

White paper



Accelerate the Small Business Analytic Lifecycle

Empower Efficiencies in Data Preparation, Time to Insights, and Model Governance



Accelerate the Small Business Analytic Lifecycle

Executive Summary

Is it even possible to accelerate speed to market with so many challenges and complexities facing financial institutions today? Digital banking continues to gain momentum and introduce new competitive pressures as well as drive customer expectations. Financial institutions face challenges in balancing regulatory requirements, improving their ability to predict delinquency within their small business portfolios, and providing a world-class customer experience. As commercial lenders seek efficiencies, scalability, and reduced customer friction through automated analytics-driven processes, high-quality data combined with precise identity resolution are critical ingredients to quickly and accurately assess small business risk. New technologies are rapidly expanding access to new data sources and opportunities for new ways of interacting with customers, and small business lenders need to consider new tools and techniques to efficiently evaluate and transform data into analytical insights. Experian provides a powerful combination of data assets, enabling technologies and analytical expertise, empowering clients to achieve regulatory compliance, improve customer experience, and accelerate speed to market by up to 30%.

Problem

How can financial institutions maximize profitability while reducing exposure to regulatory findings within their portfolios? The ever-changing regulatory landscape creates challenges for credit risk managers to maintain organizational compliance. They need to reduce credit losses while properly preparing models to successfully navigate the three lines of defense of model risk management — operational management, risk management, and audit. Failure to take proper action in any of these areas may result in adverse regulatory findings including MRAs (Matters Requiring Attention). At the same time, risk managers struggle with finding the balance between increasing high-quality customer acquisition while minimizing future portfolio risk.

As small business lenders are expanding into digital channels, transacting in a faceless online environment creates greater exposure to fraud and credit risks. Mitigating risk while reducing friction and quickly responding to prospective customers is critical to harnessing the potential of digital channels where a competitive offer is just a click away. The ability to anticipate risk dynamics and quickly innovate is quickly becoming a point of competitive differentiation.

Most financial institutions require an average of 18 to 24 months to develop a commercial risk model, including data preparation, exploratory data analysis, model development, and model risk management approval.



One of the most critical but time-consuming elements in this process is ensuring optimal data quality and establishing accurate data lineage. As new technologies are rapidly expanding access to new data sources, organizations need to consider new tools and techniques to efficiently evaluate and transform data into analytical insights.

Background

Financial institutions have traditionally been focused on reducing operating costs to maximize profitability. One approach that is gaining increasing momentum among commercial lenders is the use of automated analytics-driven processes. At a foundational level, scores and models are designed to automate decisions and reduce reliance on manual review. This movement towards automation is especially relevant as a growing number of lenders are looking to digital channels to expand their market reach. Automation is necessary not only to provide scalability and consistency, but also to ensure the seamless customer experience most clients have come to expect when transacting online. To ensure the integrity and efficacy of automated analytics-driven processes, high-quality, reliable, and standardized data combined with precise identity resolution are critical ingredients to quickly and accurately assess small business risk.

Many institutions need to interrogate and understand the structure of vendor information from the ground up and invest the time to objectively validate the accuracy of third-party data, to produce the fully audited and defensible data sources that they need to create a standardized baseline. The result is an arduous, time-consuming process that delays acquiring the necessary insights to create business value.

Another reason institutions are compelled to invest so much time in understanding their third-party data is that they are required to prove the accuracy of their data sources to regulators. From a model governance perspective, regulators need to validate the presence of adequate data controls including documented data lineage, ongoing monitoring of data quality, and evidence that data is used for its intended purposes to ensure compliance with regulatory statutes such as SR 11-7 and BCBS 239. These data integration and documentation requirements consume significant resource time and can cost financial institutions several million dollars to achieve.



Solution

Experian provides the following components which can be used individually or as an integrated solution to empower our clients with a competitive advantage by reducing time to market, maximizing profitability, and minimizing portfolio risk:

1. Attributes — Robust Analytics and Data Science Expertise Increase Predictiveness

Experian's SBFE Attributes are built upon the robust knowledge gained through many years of supporting both business and consumer credit analytics for a wide range of clients. These attributes offer the highest standards of data quality, while also representing an optimal range of predictive value coverage for a broad range of financial products. Experian's SBFE Attributes provide a high level of predictive value which will help improve analytic-based decision-making in support of both origination and portfolio management decisions. These attributes can be utilized for a variety of use cases including originations, early fraud detection, portfolio management, loss forecasting, risk-based pricing, and collections.

Accelerate the Small Business Analytic Lifecycle

What makes Experian's SBFE Attributes unique? Experian's SBFE Attributes represent a synthesis of experience, innovation, and proven analytical techniques. The SBFE Attribute design is consistent with Experian consumer Premier attributes, which are recognized as the gold-standard of consumer bureau attributes because of their stability, consistency, and design. SBFE Attributes span 12-years of history covering full economic cycles and enabling various impact analysis use cases. These attributes were also created to mirror the most predictive and commonly used credit risk model variables for recent Experian model builds. Experian used an analytical and consultative approach to develop SBFE Attributes, and has designed comprehensive attribute default layers which remove the requirement of creating time-consuming false zero logic. The attributes follow industry-standard 30/60/90-day delinquency measures commonly utilized to improve origination and portfolio management decisions. Performance of the attributes are measured against an industry-standard 90-day delinquency definition.

2. Data — Quality Control and Match Precision Ensure Confident Decisions

Can financial institutions trust their current data provider to provide the best quality match rates, data quality, and transparency to stay competitive and perform well relative to their peers in the industry? An ideal provider is one single source who offers multiple solutions — sophisticated analytical tools, fraud solutions, and commercial and consumer insights throughout the client engagement lifecycle. Experian's credibility as a trusted data steward is unmatched based on our expertise and experience in protecting and managing business owner and small business information.

An effective data governance framework properly defines the processes, monitoring, documentation, and role responsibilities involved to achieve data quality. To achieve an exceptional level of data quality, Experian's unparalleled data approach focuses on maintaining stability and quality from ingestion through client delivery. Our data approach begins with raw data from suppliers, which is collected in a variety of forms and factors. This data then advances automatically through a series of confidence levels from

raw, to trusted, to enriched, and finally, to product-ready form. Surrounding each of these stages are analytic processes that measure the speed and accuracy of the fabrication process as well as the degree of trust in the resulting data and its readiness for use in products. The entire fabrication process exists within an analytical feedback loop that collects information about the data as it is used to train our environment to predict failures as well as prescribe preventive measures, thus ensuring successive cycles of continual improvement.

Also, as attribute governance is an increasingly scrutinized and an important component of model risk governance, clients are looking to Experian to help them to stay compliant. SBFE Attributes have rigorous attribute governance protocols that can stand up to today's strict regulatory scrutiny. BIS monitors the changes in fill rates and values on a monthly cadence, documenting any issues found in the data. Acting to resolve or report the variant is important in maintaining the stability of the data. Data quality and the data governance framework work hand-in-hand to monitor and maintain stable and accurate data while ensuring resolution of any issues identified.

3. Intellectual Property — Attribute Lineage Empowers Defensible Decisions and Faster Insights

Regulators prefer that the data feeding decisions are transparent and explainable to a lay person. To provide this transparency, financial institutions who develop their own custom models need to prove that the data being used to create model inputs is suitable for its intended purpose, being used correctly within the model, and relevant within the context of its intended usage.

Experian licenses its intellectual property associated with SBFE Attributes, providing detailed insights into attribute lineage from the raw data state to the finished attribute product view. These insights can be helpful in responding to regulator questions regarding how the attributes are created and interact with one another, as well as providing greater visibility into the elements used to make critical customer lending decisions. The in-depth understanding of filters used to create the attributes increases confidence in exactly how strategies impact decisions and the end client, while helping to reduce exposure to regulatory findings.

Confidence in the data allows institutions to segment more appropriately, and make timely offers that are right-sized for the customer. This data confidence enables the development, deployment, and usage of more modern advanced methodologies, accelerated automation and understanding of the evaluation to the end customer. Deploying intelligent strategies using Experian's SBFE data can help lenders make and defend good decisions that result in a positive impact to investors and drive fair decisions to create profitability and loyalty.

4. Delivery — Flexible Access Options and Enabling Platforms Accelerate Implementations

Companies often have IT limitations which can create delays in deployment of new sources of data and models. They may struggle to implement, monitor, document, and maintain their own custom attributes. These factors can be significant constraints to growth and profitability. Having access to data through batch, online real-time sources and enabling platforms is critical to a business being nimble and innovative.

SBFE Attributes are available through batch, traditional online computer to computer and XML delivery channels, and through our API Hub. The API Hub is a nearly self-service portal with a toolkit that empowers client development teams to quickly integrate SBFE data as well as a host of other traditional and alternative data sources through a single API access point regardless of platform. This capability allows for easier access to data from native systems as well as hosted platforms such as Experian's Predictive Services microservice.

Predictive services enhances the ability to quickly deploy a custom or generic model with access to Experian attributes as well as alternative data sources. This capability will allow for deployment of updated predictive models with improved predictability in a fraction of the time it would take using traditional model deployment techniques. SBFE Attributes are also integrated into cutting-edge analytic workspaces, including Experian's Analytical Sandbox and Attribute Toolbox.

The Analytical Sandbox provides a combination of SBFE data assets and Experian's extensive commercial data to deliver broader coverage on all businesses. Because many businesses are financed using a combination of business credit and the business owner's credit, the ability to access both is critical to an effective small-business risk strategy. Experian's access to true credit performance on 250 million consumers and analytical experience in maximizing the predictive power of commercial and consumer data sets can significantly improve the ability for commercial lenders to predict small-business risk. With the addition of SBFE data, Experian's commercial information solutions provide greater coverage of small-business financial health. The Analytical Sandbox empowers commercial lenders to utilize sophisticated analytical tools such as SAS, R-Studio, Python and H2O to develop their own custom attributes and models using commercial and consumer data. It also enables powerful portfolio management capabilities, as well as on-demand benchmarking and market intelligence insights.

For commercial lenders seeking efficiencies in custom attribute deployment, Experian's Attribute Toolbox (ATB) can be a powerful enabler. ATB allows clients to access and aggregate over 100 data sources to quickly and efficiently integrate models, strategies, and attributes to improve data intelligence and accelerate speed to market by reducing development time and costs.



“Forbes has acknowledged Experian as one of the top 100 innovative companies in the world, 5 years in a row.”

Accelerate the Small Business Analytic Lifecycle

Conclusion

The combination of emerging technologically-advanced competitors, growth of digital banking, and rapidly evolving compliance requirements are creating significant challenges in the industry. Financial institutions need to rapidly respond to these challenges to capture and maintain market share, meet regulatory requirements, and ensure profitability.

The ideal partner not only provides robust and high-quality data, but also provides data sciences expertise, flexible delivery options, and enabling platforms. A partnership of this kind can deliver significant cost savings, accelerate the small business analytic lifecycle, and significantly reduce regulatory exposure for small business lenders. Experian continues to provide our clients effective solutions to meet these challenges as a thought leader and trusted data steward. Our unique data assets, exceptional approach to data quality, analytics, intellectual property, and advanced technology platforms and tools, provide organizations with a significant advantage to succeed in the marketplace. We help solve the current obstacles as well as the unexpected issues that continually arise in the constantly-changing financial services industry.

About Experian's Business Information Services

Experian's Business Information Services is a leader in providing data and predictive insights to organizations, helping them mitigate risk and improve profitability. The company's business database provides comprehensive, third-party-verified information on 99.9 percent of all U.S. companies, as well as millions of companies worldwide. We provide market leading tools that assist clients of all sizes in making real-time decisions, processing new applications, managing customer relationships and collecting on delinquent accounts.

For more than 125 years, Experian has used the power of data to help unlock opportunities for businesses and consumers. With more than 16,500 employees in 39 different countries, Experian proudly offers blended data assets, giving lenders access to hard-to-find small and micro businesses. Funneling numerous data sources — including BizSourceSM, member trade, alternative and consumer — our breadth and depth of information helps lenders finetune marketing efforts, identify new profitable customers, assess risk, improve data modeling and conduct market research to break into new market segments.

About SBFE

The Small Business Financial Exchange, Inc. and SBFE, LLC (collectively known as SBFE) is one of the country's leading sources of small business credit information. Established in 2001, this nonprofit association's database houses information on over 38 million businesses and enables information exchange among Members who provide small business financing.

By providing industry insight and an aggregated view of small business financial data to its Members, the SBFE model enables innovative risk management solutions through its strategic relationships. SBFE is the only Member-controlled organization of its type and is serving as a trusted advocate for the safe and secure growth of small business. For more information, visit www.sbfe.org.

Let Experian Help You on Your Data Journey

If you would like to schedule a data consultation or learn more about Experian SBFE Attributes, data, intellectual property, or delivery platforms, please contact an Experian representative at 877-565-8153 or visit www.experian.com/sbfe.

