



# Experian Risk Radar Report

November 2022



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# Executive summary

Acquiring new customers responsibly is a big priority for Australian risk experts and lenders right now, with 63% admitting it's number one on their risk priorities list.

This is a key finding of Experian's annual Risk Radar report, which engaged with 11 of Australia's top senior risk experts and collected new Forrester data from 103 financial services and telco firms, and more than 500 consumers across Australia and New Zealand.

As the world's leading global information services company, Experian in its latest report has shone a spotlight on credit risk management processes amid a rapidly changing economic landscape. The report revealed that while risk experts are focussed on customer acquisition, they're balancing prioritisation with customer management. In particular focus is management of hardship and collections – an increasing risk for customers and lenders in the current inflationary economic environment with rising interest rates putting greater costs of living pressure on consumers.

Heading into 2023, risk leaders are focussed on improving automation and increasing the speed of processes, as well as the accuracy of decisions, while continuing to develop better data practises for the evolving market.



# The economic climate

After bouncing back from the Covid-19 pandemic, Australians are still feeling its ongoing effects, including widespread hardship. After years of pandemic-related stimulus packages and record-low interest rates, inflation has risen to the highest rate seen in decades – increasing interest rates and pushing up the general cost of living. This, in turn, has meant a more volatile situation for everyday Australians, many of whom are finding it more difficult to pay their loans or put food on the table.



**83%** of risk experts agree that the current operating environment has seen higher risk factors for consumer defaults,<sup>1</sup> and **68%** of those said it had become more challenging in the last six months alone.<sup>1</sup>

Furthermore, the devastating flood emergencies witnessed across Queensland, New South Wales and Victoria have left many people and families displaced, unable to work and with the looming cost of rebuilding their homes. Global unrest has had an economic effect felt across the world on things like energy and supply chains. This is set to continue, so uncertainty lingers.

These factors have led many risk leaders to look internally at their strategies, streamlining and automating process to help strike a balance between looking after their existing customers, while attracting and onboarding new ones responsibly.



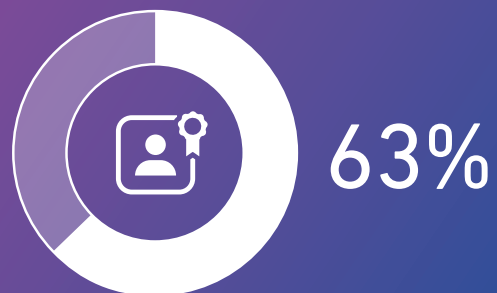
# Key insights

## Top credit risk priorities for Australian risk leaders 2023

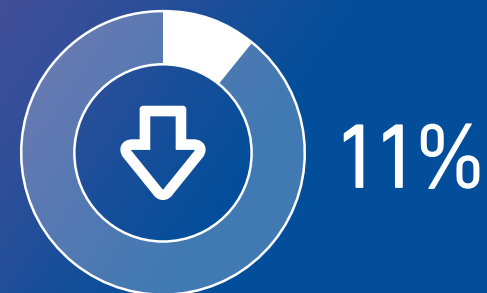
**Credit leaders were asked what their number one priority is for 2023. Acquiring new customers responsibly came out on top.<sup>2</sup>**

The customer acquisition priority is further cemented by new Forrester research, where 74% of experts surveyed indicated this is a top business priority for the next 12 months.

### Acquiring new customers responsibly



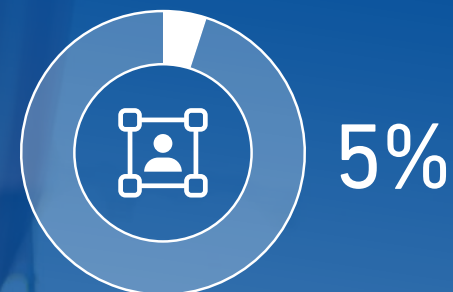
### Reducing credit losses



### Managing hardship and collections



### Customer management





1.

Improving processes



2.

Increasing automation



3.

Harnessing more insights  
from existing data



4.

Increase speed and accuracy  
of risk decisions



5.

Improving data and analytics  
capabilities

## How they'll do it

The top five priorities for organisations when it comes to credit risk assessment and management for acquiring new customers.<sup>3</sup>



“Modernising technology and decision systems can be hard, but the future benefits to customer experience, risk management and reducing opportunity cost should not be underestimated.”

- Risk expert, consulting firm

## Top influences on risk strategy<sup>4</sup>



**27%**

The Reserve Bank of Australia (RBA)'s ongoing cash rate rises, increasing interest rates and inflation



**16%**

Property prices and the broader Australian housing market landscape



**11%**

Customer sentiment and behaviour



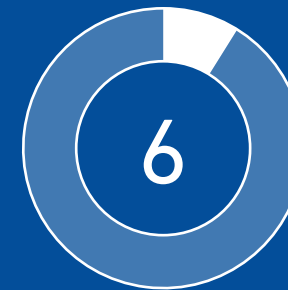
**11%**

The competitor business strategy and the general risk appetite



**9%**

Impacts of the local political landscape



**9%**

Navigating responsible lending

# Focus areas

## Hardship

### Customers

Experian's research found 100% of risk experts surveyed say it's likely or very likely customers will experience increased levels of hardship and defaults in the next 12 months. Of those, 58% believe a looming interest rate cliff is likely as many fixed-rate loans come to an end.<sup>5</sup>

This level of hardship is also reflected in recent Forrester research, with 31% of consumers admitting they are borrowing more than they used to. Additionally, [Experian Digital insights](#) found that use of short-term credit products such as Small Amount Credit Contract (SACC), Medium Amount Credit Contract (MACC) and pay advance services had increased by over 50% in the first six months of 2022. To put it simply, many everyday Aussies have felt the pinch of the rising cost of living, among other factors. The Forrester data also revealed 35% of consumers say they live paycheque to paycheque – and 43% feel anxious about their financial situation.<sup>6</sup>

### Lenders

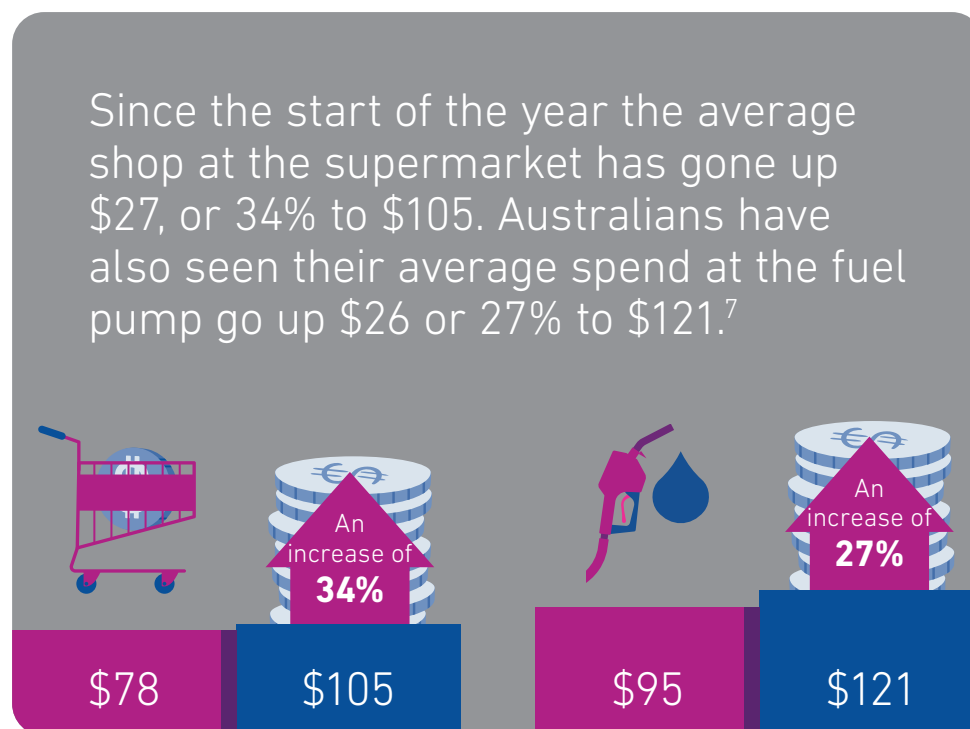
For lenders, there's a very real risk of not knowing a customer is experiencing hardship until it's too late. Experian's report found 53% of experts surveyed say their organisation can't reliably identify a customer is in financial stress until

they miss a payment.<sup>5</sup> Additionally, no expert surveyed said their organisation was highly effective at proactively identifying when a customer is in financial stress and only 47% said they were moderately effective.<sup>5</sup>

## New customers

When it comes to customer acquisition, 63% of risk leaders surveyed rate acquiring new customers responsibly as the most important area of risk management at this time.<sup>5</sup> This was even higher at 74% in the Forrester research.<sup>6</sup> As the economic factors listed earlier in this report suggest, it's become increasingly harder for many Australians to meet and manage payment requirements for everyday necessities, such as mortgages – something Australian lenders are acutely aware of. Navigating this climate in an ethical and responsible way is front of mind for risk experts.

That data also revealed 53% of risk teams at lenders are making room in their budgets for the purpose of digitising internal user tools and processes.<sup>6</sup> Further to this, Experian research found increasing speed and harnessing more insights from existing data are also a high priority.





# What's holding us back?

When it comes to moving forward, there are a handful of factors risk leaders believe are holding them back.

24%

Experian's research highlights a desire for better systems, with 24% of experts surveyed saying legacy systems are limiting their access to data.<sup>8</sup>

20%

The lack of resources and expertise to improve said systems is also a concern for 20%, as is limited funds and inadequate investment into tech (20%).<sup>8</sup>

“We need improved data sources to support and migrate to a truly digital mortgage process. Credit teams need to be open minded to digital disruptors and challenge current ways of processing and assessing loans using data, not documents.”

- Chief Operating Officer, fintech non-bank lender

A lack of data enrichment capabilities (18%) and a lack of understanding about the value of risk management systems (8%) are also stopping companies from progressing.<sup>8</sup> On a positive note, the industry has acknowledged the need for greater transparency with open data practises a key priority. In fact, more than half (53%) of businesses think Open Banking is an exciting opportunity to improve services offered to customers and refine creditworthiness checks.<sup>9</sup>

“At an industry level, I think our ability to respond rapidly to change - in all its forms - remains an opportunity to improve, with technology, prioritisation and cost at the heart of the issue.”

- Risk expert, consulting firm

# What's the solution?

Recent Forrester research revealed 53% of businesses are investing more of their budget into the digitisation of internal user tools and processes than any other area.<sup>10</sup> Further to this, 43% of respondents say they are expanding or upgrading their Artificial Intelligence (AI) capabilities.<sup>10</sup> With automation and speed of service now the expectation, it's no wonder risk experts are seeing value in such solutions.

That's why increasing speed and accuracy of risk decisions is a key solution, according to almost 20% of Risk Radar leaders.<sup>11</sup> With customer hardship and a projected increase in defaults, this must be balanced with a need for responsible lending. Lenders have a responsibility to ensure they operate with a customer's best interest in mind – including making sure they have the ability to afford products and services, both at the point of application and throughout their relationship with a lender.

At Experian, data, analytics and technology is driving advancements in processes and new ways of thinking to help create opportunities for people, businesses and society. With award-winning decisioning solutions including [Experian PowerCurve](#), [Experian Ascend Analytical Sandbox](#) and [Experian Digital](#) tools, the company is leading the way in helping business make fast and accurate credit decisions.

## In the real world

Experian's technologies are already helping thousands of would-be homebuyers access a home loan in record time.

Using Experian's PowerCurve Customer Acquisition technology as a base, Westpac developed a cloud-based application process that automates data collection and verification from multiple sources to perform credit checks, perform property valuations and verify financials to reach lending decisions in a fraction of the time.

The solution also helped the bank to improve profitability, improve the customer onboarding experience, effectively manage fraud and risk, meet regulatory and compliance mandates and quickly react to changing market conditions.



# Summary

In today's climate, it's important Australian lenders and risk experts understand their responsibility to consumers and prioritise transparency when interacting with both existing and new clients. As the need for speed in customer acquisition intensifies, it's imperative lenders find a balance between efficiency and accuracy and in doing so, a more robust credit and lending risk landscape can be achieved.



## Methodology

### **Forrester and Experian 2022 Business and Consumer Insights Report**

In this research, Forrester conducted an online survey of 103 Financial Services and Telco businesses and more than 500 consumers across Australia and New Zealand. The research was conducted in August 2022.

### **Experian Risk Radar research**

In this research, conducted in October 2022, Experian engaged 11 of Australia's senior credit risk experts from banks and fintechs on risk management and credit decisioning trends. Their in-depth insights were combined with the Forrester "Data, Analytics and Technology: Consumer needs vs business challenges" report.

## About Experian

Experian is the world's leading global information services company. During life's big moments – from buying a home or a car, to sending a child to college, to growing a business by connecting with new customers – we empower consumers and our clients to manage their data with confidence. We help individuals to take financial control and access financial services, businesses to make smarter decisions and thrive, lenders to lend more responsibly, and organisations to prevent identity fraud and crime. We have 20,600 people operating across 43 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.

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