

How digital data can innovate financial services

How lenders can make practical
use of digital data across the
whole credit lifecycle

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The benefits of digital data for financial services

In the last decade, the scope for change in the field of lending, credit and collections management has been immense. From increases in data availability, and advances in analytical techniques through to increases in regulatory requirements like IFRS 9, these changes have seen lenders seek to drive value from a range of initiatives – and the pace of change shows no signs of slowing.

In addition, technology and innovation has led to an increase in a new set of competitors – the Fintechs.

Their seamless and intuitive apps and online services are beginning to pull customers in with access to services at any time, on any device, with new data platforms enabling instant insight based on constantly updated information.

As the digital world continues to expand in financial services, credit and collections functions will need to embrace new decisioning standards to remain competitive. Innovation and transformation are set to be key differentiators, and the financial services providers that thrive over the next few years will look very different to the success stories a decade ago.

If firms are to adapt to the new demands of the marketplace, they must get better at understanding and anticipating customer demand and activity, and make sure that their services use customer insight to be as personalised and relevant as possible.

In this paper, we examine the practical use of digital data and services across the whole credit lifecycle, with one eye on the marketing of financial services products, and how lenders can benefit from its currently untapped potential.

You will learn:

- The new marketplace and new rules of engagement
- The digital data explosion – and how you can utilise new insight
- Four steps to use digital data to innovate across the credit lifecycle

New marketplace, new rules of engagement

While some high street lenders may cope with the new marketplace by changing their channel mix and retaining a strong high street presence, new players have emerged with innovative Fintech offerings.

In this new market place, Fintechs are unhindered by legacy banking platforms and have been able to start from scratch in choosing leading software and data architecture standards, and building capabilities that take full advantage of device features like face and fingerprint recognition, scanning and document management, and Apple and Android pay. This has enabled them to offer new lower cost services based around transaction categorisation, notifications and spending goal management, giving consumers a greater sense of being in control of their finances.

It's becoming more common for consumers to use a variety of channels to manage their finances, with smartphone apps or mobile sites being as likely a choice as a browser on a tablet, laptop or desktop. What's more, the latest generation of banking users

lead predominantly digital lives and many may never have needed to enter a branch.

As a consequence, firms must find ways to innovate their offering, but the challenge is to innovate in compelling ways. For some providers, this is about transforming the traditional functions of a lender to meet today's requirements. For instance, giving customers instant transaction notifications can reduce card transaction queries and inform the customer about useful details such as applicable exchange rates.

It also benefits lenders by making transaction fraud visible more quickly, allowing transaction blocks to be initiated sooner and limiting their exposure. Another example is enhancing statement functions so that they show retailer location and VAT number and enable a scan of the receipt.

This way of categorising transactions into business expenses and personal expenditure can transform the banking app into a more useful wallet application.

But the bigger change may lie in the ability that new entrants will have to harness open banking and take advantage of customers' new-found abilities to take their data with them.

Some new players have emerged with a marketplace model in which the Fintech operates a core capability but aims to offer financial products from many suppliers within the same platform. This means they can provide their customers with a consistent experience regardless of the mix of brands supplying their financial products.

In this world, and with the customer 'owning' the rights to use their own data, there is a potential power shift to the customer themselves, and to the platform owner away from the traditional bank. Away, too, from traditional means of data sharing, and credit scoring.

If the customer owns their own transactional data, and is able to share it with nominated providers, those providers can apply analytical techniques that transform the way in which affordability, credit scoring, fraud assessment and acceptance criteria are handled. For example, with credit assessment alone you get an excellent idea of how the account operates, its value, and whether it will be profitable.

Detailed transactional data is much more granular than the monthly snapshot data that is currently shared between lenders at the point of application; a provider who is able to harness this data and 'underwrite' a customer's reputation amongst a panel of product providers, is in a powerful position to reduce the cost of borrowing, articulate the relative levels of risk and profitability, and position themselves as a broker between the customer and the lenders competing for their business.

As we have seen, the world of tech start-ups tends to end up being dominated by a small number of well-funded players. Just look at Uber, Ebay, AirBnb and Amazon. We have yet to see a major banking version of this emerge. When it does, it could have the dominance to challenge traditional players in the very areas where they currently enjoy significant market share, and without the costs associated with running an entire banking network.

Perhaps we should watch new entrants with interest, along with services that currently look a little peripheral, like Apple Pay and Android Pay.

How to exploit the digital data explosion

The rise in the use of multiple channels and devices has seen a profusion of data produced. Devices create a stream of useful information, such as model identifiers and browser type, physical location, and detailed information about the customer's use of each website or app. But many lenders are missing the opportunity to harness this insight across the lifecycle.

Understanding this data in detail is the digital equivalent of the role that customer service staff in branches may have undertaken. In the old world, that meant understanding a customer's needs from an informal chat, leading to a product introduction that may have been underpinned by an offline targeting mechanism.

In a branchless environment, this can be replaced by sensitively-handled analytics that are driven by what the customer has seen, interacted with or done while online. Importantly, by incorporating data from a much wider range of sources and applying sophisticated analytical techniques, lenders can generate new levels of data-driven insights covering all channels and learn to fully understand the customer.

These insights can be acted upon at speed. The fact that a customer has thoroughly reviewed product information for a credit card or personal loan on your website can reveal something about that customer's intention. Prolonged interaction with an affordability calculator is a good sign, moving quickly to request the maximum available credit is not. Moreover, in a competitive market where existing customers can shop around and switch at the click of a button, having this understanding of their intention can arm you to retain business and drive cross-sales from existing customers.

These events can be turned into triggers for follow up, or fed into models in the same way that more traditional behavioural analytics uses bureau data

or application characteristics to predict something about the customer's future behaviour. The trick, perhaps, is to do this in a way that is both subtle and engaging. In addition, the challenge is to do this using technology which is capable of handling the large volumes of data that such an approach requires.

That points to the use of Big Data, and a number of techniques and technologies are available to handle massive data volumes at speed. Suddenly, the traditional approach to building credit and marketing models looks slow and cumbersome.

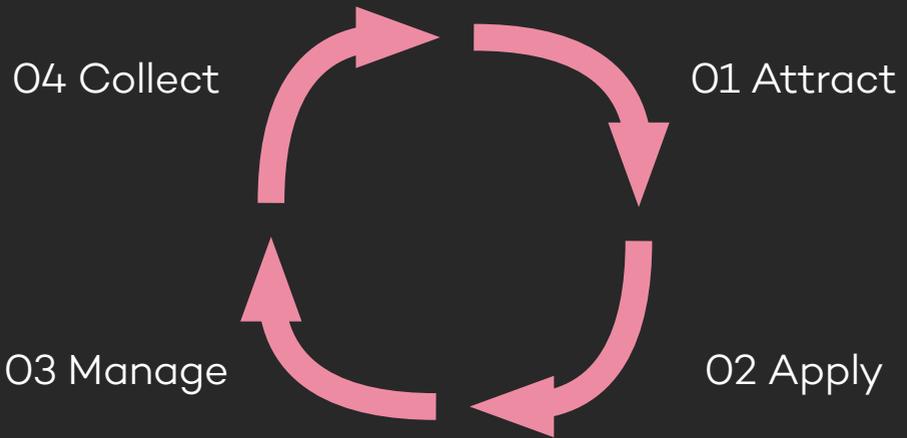
What's needed are data mining and machine learning techniques that can produce accurate, predictive models based on vastly more data than ever before, and to do this efficiently.

In the right circumstances, you want models that are constantly learning and updating, and constantly optimised. While this might seem like a daunting challenge to many traditional banking structures, modelling automation is set to play an increasing role in the future of banking and lending. It has to, in order to take full advantage of the information that is being generated, and the value inherent in it.

In ten years' time, a process of manually generating scorecards based on a handful of characteristics, on projects that take months to take from inception to deployment, will seem as quaint as the typing pool does to us now. The new players will automate and drive increasing value from vastly more data than is currently used. They will cut out the middle-man and use data sources that they can access themselves or can be willingly shared by their own customers.



Four steps to use digital data to innovate across the credit lifecycle



C1

**Attract the
right customers**

Many financial service providers are already using display and programmatic targeting to personalise adverts to pull customers in. But as much as it is about increasing awareness and improving the customer experience, you want to be attracting the right customers. Value-based digital targeting is key to profitability and can be relatively easy to achieve.

At the moment, paid search and targeting display ads are largely done with a success criterion of application, or even in best practice, acceptance.

But, this misses the biggest opportunity which is value.

If you were able to create value models based upon programmatic targeting and other digital data and target the types of customers from who are high value, you can expect to be able to significantly improve your ability to target your most profitable customer types.

If you have market leading balance transfer rates then you'll probably get the value seekers finding you.

The key to more revenues may be being able to find the people who let their promotional balances roll, and spend on balance transfer cards incurring

interest, not those who are playing the financial markets to get the best deal.

You can more readily command the digital marketplace for these types of customers if you are able to identify the characteristics most likely to indicate profitable customers in your existing portfolio.

Q2

**Innovate the
application process**

Driven by a desire to keep application forms as short as possible so as to retain high response rates, online applications can focus very specifically on the characteristics and questions that are relevant solely for the purposes of opening an account. But are they missing out on key data sources to improve customer uptake?

While lenders pay for external data, such as bureau insight from the credit reference agencies – an essential part of most credit applications – the application itself can be constrained by the up-front data collection that is undertaken, which can hinder flexibility in the model development process. And for some customers, those with thin files, for example, there is a need to maximise data that can be useful in assessing the application.

But underneath the application process lies a host of additional data and insight that application processes routinely miss. This includes information relating to digital identity, the events that have occurred during the process, the searches undertaken or content viewed and the actions the customer has undertaken, including dwell time on a page or the values they have entered. It even includes physical device information that can distinguish between a user with the latest iPhone and one with an entry level handset.

Moreover, device information and social data can be especially helpful in detecting fraud. By identifying where multiple applications – with possibly very different details – have been made from the same device, significantly improving on IP-based checks that are commonplace but less-and-less reliable.

Creating insight from social network data can be difficult, but understanding the nature of online conversations could be critical to your brand. If someone is prepared to provide access to LinkedIn, Facebook or Twitter profiles, the number and quality of their connections, and how influential they are within their networks, could be an excellent indicator of fraud and credit risk, and could influence how you respond to your customers online.

When coupled with existing application metrics and bureau data, digital data can have a significant role to play in accepting customers and underwriting applications. Whether through automated analysis or manual review, it enriches your understanding of customers and can play a key role in improving the marginal decisions that are so critical to delivering the best possible performance.

03

Innovate customer management

Once customers are on board, lenders may be missing out on the insights that digital data can provide. We routinely see a setup in which the analytical, risk and marketing functions are well served by more traditional data sources, such as bureau data, demographics and transaction history.

But there is often a patchy understanding of what those same customers and prospects are doing online. Views of online product content get swept up into a general reporting view through products like Google Analytics, so the website owners know which pages work (in terms of the volume of interest generated), but there is no detailed, person-level insight that shows what an individual has expressed an interest in, however implicitly, by searching for it or interacting with it.

Tailoring and targeting communications is known to drive success but getting hold of that data at the right level of granularity can be hard. Many firms have propensity models that target based upon other account behaviour, such as when a customer is likely to want a particular financial product. That's all very well when you have no additional information, but while it can predict things like consolidation loans or the types of behaviour which go with savings or credit card usage, it misses "event" loans, such as buying a new car, and it completely misses customer research into financial products.

A customer viewing online content about different products is the best marketing lead you could have, yet most financial

services providers have struggled to capture this information, collate it, and use it to drive their product marketing initiatives (which are often done via direct mail).

Instead, digital data tends to be used mainly to fuel online display campaigns, whose targeting can be very general, making use of segment-level information held by third parties despite the advertiser often having a very good relationship with the person seeing the advert.

This approach works well enough in the absence of a more thorough customer understanding. But for engaged prospects and known customers, and particularly in respect of marketing and risk decisioning, a more precise use of customer data can add considerable insight into the behaviour of site visitors, and can pay dividends through personalised, hyper-targeted communications.

The key is to match the digital data into the data warehouse at a level where it can be used to drive scoring and insight, with this data once again requiring new techniques and approaches in order to harness it – efficiently and in real-time.

04

**Innovate the
collections process**

Collections and recoveries is often the least well-resourced area in terms of data use and online customer engagement. While digital collections processes have been around for some time, a lot of organisations have not got to the point of this being a key priority.

Collections functions are usually led primarily by call centre operations, perhaps with voice recognition functions and a basic payment service. But few organisations provide an integrated digital collections environment that enables customers to negotiate repayment plans and set up future payment programmes, via a self-serve, automated channel. The primary challenge here is to build the system to maximise the collection of customer debts while ensuring the approach replicates or exceeds the performance of existing agents.

With this online collections platform, you can gather more customer insight to help your customers in need, before they miss a payment. Understanding a customer's interactions prior to missed payment can help assess 'likelihood to pay' so you can identify and help those that are genuinely struggling.

In any collections scenario, the most significant variable influencing the likelihood to collect money is the customer's last interaction - usually the last payment or phone call. Digital self-servicing means there may be many more interactions you are not seeing, for example, opening a reminder email, logging in to check your balance online, or even visiting the site anonymously.

In addition, a collection score would perform much better with this type of 'softer' interaction data available from both an online portal and the customer's use of your main website. For instance, viewing the "financial difficulties" section of a site, which will often precede actual arrears by some time, could be incorporated as trigger for pre-arrears activity.

This builds an understanding of the flow between different areas of your website: between product information and applications, servicing, and collections/repayment functions. In the same way that customers' use of application functions can be instructive in identifying higher-risk acquisition, the collections customer can be understood in relation to how they make use of a collections site. This means you can answer questions such as:

- Have they read the debt advice section?
- Do they complete, or partially complete, an income and expenditure form, only to abandon it later?
- Do they evaluate their disposable income?
- Which parts of the site do they interact with?

Conclusion

As financial services organisations rapidly evolve in response to the digital world, it is not a question of whether you embrace the change, but rather how to do so effectively.

New players are well-placed to set the pace and take a significant amount of the market by developing propositions that are genuinely appealing to a new generation of customers, and making use of data developments to create market-leading offers and improved credit strategies.

At the same time, established players need to respond to this threat by getting better at harvesting and using data effectively, taking seriously the opportunities presented by Open Banking initiatives, ramping up their use of digital data across the customer lifecycle, and making bigger investments in front-end technology that will attract and retain wavering customers.

For all lenders, this means developing capabilities to offer the right customers the right products, to lend and collect debt appropriately, and to enable digital customers to make appropriate choices using channels they are happiest to use, with those

choices understood through a prism of dynamic credit risk management and the use of digital data. And delivering cost-effective credit risk capabilities that operate seamlessly with the existing operation.

In our experience, lenders increasingly understand the importance of digital data and how technology and insight can improve their understanding of the digital customer to help them to serve them effectively. By overlaying data and analytics into the credit application and collections process, lenders can identify ways to use digital data to identify the best opportunities for their customers, and to do so without necessarily investing heavily in infrastructure

Get help to exploit the digital data explosion

At Jaywing, we combine our traditional analytical and data management expertise with an acute understanding of today's big data and big data technologies, to deliver value from regulator satisfaction to optimised processes and customer profitability. Our expert practitioners and advanced technology can help you to:

- Identify online individuals and track their website and app engagements
- Link behavioural data retrospectively, enabling you to see customer and prospect interactions over an extended period of up to 5 years
- Feed digital data into scoring processes to generate enhanced predictive models for credit, marketing, fraud and collections
- Adopt a digital collection platform to enable customers to make online repayments, arrange repayment plans and access affordability calculators and debt advice content

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