



Experian Study

on Credit Decisioning
and Alternative Data Use

Introduction

As India's economy recovers from the pandemic, businesses continue to be impacted and consumers continue to grapple with the aftermath of salary cuts and job losses. As consumers apply for credit cards and loans to manage costs, lending institutions have the added responsibility of making accurate credit decisions.

Nearly 65% of India's lending companies surveyed said that the wrong credit decision can lead to financial losses, while 44% said that such decisions can put customers in difficult situations.

Summary

The latest study by Forrester Consulting on behalf of Experian has brought to light the need to focus on leveraging alternative data and emerging technologies to improve the credit decisioning processes of an organisation.

The study found the need for lenders to improve the use of data and analytics, coupled with innovation, to make accurate and inclusive lending decisions. As the industry embraces new technologies, it also needs to set benchmarks and standardise data collection and utilisation as a best practice to capitalise on current opportunities.

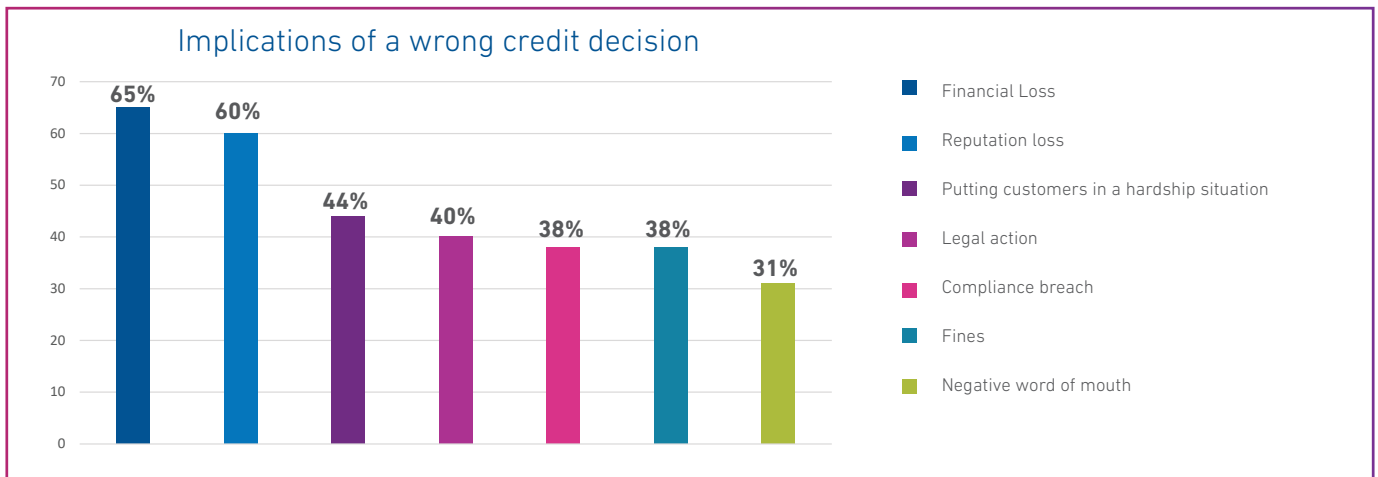
Use of credit bureau data is still very low in the lending sector, and such use requires commitment and investment. While progress is slow, it is gradual as industry players pledge investment in real-time data and analytics as a priority over the next one to three years.

To explore this topic further, Experian commissioned Forrester Consulting to evaluate the current state of credit risk and fraud decisioning across three major economies in the Asia Pacific: India, Australia, and Indonesia (henceforth referred to as APAC). Forrester conducted a survey of 164 decision-makers, of whom 55 decision-makers were from India, with influence and accountability for their firms' credit risk and fraud management and/or technology strategies. The survey revealed some interesting insights about the consumer credit landscape in India.



Key Observations - India Respondents Data

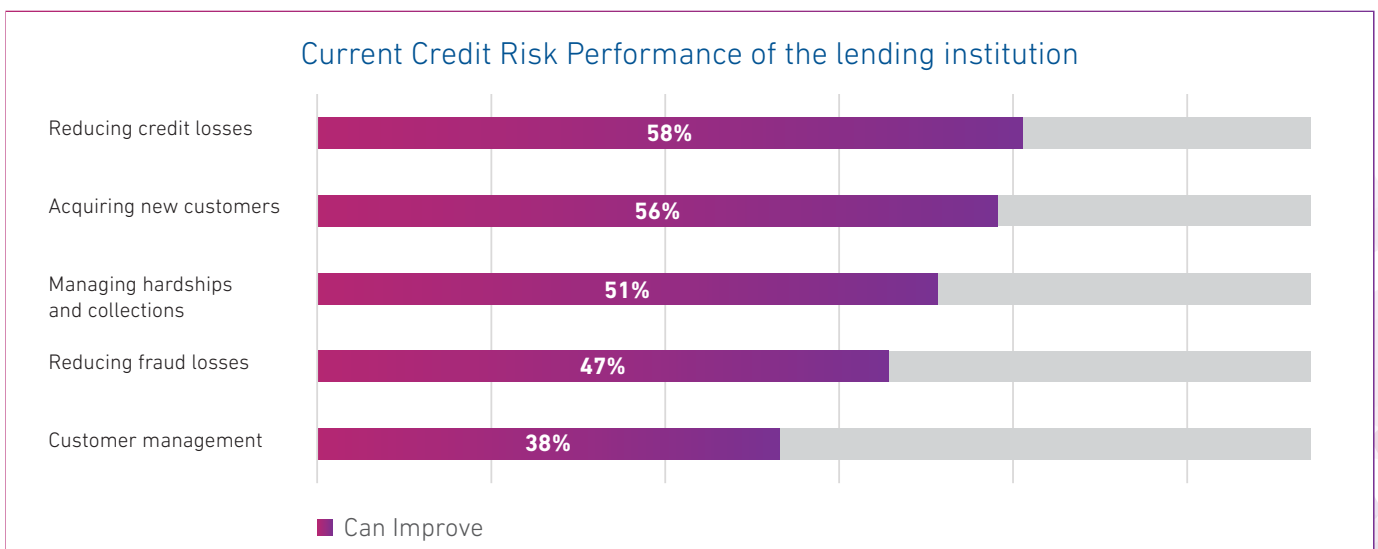
The chart below highlights respondents' answers regarding the possible implications of what a wrong credit decision made by a lending institution could do:



The implications of a wrong credit decision were primarily found to be financial losses, reputational damage, and putting customers in a hardship situation.

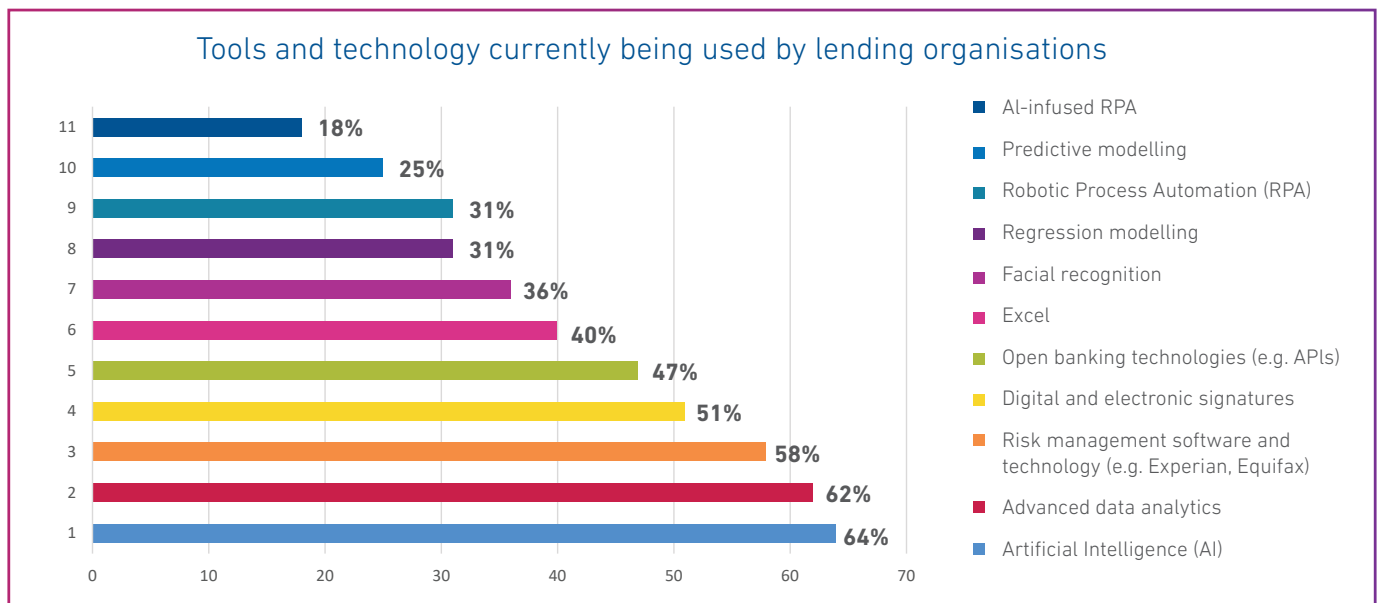
Current credit decisioning performance

Employees of lending institutions were asked to rate current the credit decisioning performance of their organisations. The study found that majority of employees felt that their company had room for improvement.

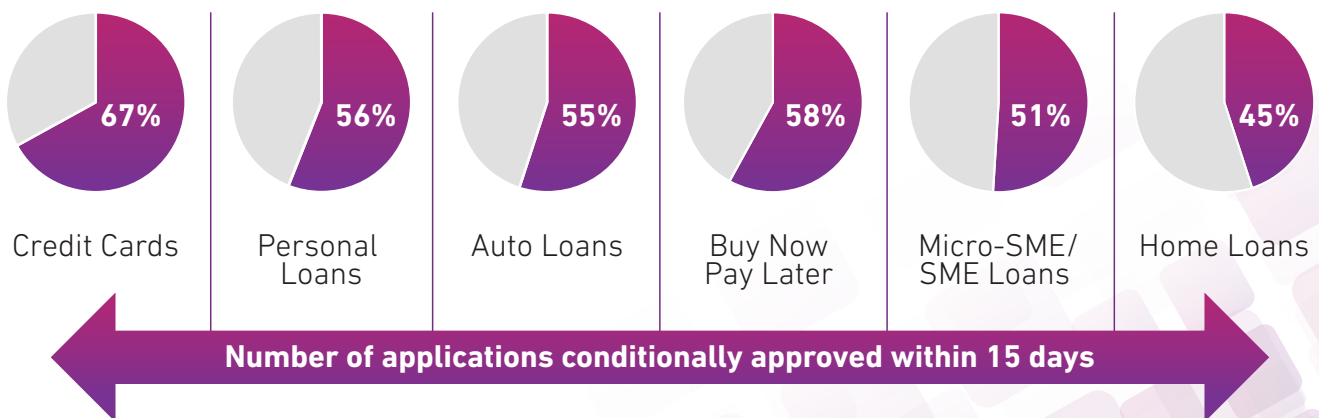


Technology and tools currently used for credit risk and fraud management

The study revealed that many organisations were using Artificial Intelligence and Advanced Analytics for managing credit risk and fraud. However, there is still a long way to go for technologies like Robotic Process Automation (RPA), Predictive Modelling, and AI-infused RPA.

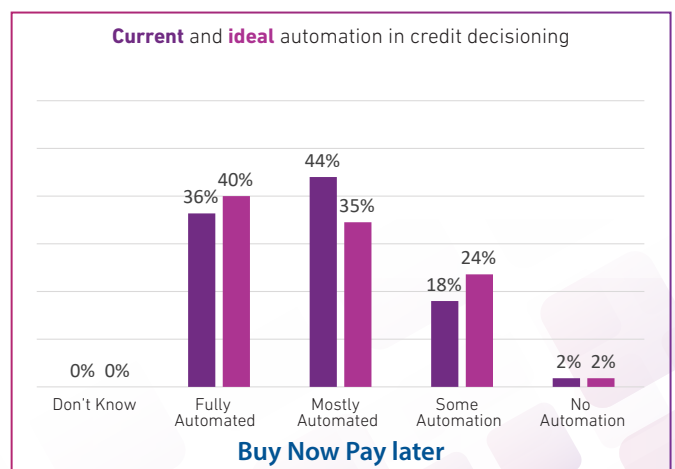
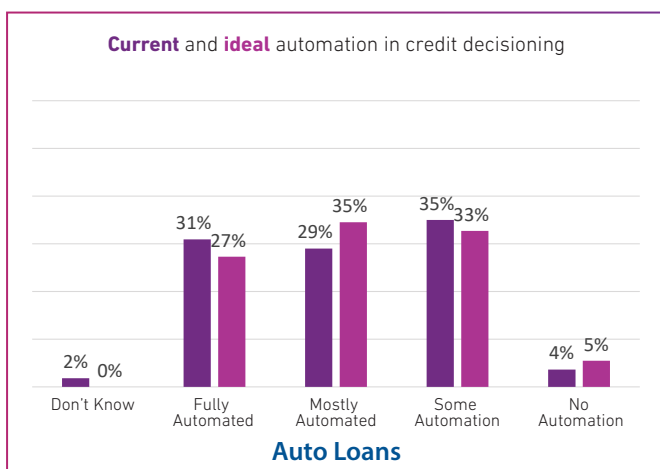
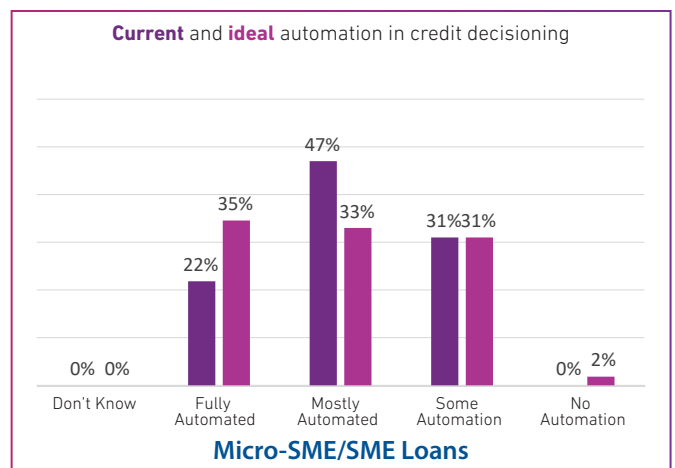
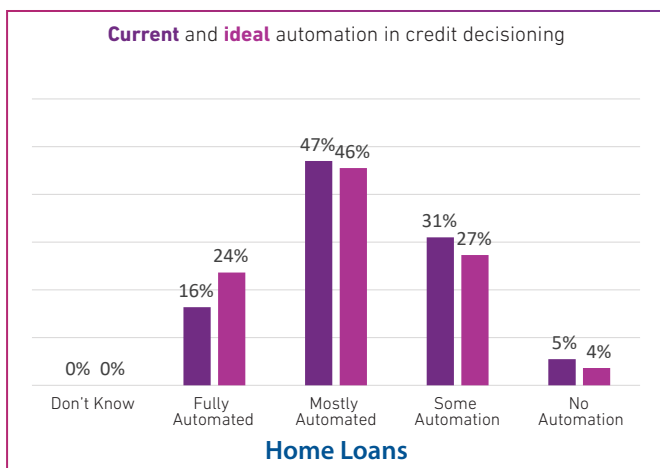
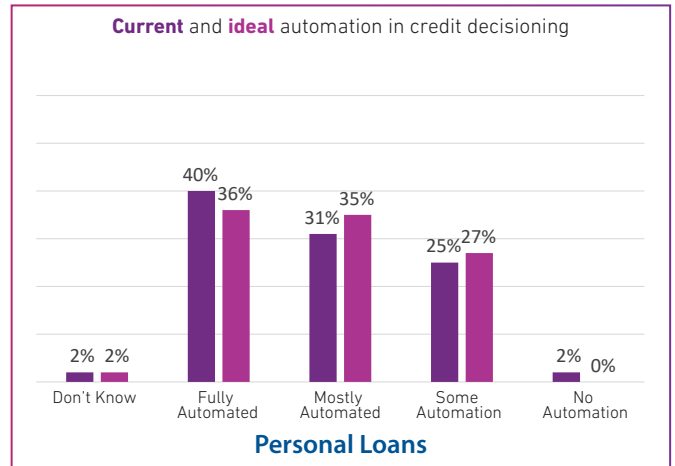
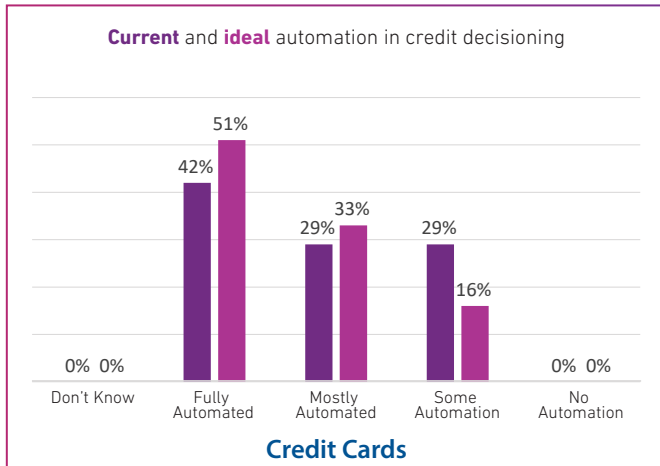


Speed of conditional approval based on product - in less than 15 days



Automation is known to boost the speed of processes. The survey studied decisionmakers' perspectives of current and ideal levels of automation across various lending products.

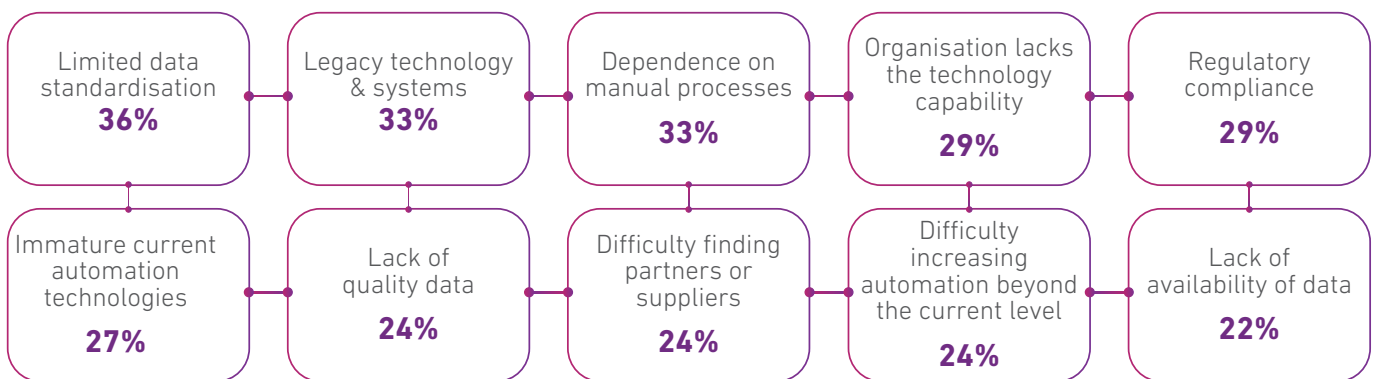
Current and ideal levels of automation



Barriers to increasing automation

The study also highlighted the issues that lending organisations face. The main areas of concern include limited data standardisation, legacy systems, and dependence on manual processes.

Top 10 barriers to increasing automation of credit decisioning and management



Data-related observations

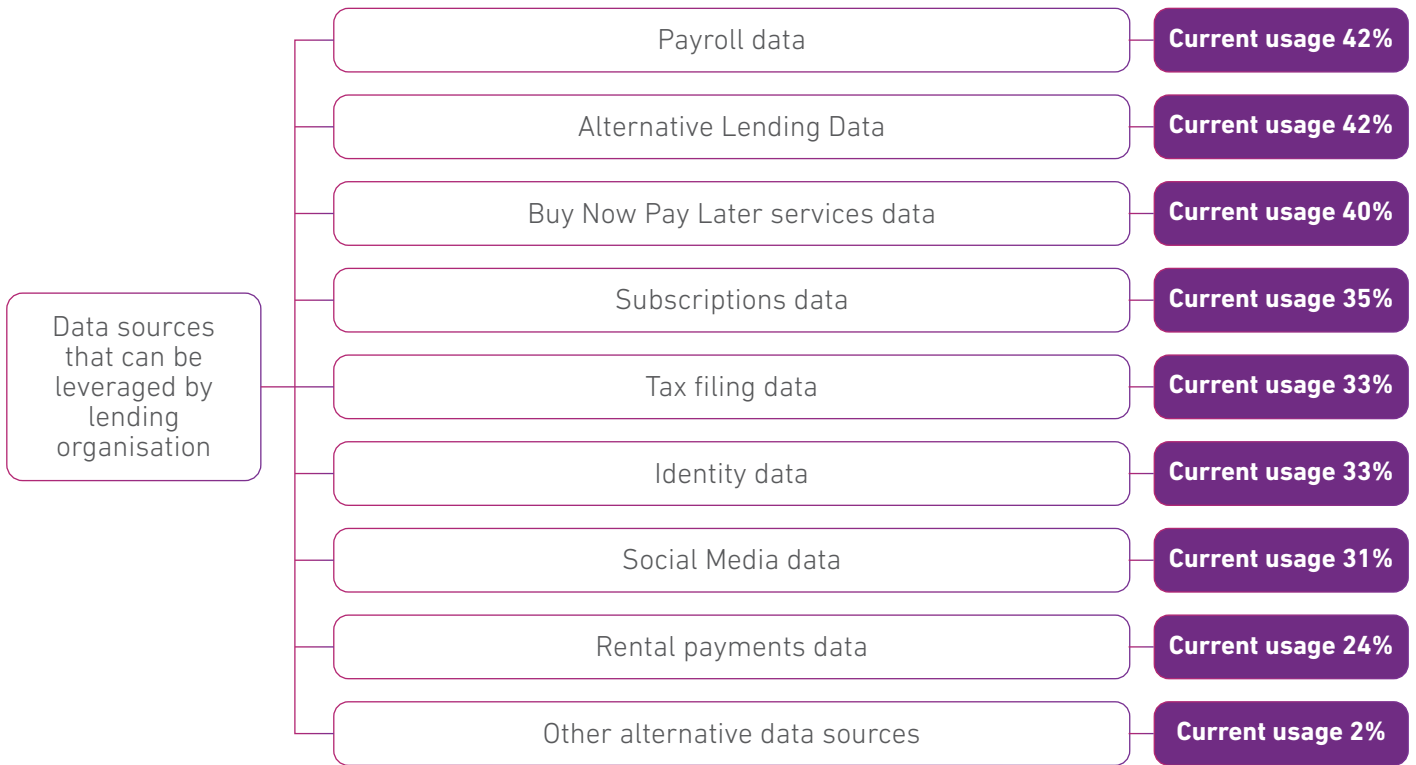
Alternative data usage to manage credit risk and fraud today only at 42% according to survey respondents. A key observation was that **76% of respondents said that their organisation declines applications from viable customers due to insufficient data.**

This prevents lenders from optimising their revenue and highlights the needs for businesses to take a closer look at the data sources they use for managing credit risk and fraud.

Data sources used by most organisations for credit decisioning and management



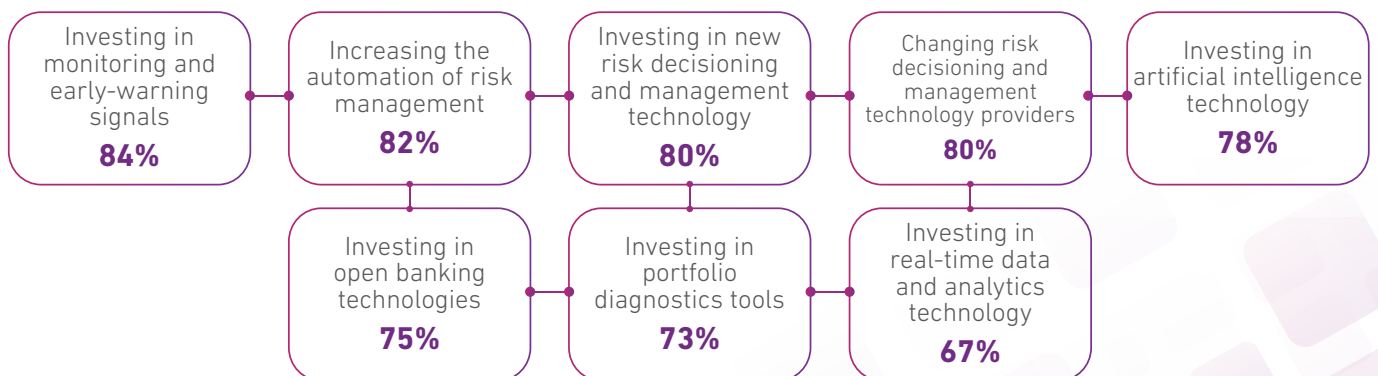
Data sources that lending organisations can leverage for credit decisioning and management



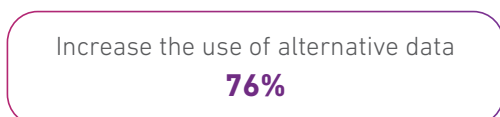
Leveraging these data sources can help lending organisations make more informed credit decisions, prevent fraud, and reduce credit risk.

The potential future of credit risk investments

1. Technology-related investments



2. Data-related investments



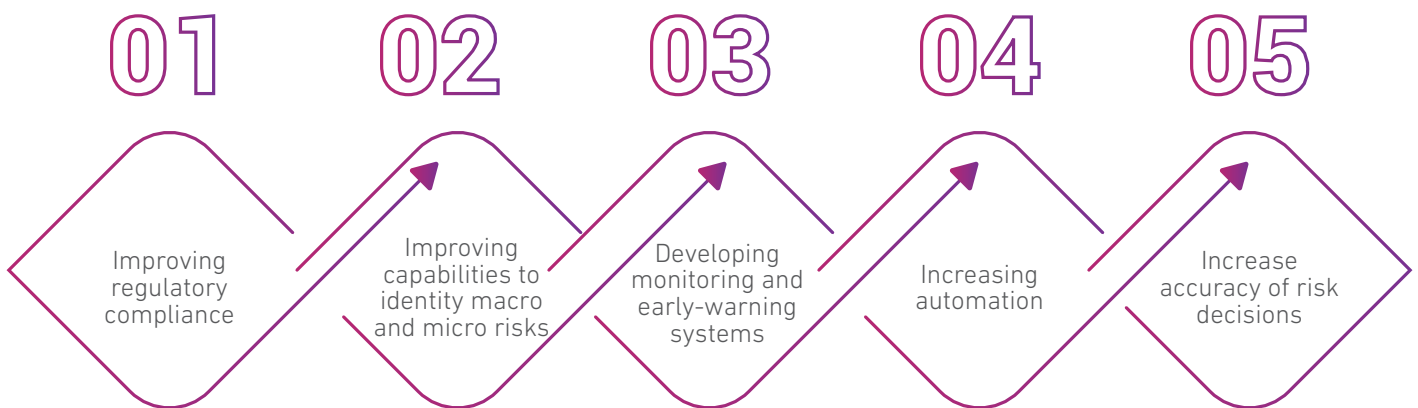
3. Other investments



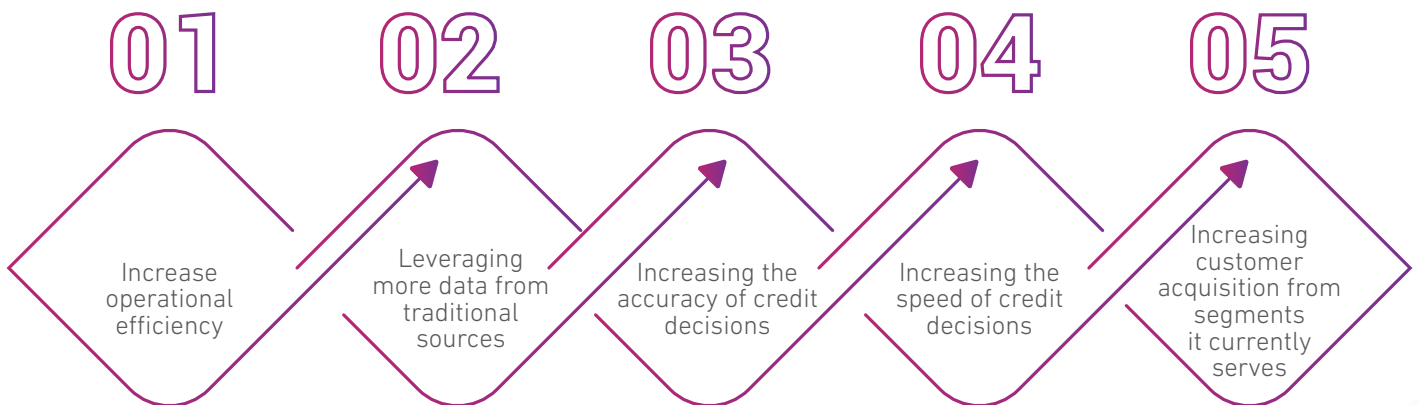
Potential priorities of lending organisations over the next 12 months for credit risk and management

Both automation and using alternative data can help lending organisations improve their credit risk assessment and management capabilities.

Top 5 expectations that lenders have over the next 12 months



Top 5 expectations that lenders have over the next 1-3 years



In summary, employees from lending institutions in India expect their businesses to focus on improving the current state of credit risk management and decisioning processes. Automation and leveraging existing and new data sources such as alternative data are key to achieving these goals.

Find out more from the Forrester study commissioned by Experian, "Drive Speed and Accuracy with Emerging Technology and Alternative Data".



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