A Forrester Consulting
Thought Leadership Paper
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Build Credit Risk Confidence Through Advanced Assessments

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Table Of Contents

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Only **48%** of respondents are very confident in their organizations' current approaches to credit risk evaluation.

85% of organizations are eager to adopt a credit risk management solution to augment their current approaches.

Executive Summary

Businesses today are under constant pressure to make quick, accurate, and consistent decisions for credit evaluations — both for new customer acquisition and revaluating existing clients under ever-shifting guidelines and demands. Fundamentally understanding a business's identity and health is crucial in making risk-based credit decisions, but too often businesses rely on incomplete data sources, manual processes, and legacy platforms to evaluate credit risk, resulting in rampant fraud: 77% of businesses have experienced fraud within the past two years.

The manual processes businesses rely on require weeks of employees' time to process new applications for credit, screen for fraudulent credit applications, and report on compliance metrics. As a result, 85% of business decision makers are looking to invest in an integrated credit risk solution — and 75% of those interested report that they are ready to invest within the year.

Businesses that are integrating analytics, machine learning (ML), and artificial intelligence into their risk management strategies not only see more consistent credit evaluations and improved job satisfaction of analysts but are also better able to grow their businesses and are more confident in their abilities to balance growth with risk — a critical component of success.

In July 2019, Experian commissioned Forrester Consulting to evaluate current approaches to risk-based decisioning and firms' plans for the future of their credit risk assessment practices. Forrester conducted an online survey with 165 risk and/or credit services decision makers in the US across industries to explore this topic.

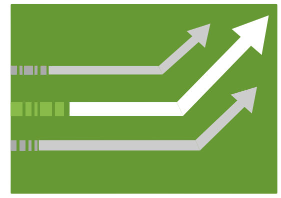
KEY FINDINGS

› **Only half of decision makers are very confident in their businesses' current approaches to risk management.** Most businesses are using the same data sources they used a decade ago to evaluate credit risk and spend weeks of employees' time to effectively evaluate new applications and revise existing applications**.**

› **Businesses struggle to deploy advanced analytics or automate account reviews.** Fundamentally, businesses — regardless of their maturity — struggle with data accuracy, consistency, and availability. This underpins their challenges with manual processes requiring excessive manpower and inconsistent risk assessments.

› **Most businesses are looking to a credit risk evaluation partner to evolve their risk solutions.** Within the year, 75% of decision makers are ready to invest in a solution that not only improves their firms' risk detection capabilities but also their end customers' experiences. Regardless of the maturity of their risk management *strategy*, businesses still recognize that they need a partner to help with the execution of that strategy.

Credit Risk Evaluation Approaches Are Inefficient



The current approach to credit risk evaluation — gather inputs from discrete data sources, manually analyze data outputs, and finally report back to decision makers — is not only time-consuming, but also rife with potential errors. As a result, most organizations are not very confident in their current approaches to evaluating credit risk. In our study, we found that: Optimizers are differentiated from Maintainers and Learners by not only their capabilities but also their approach to SEO. They are more likely to:

› **Businesses use a multitude of data sources to make risk decisions.** On average, businesses are using six discrete data sources when evaluating credit risk and making risk decisions. Credit bureau information, inquiry data, scoring history data, account data, financial statement data, and demographics data are the most popular sources of insight when evaluating credit risk and making risk decisions.

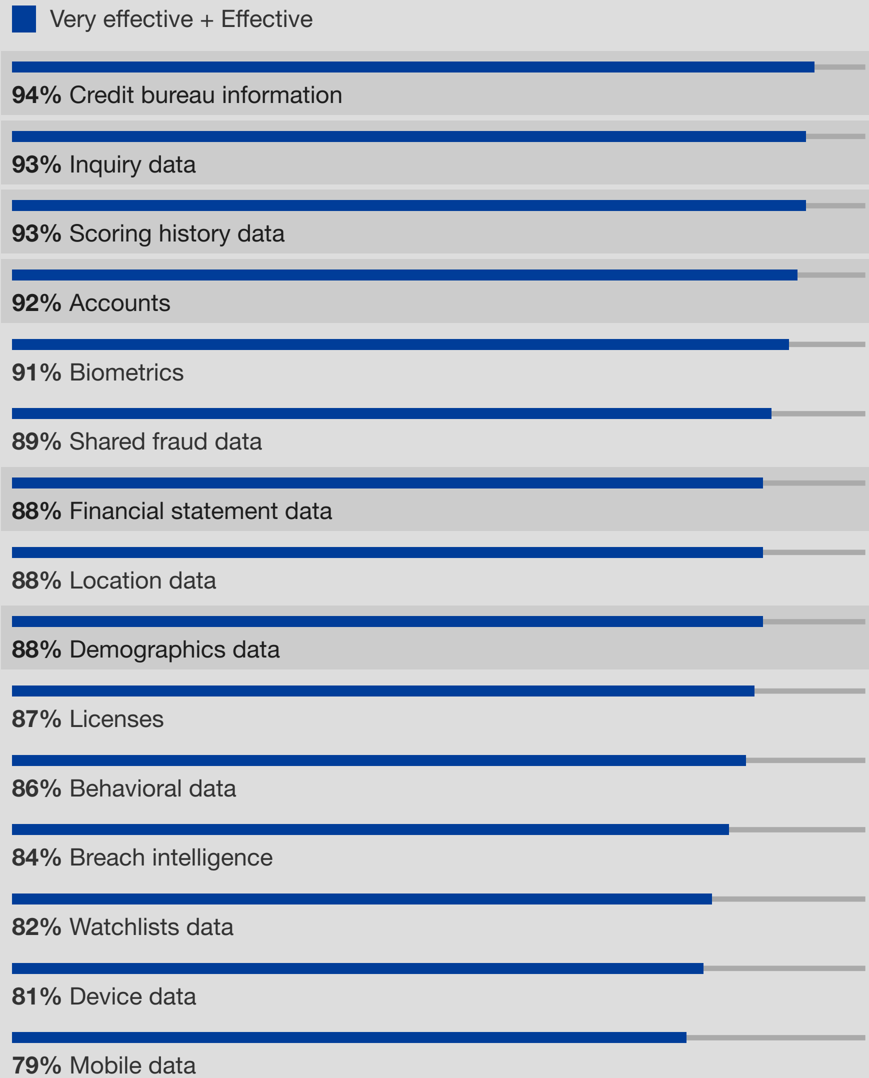
› **Generally, respondents find these data sources to be effective in detecting risk.** Over 90% of respondents rate credit bureau information, inquiry data (the data acquired from the applicant at the time of submission), scoring history data, and account data (cash flow, financial, utility account data) as very effective or effective (see Figure 1). Interestingly, 91% and 89% of respondents see biometric data and shared fraud data as effective, respectively, which points to the growing requirement for such data sources when evaluating risk.

› **However, analysis of the data takes a long time and intense employee resources.** Despite the effectiveness of these sources, evaluating the outputs takes months of employees' time. On average, employees spend nearly 42 hours a week processing new applications for credit, 29 hours a week on collections, and 21 hours a week on compliance reporting. On top of that, respondents report that they spend a combined 46 hours a week on fraudulent credit application screening, revision of existing customers' statuses, and fraudulent credit application investigation — demonstrating that despite the time spent on new applications, many fraudulent applications still pass through the cracks (see Figure 2). This workload leads to high burnout rates and low job satisfaction as analysts struggle with the manual nature of the workload.

› **In the end, only half feel confident in their approaches.** Fewer than 50% of respondents are very confident in their organizations' current approaches to evaluating credit risk. Forty-eight of respondents say they are very confident in their ability to evaluate how creditworthy an organization is to grant credit, financing, and/or capital; this includes decisioning (see Figure 3).

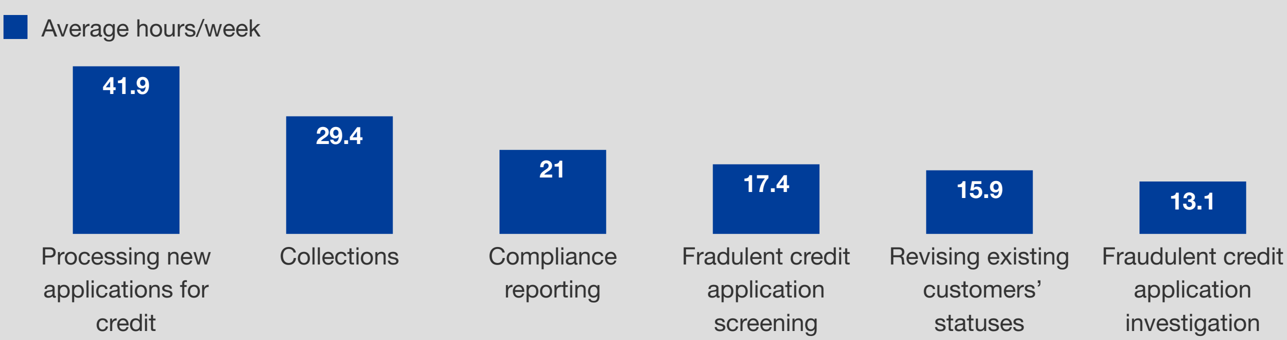
  Confidence in the evaluation process is significantly higher for those companies that have integrated advanced analytics, automated decisioning, machine learning (ML), and/or artificial intelligence (AI) into their risk management strategies compared to those that have no plans to so. Fifty-nine percent of decision makers at advanced organizations are very confident in their current approaches, as compared to a mere 36% of those who are not planning on integrating new technologies to their current processes.

Figure 1: Effectiveness Of Each Data Source Used In Helping Detect Risk



Base: 50 to 113 risk and/or credit services decision makers in the US
Source: A commissioned study conducted by Forrester Consulting on behalf of Experian, August 2019

Figure 2: Weeks Spent Reviewing Credit Risk



Base: 154 risk and/or credit services decision makers in the US
Source: A commissioned study conducted by Forrester Consulting on behalf of Experian, August 2019

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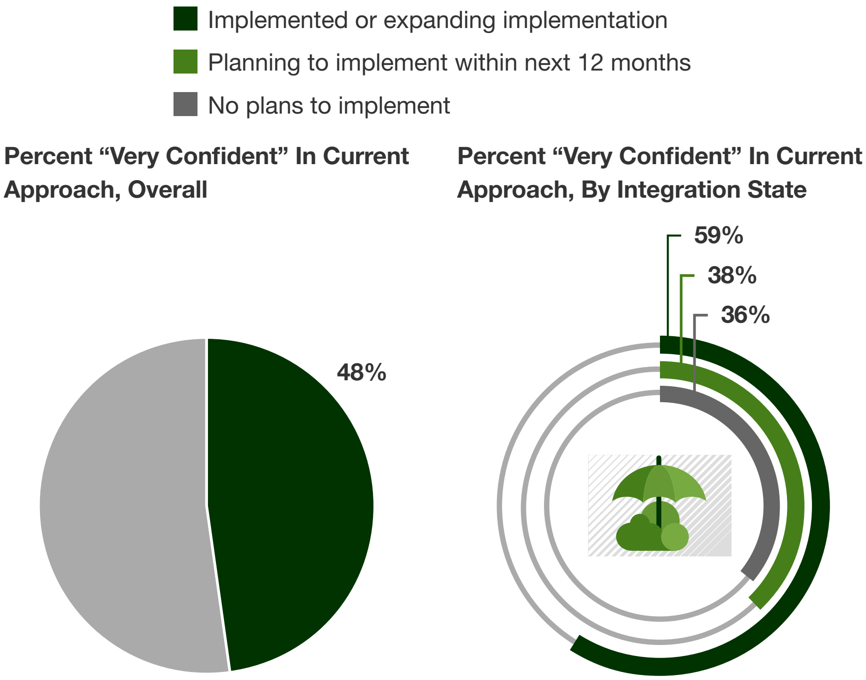
Figure 3: Those "Very Confident" In Their Current Approaches To Evaluating Credit Risk (Showing percent "very confident")



Base: 165 risk and/or credit services decision makers in the US
Source: A commissioned study conducted by Forrester Consulting on behalf of Experian, August 2019

59% of respondents whose businesses have integrated advanced analytics into their risk management strategies are very confident in their current approaches, compared to 36% of those who have not done so.

Data Challenges, Compounded With A Reliance On Manual Processes, Create Inconsistent Evaluations

Despite the noted effectiveness of each of the data sources businesses use when evaluating credit risk, they still struggle with the manual nature of the current credit risk evaluation systems. These manual processes provide an opening for fraud; in fact, 77% of businesses have experienced some fraud in the past two years, the most popular of which have been falsifying income, first-party fraud, and synthetic credit fraud. From an organization, governance, and technological standpoint, the top challenges were centered on the manual integration of data sources, difficult decisioning, and staying current with ever-changing compliance rules. Our survey found that:

77% of businesses have experienced some fraud in the past two years.

› **More than one in three businesses struggle to deploy advanced analytics or automate account reviews.** For over a third of businesses, processes are still too manual to be efficient. Thirty-six percent of decision makers note that their firms struggle with an inability to fully automate account review processes due to IT, budget, system, or resource constraints; 35% struggle with an inability to deploy advanced analytics or custom models due to IT, budget, or resource constraints. Importantly, nearly 30% state that their current new account onboarding processes result in lost revenue and/or poor customer experiences.

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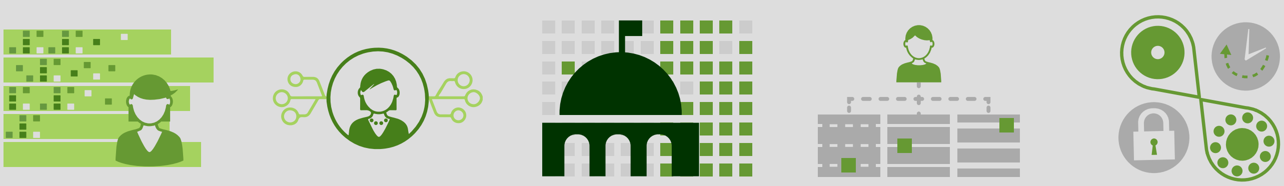
› **Fundamentally, businesses struggle with data: quality and privacy.** Regardless of their maturity, businesses struggle with inaccurate data, unavailable data, and too much data on top of regulatory challenges. Interestingly, those that have already integrated advanced analytics into their risk management strategies struggle with data inputs that are not standardized to compare data sets whereas those immature companies that have yet to implement advanced analytics struggle with the more basic issue of incomplete data where expected data attributes are not always provided.

Just as all businesses — regardless of their maturity in integrating advanced analytics — struggle with data inputs, all respondents note that they have particular organizational-, governance-, and technology-related challenges. Specifically, respondents cite these top challenges that are the most difficult to overcome: Training and educating employees is time-consuming; data integration requires employees to produce actionable insights; current regulations are changing too fast to stay compliant; analysts don't feel empowered to make independent decisions; and existing systems require significant manual data input (see Figure 4). The challenges all underscore the fact that current approaches to data management require extensive manual (i.e., employee) input to maintain, resulting in poor customer and employee experiences.

› **Resource-intensive manual processes sap productivity.** Specifically, employee education, empowerment, and productivity are key organizational sore spots for businesses. Current evaluations require too much employee manpower, often resulting in inconsistent credit risk assessments. That nearly a third of respondents report that data integration requires too many employees points to the complexity of the problem: Current approaches rely on many transaction systems and legacy platforms.

› **Manual processes lead to risk.** Because of this reliance on manual processes, the top governance challenge businesses face is inconsistent credit risk. Nearly a third of decision makers note that manual processes create inconsistent credit risk assessments; on top of that, regulations are constantly evolving, which makes it challenging to stay compliant.

Figure 4: Top Challenges Noted As Being The Most Difficult To Overcome



Training and educating employees is time-consuming (ORG)	Data integration requires employees to produce actionable insights (ORG)	Current regulations are changing too fast to stay compliant (GOV)	Analysts don't feel empowered to make independent decisions (ORG)	Existing systems require significant manual data input (TECH)

Base: 152 risk and/or credit services decision makers in the US
Source: A commissioned study conducted by Forrester Consulting on behalf of Experian, August 2019

› **Manual processes compromise outputs.** Further underscoring the difficulty of their current manual approaches, the top technology-related challenges faced are the manual inputs needed to create a functioning credit risk evaluation system. A third of respondents report that existing systems require manual searching and analysis; 27% state that existing systems require significant manual data input; and a further 27% say their existing systems are inflexible and unable to scale with their businesses.

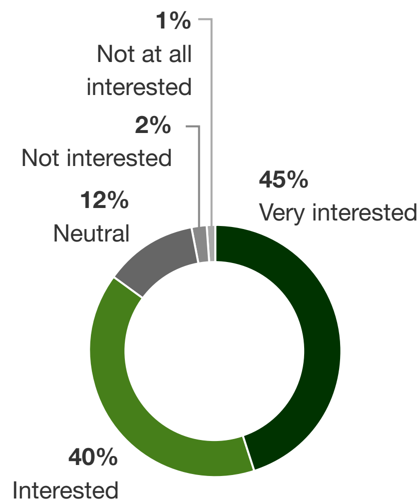
Integrated Credit Risk Solutions Are Seen As The Future

Faced with a multitude of challenges with their current approaches to credit risk evaluation, businesses are eager to invest in an integrated risk management solution; the vast majority are ready to invest within the year — across company sizes and industries. Beyond simply improving their ability to detect risk, many decision makers anticipate such a tool to improve their end customer experience and, for those who have already begun to invest in advanced analytics, their analyst job satisfaction.

› **The vast majority of organizations surveyed are interested in adopting an integrated credit risk solution — and 75% plan to invest within the year.** Eight-five percent of decision makers are interested or very interested in adopting a credit risk solution that uses automated decisioning and/or advanced analytics to combine online and offline data into meaningful insights about customers' identities and is tailored to their business processes (see Figure 5). A third of respondents are ready to invest in such a solution within the next six months; a further 39% are ready to invest within the next year, relieving themselves of the manual processes needed to evaluate credit risk.

› **Business are looking for credit risk evaluation solution vendors that couple strong support mechanisms with deep data quality and compliance expertise.** The top nontechnical capabilities respondents look for in a vendor are strong customer support and low ongoing maintenance and support costs (see Figure 6). Interestingly, low startup costs are one of the least important nontechnical capabilities: Businesses recognize that an investment in a credit risk solution vendor is a long-term investment into their future, rather than a short-term Band-Aid. On the technical side, data quality and security/compliance expertise are the most important qualities businesses look for in a vendor.

Figure 5: Interest In Adopting An Integrated Credit Risk Solution

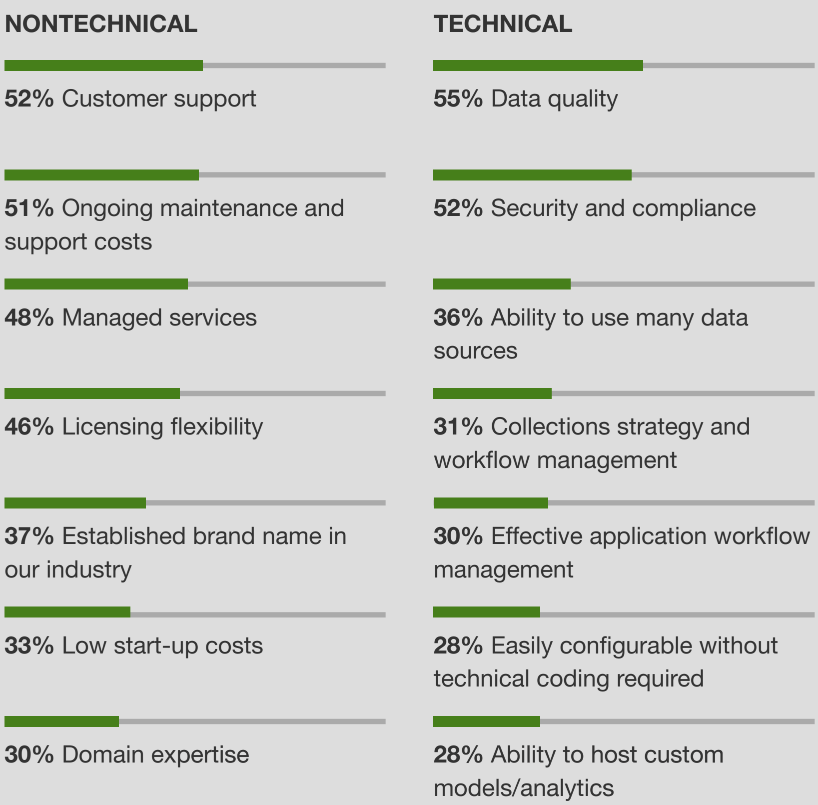


Base: 165 risk and/or credit services decision makers in the US
Source: A commissioned study conducted by Forrester Consulting on behalf of Experian, August 2019

Businesses are honest with themselves and recognize that data quality — which includes accuracy, availability, and credibility — is one of their largest challenges to overcome when streamlining credit risk evaluations. Additionally, compliance requirements or audit findings often drive implementation of integrated credit risk management solutions. Integration means that compliance professionals and auditors are able to find answers to their questions given the unified logging and reporting of integrated credit risk management solutions.

› **Improving credit risk evaluation processes has the dual benefits of improving risk detection *and* end customer experience.** Fifty-eight percent of respondents anticipate an improved ability to detect risk by improving their businesses' ability to effectively evaluate credit risk, followed closely by a better end customer experience (49%) and cost savings (48%). Interestingly, 52% of respondents whose companies have already started integrating advanced analytics into their risk management strategies anticipate improved analyst job satisfaction, compared to 28% of those who have no plans to integrate such capabilities. Enabling high-value analysts to focus on more strategic endeavors not only leads to improved employee retention but also maximizes talent.

Figure 6: Top Technical And Nontechnical Capabilities When Selecting A Credit Risk Solution Vendor



Base: 165 risk and/or credit services decision makers in the US
Source: A commissioned study conducted by Forrester Consulting on behalf of Experian, August 2019

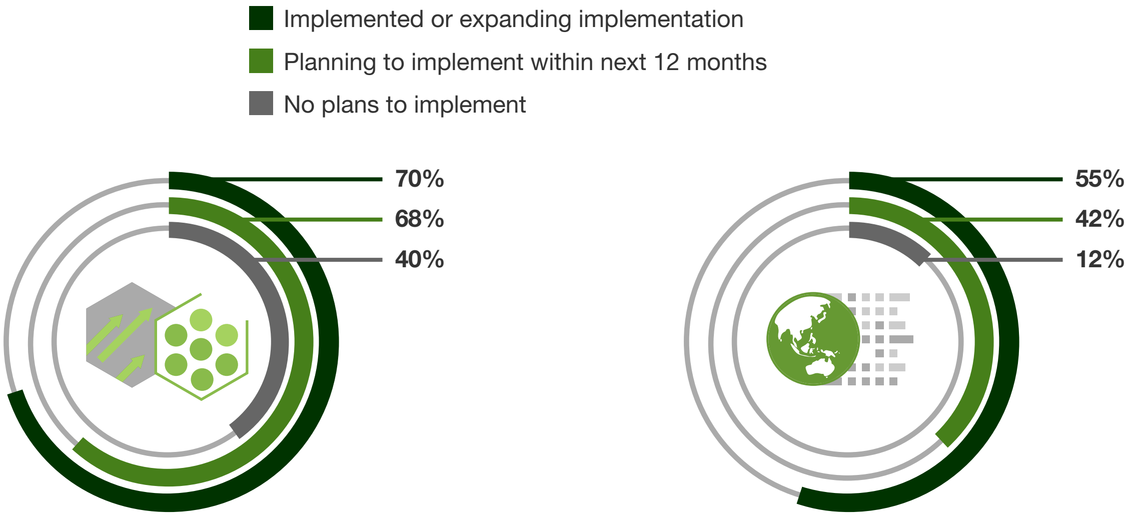
Businesses are looking for credit risk evaluation solution vendors that couple strong support mechanisms with deep data quality and compliance expertise.

› **By investing in advanced analytics capabilities for risk management, businesses are able to expand their footprints, rather than managing day-to-day evaluations.** Seventy percent of those who have integrated advanced analytics into their risk management strategies report more frictionless new account onboarding; 55% note that they are able to direct and focus efforts on expanding their footprints in new verticals/geographies, rather than evaluating risk since strong policies are in place — compared to a mere 12% of organizations that have no plans to implement such technologies to their risk management strategies (see Figure 7).

Figure 7: How Credit Risk Evaluation Effort Success Is Measured

"Our end user customer experience is easier; we are not introducing friction in the acquisition process."

"We can direct and focus our efforts on expanding our footprint in new verticals/geographies, rather than evaluating risk since strong policies are in place."



Base: 165 risk and/or credit services decision makers in the US
Source: A commissioned study conducted by Forrester Consulting on behalf of Experian, August 2019

- **Those decision makers who have implemented advanced analytics/ML into their decisioning are far more confident in their organizations' ability to not only identify and mitigate risk, but to continue to grow as a business while maintaining risk.** Understanding a business's identity and health is fundamental for making the right risk-based decisions, and a sophisticated approach marrying multichannel data sources, advance analytical modeling, and AI/ML capabilities is critical to consistent risk evaluations (see Figure 8).

Figure 8: Implementing Advanced Analytics Into Risk Management Strategy Allows For Simplified Credit Risk Evaluation

Base: 165 risk and/or credit services decision makers in the US
Source: A commissioned study conducted by Forrester Consulting on behalf of Experian, August 2019

Key Recommendations

Credit risk assessments and decisioning are a core loss reduction activity that influences your organization's ability to reduce fraud and increase profitability.

Forrester's in-depth survey of credit risk assessment decision makers yielded several important recommendations:

Relentlessly improve data quality. Good decisioning requires that your tools and algorithms build on up-to-date, complete, and diverse data sets. Using vetted data sets from vendors and cleaning up your internal data (S&P, application and loan data, transaction details, etc.) is a foundational and repeating activity.

Proceed with machine learning cautiously. While machine learning algorithms are all the rage and our survey shows that using ML tools boosts confidence in making sound credit check decisions, you want to pay attention to false positive rates, model governance, and explainability. Use ML that makes it easy to provide concrete and defensible reason codes auditors and customers. This is the reason that firms use their legacy, rules-based systems to provide backup reasoning and rationale to support ML decisions as well as compensate for unconscious bias in models.

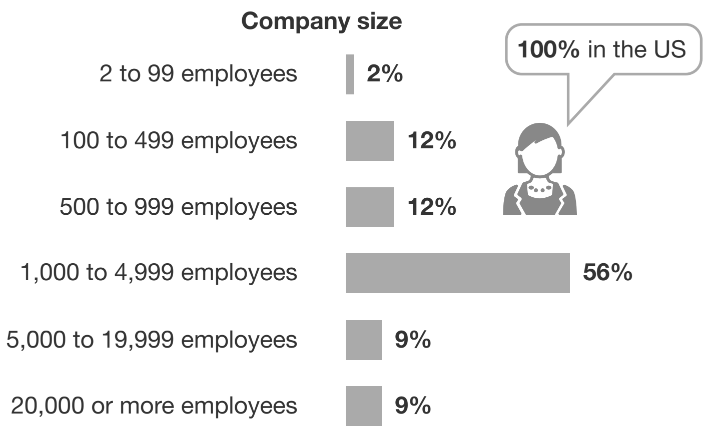
Continually report and monetize operational metrics. As your firm implements an integrated credit risk solution, it is a great opportunity to quantify and monetize (express in dollars, etc.) any investigation cycle time improvements, avoided losses, etc. and report it to senior management once a quarter. This establishes the credibility of the new solution and the implementation team.

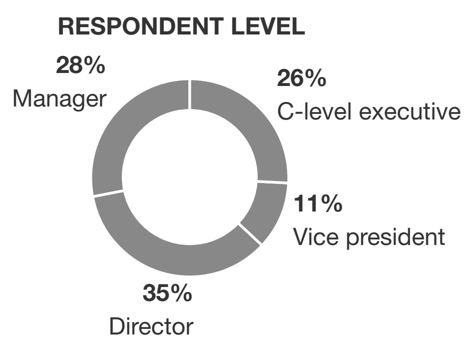
Partner with marketing and business stakeholders. Ultimately, a sustainable credit decisioning process is a balance between the firm's risk appetite and customer acquisition and combining integrated tools with processes, training, and politics. Credit risk teams should think of themselves as business enablers: Higher-accuracy, more robust credit risk processes contribute to higher business agility, often expanding sales and business operations to new countries or territories.

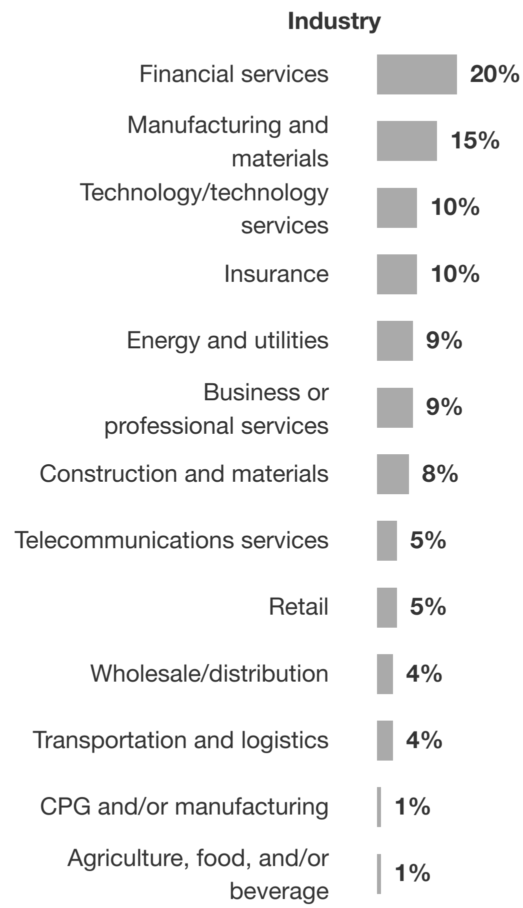
Appendix A: Methodology

In this study, Forrester surveyed 165 respondents in the US to evaluate their current approaches to credit risk evaluations. Survey participants included decision makers at small and medium-size businesses (SMBs) and large enterprises involved in their organizations' risk and/credit services strategies. Respondents were offered a small incentive as a thank you for time spent on the survey. The study began in July 2019 and was completed in August 2019.

Appendix B: Demographics/Data

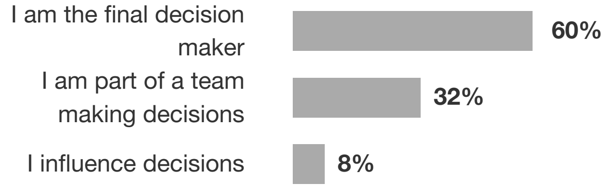




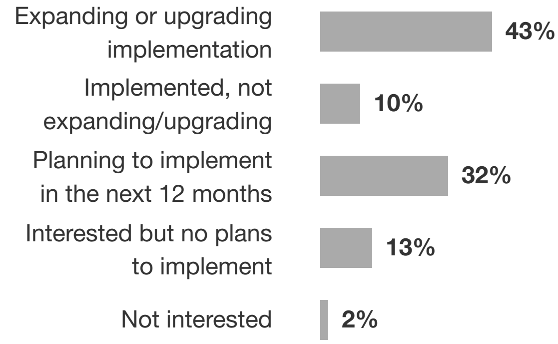


Base: 165 risk and/or credit services decision makers in the US
Note: Percentages may not total 100 because of rounding.
Source: A commissioned study conducted by Forrester Consulting on behalf of Experian, August 2019

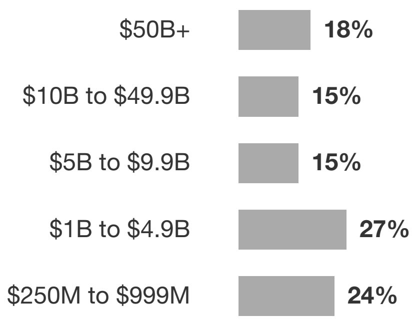
Level of responsibility over organization's risk and/or credit services strategy

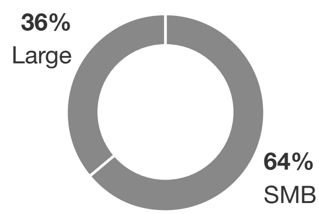


Plans regarding integrating analytics, automated decisioning, machine learning, and/or artificial intelligence into risk management strategy

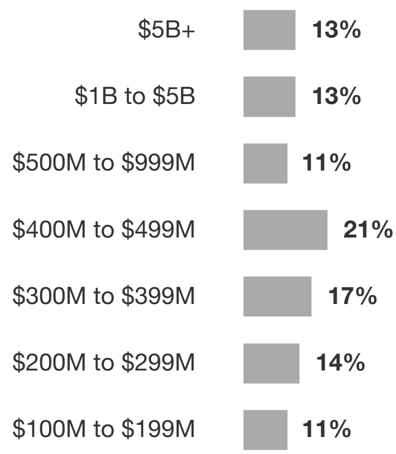


Assets under management (N = 33)





Company revenue (N = 132)



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