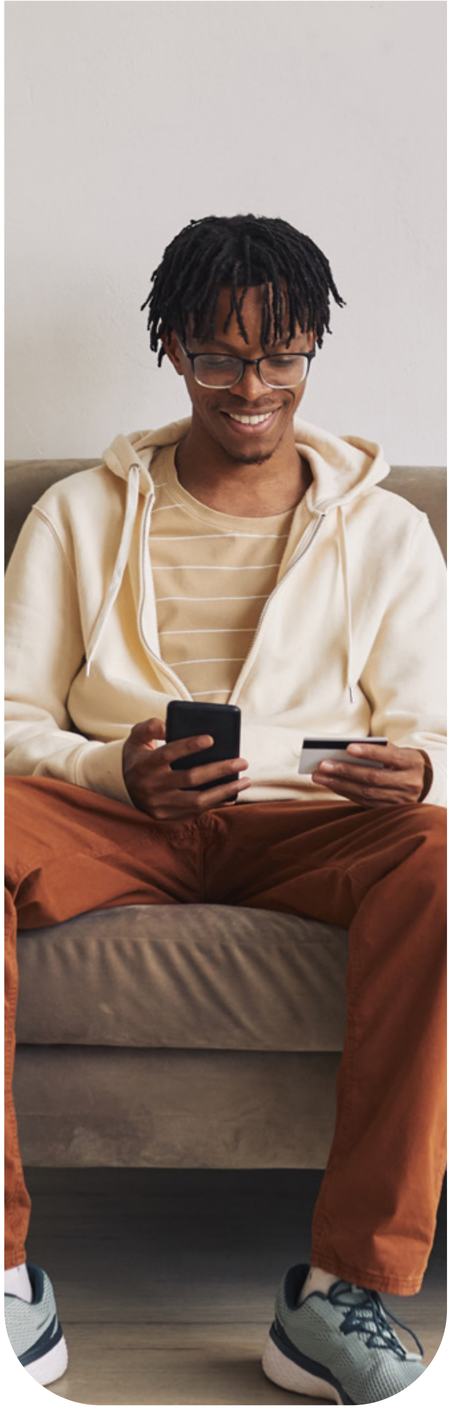
# The future of digital decisioning: What's next



The needs of today's digital customers are different from even a year ago. Winning and sustaining their loyalty requires empathy, relevance, and real-time credit risk decisioning. This is what a digital-first approach offers.

Businesses need to prioritise technology that enables a responsive, flexible, efficient, and confident approach. That means leveraging advanced data and analytics that empower proactively. It means integrating machine learning tools and new data sources to ensure models can adapt and change with the market. And, it means employing dynamic decisioning to optimise customer value throughout the lifecycle.

Businesses should invest in the tools needed to thrive now and going forward. Building more trust with customers, delivering credit decisions that are fair and fast, and priming businesses for a future of growth and increased profitability.



## About Experian

For more than 30 years, Experian Decision Analytics has been managing and enriching customer data to help organisations like yours make better credit risk decisions. Our powerful decisioning products and services combine data intelligence, analytics, software, reporting and consulting to turn insights into actions that improve business performance. We have clients in more than 90 countries and local offices around the world. Our expertise in analytics, software and best practices is market proven and thoroughly global.

Visit our **Global Insights blog** for more business and consumer research reports, blogs, videos, podcasts and more.

## Methodology

### Survey fielded:

20 June-7 July, 2020
16-30 September, 2020
2-24 January, 2021

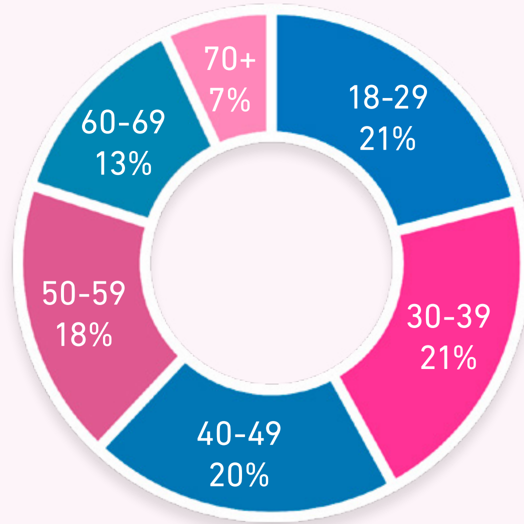
### Respondent base:

Includes individuals from Australia, Brazil, Germany, France, India, Japan, Singapore, Spain, United Kingdom and the United States

Includes representation from the following business functions: credit risk, fraud risk, customer experience, information technology, innovation, product and marketing

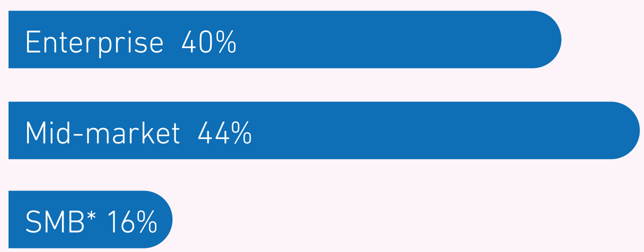
**9,000**

Consumers age 18-70 years old and older with at least one online account.




**2,700**

Business executives from North America, Latin America, Europe, Middle East and Africa, and Asia Pacific.




*Small-to-mid-sized businesses

## Discover more about credit risk decisioning

- Demystifying the cloud and more: Industry insights on the evolution of big data, advanced analytics and decision intelligence
- The next wave: How to meet the pending demand for credit and support
- Decisioning software as an enabler of positive change in society
- Podcast: Driving product vision with the customer front and centre, a software architect's view
- Parting ways with old forms of managing credit risk online

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Further research from **Experian Global Decision Analytics**

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