Forrester Consulting Thought Leadership Spotlight
Commissioned By Experian
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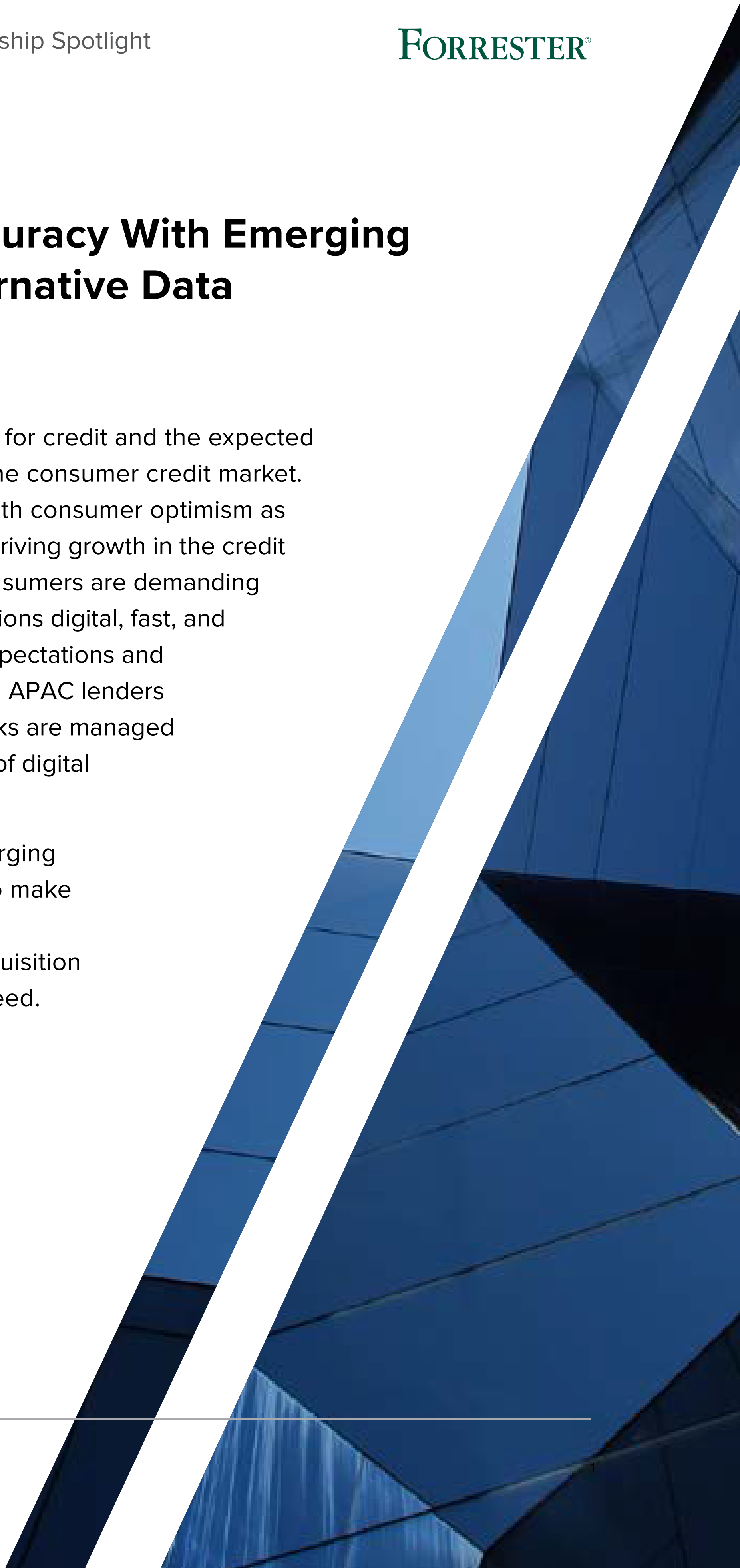
Drive Speed And Accuracy With Emerging Technology And Alternative Data

The dynamics of increasing demand for credit and the expected speed of approval currently shape the consumer credit market. Record low interest rates coupled with consumer optimism as we emerge from the pandemic are driving growth in the credit market, while increasingly digital consumers are demanding that their lenders make loan applications digital, fast, and easy. To meet changing customer expectations and capitalise on the current opportunity, APAC lenders must ensure that credit and fraud risks are managed sensibly, even with the acceleration of digital lending transformation.

The use of alternative data and emerging technology enables APAC lenders to make more accurate and inclusive lending decisions that support customer acquisition and originate lending facilities at speed.



To explore this topic further, Experian commissioned Forrester Consulting to evaluate the current state of credit risk and fraud decisioning across three of the major economies in Asia-Pacific: Australia, India, and Indonesia (henceforth referred to as APAC). Forrester conducted an online survey of 164 decision-makers located in Australia, India, and Indonesia with influence or accountability for their firms' credit risk and fraud management and/or technology strategy. The study found that these lenders have the opportunity to leverage a wider range of technologies and data sources to advance their organisations' current credit risk and fraud management capabilities, and drive greater speed and precision of decisioning. These investments will ultimately enable lenders to drive higher customer acquisition and provide a better overall digital experience for customers.

KEY FINDINGS

Forrester's study yielded the following key findings:

- **Lenders focus on better utilising and leveraging more data in decision-making.** Seventy-eight percent of respondents indicated better utilisation of data insights in decision-making is a business priority in the next 12 months. Respondents noted their firms currently utilise mostly traditional data sources, while usage of alternative data is low but is expected to grow. Over the next one to three years, 60% of respondents said they see leveraging alternative data as a priority for credit risk and fraud management.

- **Firms are digitising credit risk and fraud management processes, specifically using emerging technology.** APAC lenders in Australia, India, and Indonesia are digitising risk and fraud management with digital solutions, such as risk management software which 57% of respondents use today. The utilisation of emerging technology is increasing with 75% of respondents having stated leveraging emerging technology was a priority for credit and fraud risk management. The uptake of emerging technology is promising with 28% of respondents having noted predictive modelling use and 25% having noted using AI-infused robotic process automation (RPA). Fifty-seven percent of respondents reported their firms currently use AI.

- **In the short to midterm, firms will focus on reducing losses and supporting customers.** The top negative consequence from inaccurate credit decisions or fraud decisions is financial loss (60%). Placing customers into a hardship situation (54%) is the second top negative consequence. Going forward, respondents noted their firms are investing in technologies that can better identify and predict default risk and customer vulnerability at the origination stage. They are also investing in early warning systems to monitor the performance of loan portfolios.

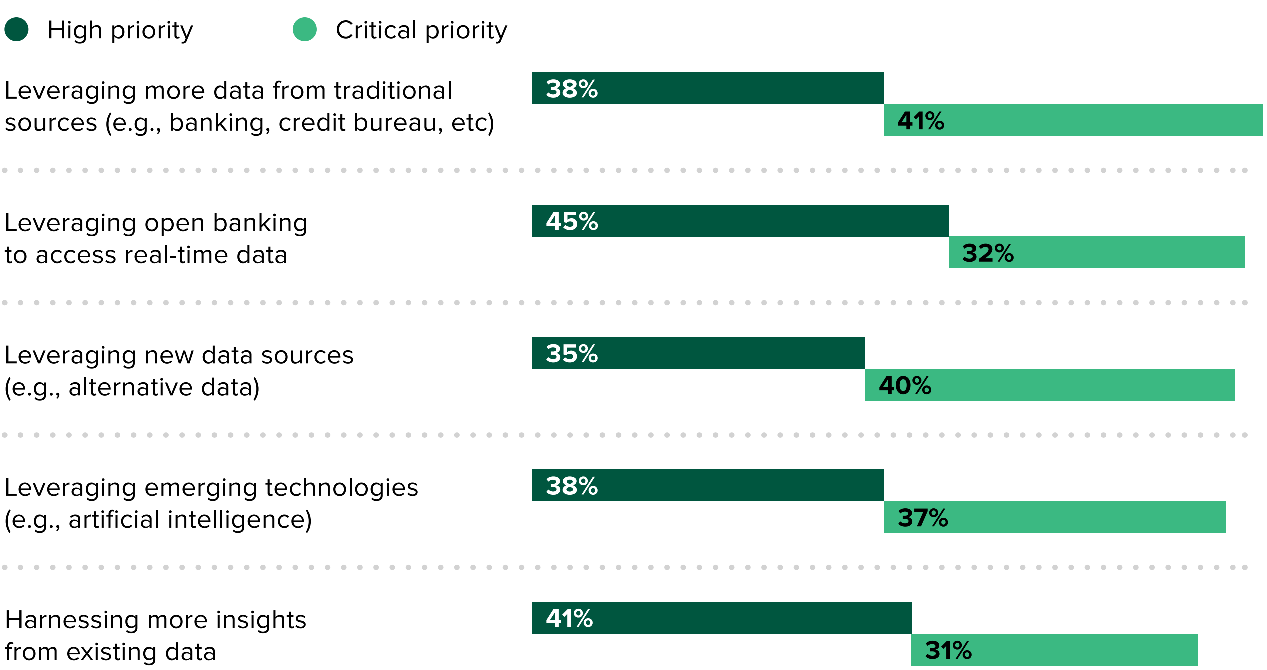
Firms Are Adopting Alternative Data To Enable Lending Transformation

While lenders continue to rely primarily on traditional data sources for credit risk and fraud management, they are also early adopters of alternative data, such as utility bills and rental payments. It's important for firms to maintain momentum and not slow down. In surveying 164 credit risk and fraud decision-makers, we found that:

- **Business and risk decision-makers want more data.** When asked about their organisations' top priorities, 78% of respondents noted improving the use of data-led insights in decision-making was at the top. This trend flows to risk priorities, where data is central to effective risk decisioning. Over the next 12 months, risk decision-makers will focus on leveraging more data from traditional sources, such as banking data, while also leveraging new data sources, such as alternative data (see Figure 1).

Figure 1

"What are your organisation's top priorities for credit risk assessment and management over the next 12 months?"

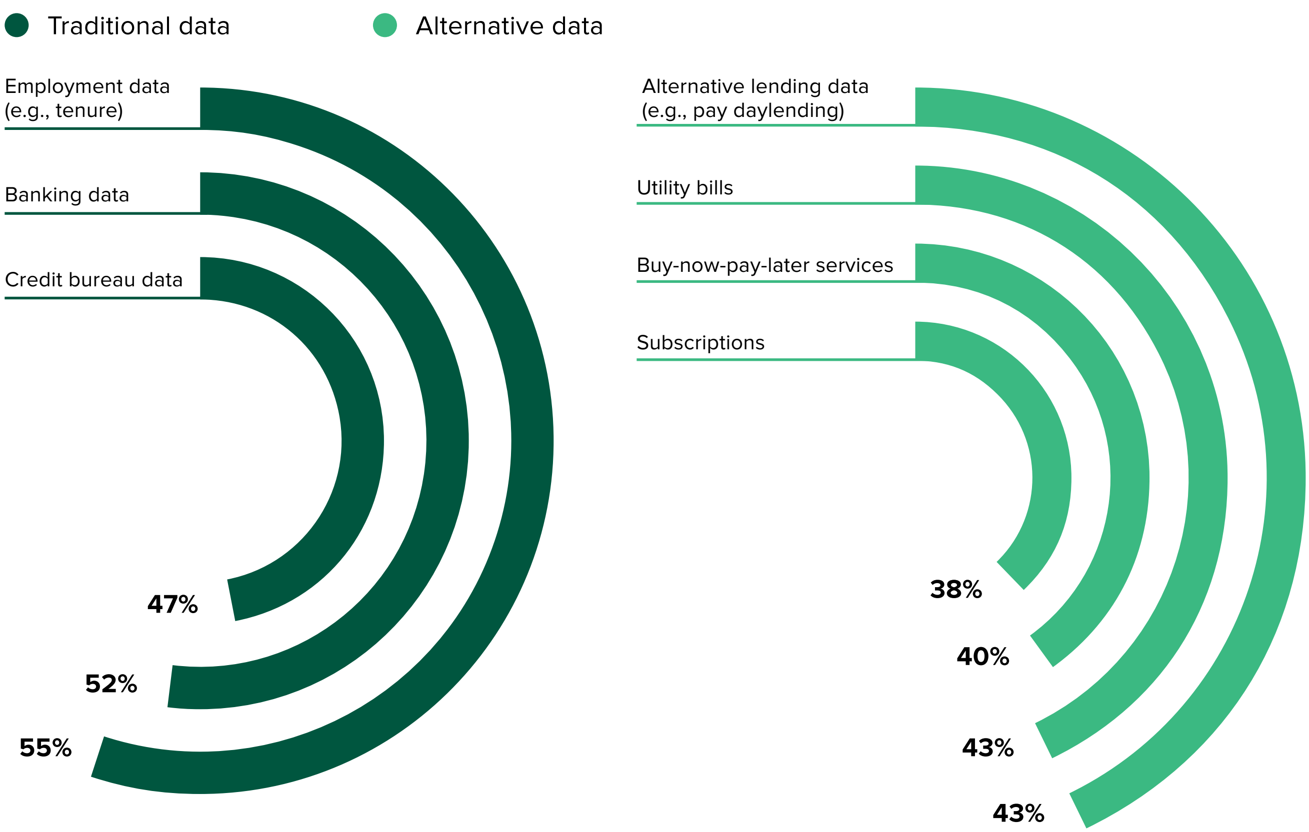


Base: 164 senior business decision-makers within financial services organisations in Australia, India, and Indonesia with responsibility for credit risk decisions.
Source: A commissioned study conducted by Forrester Consulting on behalf of Experian, August 2021

- **The use of alternative data across APAC is low and varies by geography.** APAC decision-makers in Australia, India, and Indonesia noted their organisations primarily rely on traditional data sources to make credit risk and fraud decisions, while their use of alternative data sources is limited. Fifty-five percent of respondents noted employment data is the most commonly used data source (see Figure 2). Fifty-two percent of respondents used banking and 47% used credit bureau data. The use of alternative data sources is low with the exception of Indonesia. Using alternative data helps risk and fraud management decision-makers build a broader contextual understanding of a customer's risk profile, while the unique insights from alternative data sources enables competitive advantage through increased customer acquisition and advanced financial inclusion.[1]

Figure 2

"What data sources is your organisation currently using to make or manage credit risk and fraud today?"



Base: 164 senior business decision-makers within financial services organisations in Australia, India, and Indonesia with responsibility for credit risk decisions.
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- **Alternative data unleashes opportunities.** Rental payments are currently the least commonly used data type in risk decisioning in Australia, India, and Indonesia, though, and research shows that it is a strong predictor of a person's ability to repay credit.[2] Some lenders are starting to leverage rental payments to support credit decisions and revenue growth by helping more first-time borrowers and thin file applicants access credit, in the process opening up viable but underrepresented segments their firm hasn't traditionally served.[3] The study showed highlights of alternative data usage at a market level with 28% of Australian respondents using rental payments and 49% of Indian respondents using utility bills to support decisioning.

Emerging Technologies Empower Firms To Make Better Decisions

Lenders are focused on accelerating their shift to digital business with 75% of respondents in Australia, India, and Indonesia stating it is a priority for their organisations in the next 12 months. Credit risk and fraud management decision-makers are playing their part, focusing on digital solutions and investments in emerging technology. Seventy-five percent of respondents stated leveraging emerging technology was a high or critical priority for credit and fraud risk management. Firms will benefit from these investments as Forrester's research shows that a combination of data and decision intelligence technologies, such as machine learning, enables organisations to make better decisions while continuously improving decision logic.[4]

- **Lenders are increasing their use of digital solutions and emerging technology.** Fifty-seven percent of respondents reported the use of risk management software and 54% reported the use of digital and electronic signatures (see Figure 3). The uptake of emerging technology is in motion as well with 46% of respondents using advanced analytics, 28% using predictive modelling, and 25% using AI-infused RPA. Fifty-seven percent of survey respondents also noted their firms are currently using AI today. APAC firms in Australia, India, and Indonesia have the opportunity to further expand their adoption of emerging technologies to enhance credit risk and fraud decision accuracy. The combination of digital decision-making platforms, data, and the use of artificial intelligence enables organisations to make more accurate decisions at scale.[5]

- **Reducing fraud losses remains a focus for lenders.** Sixty-six percent of respondents reported moderate scope for improvement in their organisations' ability to reduce fraud losses. The combination of identity verification sources, such as name and address, combined with social identity verification and the ability to match a current photo against those on social media through AI, provides an overall stronger identity verification and can help identify potential fraudsters.[6] With only 32% of respondents using facial recognition and 32% using social media data to make risk and fraud decisions today, broader uptake may support a further reduction in fraud losses for lenders.

Figure 3

“What tools, techniques, and technology does your organisation currently use to conduct credit risk and fraud management today?”

Risk management software and technology
57%

Artificial intelligence
57%

Digital and electronic signatures
54%

Advanced data analytics
46%

Predictive modelling
28%

AI-infused RPA
25%

Base: 164 senior business decision-makers within financial services organisations in Australia, India, and Indonesia with responsibility for credit risk decisions.
Source: A commissioned study conducted by Forrester Consulting on behalf of Experian, August 2021

Risk Management Is Business Critical

To remain competitive and drive growth, financial services firms need to pursue a values-based business model, putting customers' financial well-being at the core of their strategy. Improving consumers' financial well-being also enables individual firms to engage customers, boost customer loyalty, and improve business performance by lowering nonperforming loans and increasing deposits.[7] Risk decision-makers have an important role to play in supporting customers' financial well-being through initial decision accuracy, ongoing monitoring, and early intervention.

Learnings from the pandemic show that both risk and customer financial well-being are not static; unexpected market changes can happen and there is a requirement to respond quickly.

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Firms can take learnings on customer financial well-being and vulnerability from the pandemic. A customer's risk profile isn't static either. Rather, it's situational and customers can move based on a change to employment or another life event. As lockdowns came into effect in many countries, individuals with long-term employment were immediately impacted as their industries were forced to close or scale back operations. This rapidly and unexpectedly changed their financial wellbeing and moved many customers towards vulnerability for the first time. These rapid market changes and increased risks required lenders to quickly respond. In Australia, the big four banks and credit unions offered deferred loan repayments, interest rate reductions, and merchant terminal relief to offer customers some breathing space and review their finances. This helped lenders protect themselves and customers' financial well-being against default losses.[8]

- **Lenders want to make more accurate risk decisions.** Seventy-four percent of respondents stated increasing the accuracy of risk decisions is a high or critical priority in the next 12 months. Respondents from India are more focused on this compared to other regions, with 83% of respondents stating it is a high or critical priority. Fifty-four percent of respondents stated a wrong credit decision places customers into a hardship situation, which means initial decision accuracy is critical to protecting customers. Any incremental improvements made also further aids the protection of a customer's financial well-being.
- **Firms are planning to invest in monitoring and early warning systems.** APAC lenders in Australia, India, and Indonesia are focusing on monitoring and early warning systems. Eighty percent of respondents stated investment in these systems are a high or critical priority in the next one to three years. Investment in these systems enable organisations to identify risks early and intervene, better protecting themselves against financial losses while having the opportunity to play a proactive and early role in supporting their customers financial well-being.

KEY RECOMMENDATIONS

Leveraging a broader range of data sources, tools, and emerging technologies to drive effective decisioning at scale can help APAC lenders in Australia, India, and Indonesia seize the opportunity presented by high demand for credit, while making fast and accurate decisions in line with customer expectations.

Forrester's in-depth survey of 164 risk decision-makers about credit risk and fraud management yielded several important recommendations:

Combine digital decisioning and AI for more accurate decision speed and scale.

Lenders should expand their utilisation of digital decision technology, such as risk decisioning software. By combining this with emerging technologies, such as artificial intelligence, associated predictive analytics and machine-learning capabilities, this will enable them to maximise the effectiveness of the decisioning logic that rests with their employees and drive digital decisioning with higher levels of automation and ongoing model refinement at speed and scale.

Leverage more data sources to drive rich and contextual insights that support business priorities.

Lenders have effectively utilised traditional sources of data to determine risk and fraud decisions to date. By leveraging a broader range of data sources, including alternative data in the future, firms can deliver new and unique insights that drive competitive advantage, open new customer segments, and improve credit risk and fraud decisioning performance.

Invest in monitoring and early warning systems to identify vulnerable customers and intervene early to protect them.

A core component of financial protection is identifying and protecting vulnerable customers and intervening to support their financial well-being. If credit quality deteriorates, firms can also utilise a targeted remediation process to combat further credit issues arising, a win-win for both customers and lenders. By investing in monitoring and early warning capabilities, lenders are better positioned to support the customers' financial well-being, protecting them from vulnerability while also better identifying and managing default risks.

METHODOLOGY

Experian commissioned this study to understand the state of credit risk and fraud management in APAC.

To achieve these objectives, Forrester conducted an online survey with 164 financial services decision-makers at organisations in Australia, India, and Indonesia.

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Contributing Research: Forrester's Infrastructure & Operations research group

[1] Source: "Need External Data? Explore The New Data Landscape," Forrester Research, Inc., April 10, 2019.

[2] Source: Natalie Campisi, "More People Can Get A Mortgage Under Fannie's Expanded Credit Check," Forbes, August 21, 2021 (https://www.forbes.com/advisor/mortgages/fannie-expands-credit-check-for-mortgages/).

[3] Source: Natalie Campisi, "More People Can Get A Mortgage Under Fannie's Expanded Credit Check," Forbes, August 21, 2021 (https://www.forbes.com/advisor/mortgages/fannie-expands-credit-check-for-mortgages/).

[4] Source: "The Forrester Wave™: Digital Decisioning Platforms, Q4 2020," Forrester Research, Inc., December 8, 2020.

[5] Source: "Now Tech: Digital Decisioning Platforms, Q3 2020," Forrester Research, Inc., August 25, 2020.

[6] Source: "Top Trends Shaping Identity Verification (IDV) In 2018," Forrester Research, Inc., March 29, 2018.

[7] Source: "The Financial Well-Being Opportunity," Forrester Research, Inc., April 8, 2020.

[8] Source: "Three Key Ways Financial Services Firms And Fintech Startups Are Helping Customers Through The Pandemic," Forrester Research, Inc., August 20, 2020.

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