LENDERS REVEAL
Evolving financial analytics demand new capabilities

EXECUTIVE SUMMARY

Today's consumer credit market is fiercely competitive, with disruptive technologies, changing consumer preferences and new entrants being among the most challenging obstacles to growth. Lenders also face ongoing regulatory and compliance pressure.

These competitive challenges are driving a need for deeper benchmarking capabilities to refine the strategies of key enablers of sustainable growth: risk management, customer acquisition and portfolio management.

Although analytics technology can help by providing on-demand business intelligence, most lenders say they lack the capabilities needed to extract and optimize those insights. In fact, 66% of lenders say data and analytics are evolving faster than their internal capabilities. Nearly three out of four (73%) report that their lack of analytics capabilities affect their ability to compete in the marketplace. Data also shows lenders believe their organizations would benefit from data-driven decision-making, but they report that they need self-service tools in order to accomplish this.

66%
of lenders say **data and analytics** are **evolving faster than** their **internal capabilities**

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73%
of lenders report that their **analytics capabilities** (or lack thereof) **affect their ability to compete**
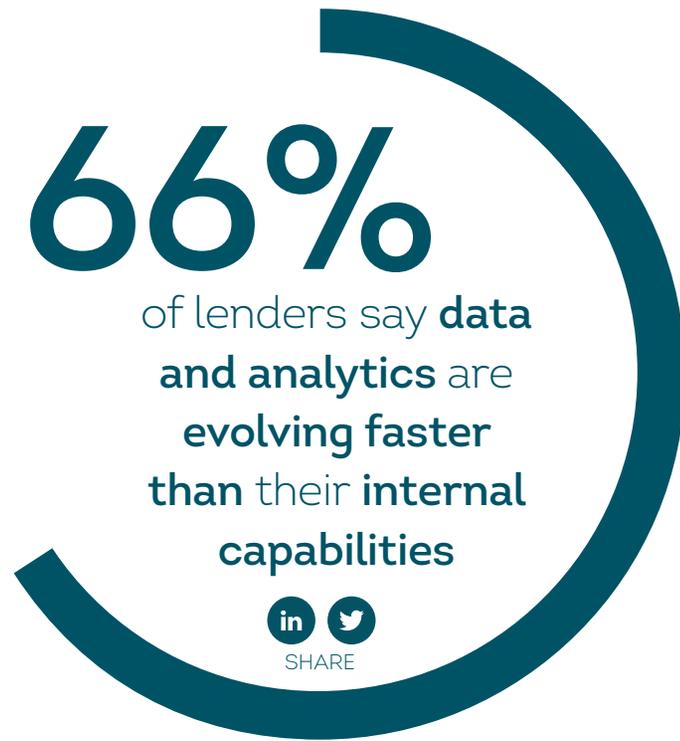
The survey sheds light on how lenders struggle to draw value from growing repositories of data. More than half of lenders surveyed:

- Know there are hidden market opportunities waiting to be found
- Are overwhelmed with the vast amount of data available to them
- Say it's difficult to discover useful insights when there is so much data

Surveyed lenders recognize that analytics and information-based decisioning are success drivers. Some of the lenders surveyed are advanced in analytics, and many report reaping tangible results. But a large group of lenders say they don't have access to external market data, they lack analytics tools, and they can't move fast enough to derive insights from data.

In this extremely competitive market, the urgency is to close data–and analytics–related gaps that can restrain lenders from effectively reaching growth goals.

ABOUT THE RESEARCH

Versta Research surveyed 309 lenders about how they are using analytics to compete, how they prioritize data and analytics, and their strengths and weaknesses in data and analytics. Respondents included risk, compliance, lending, finance, marketing, and analytics executives and managers responsible for optimizing growth. Versta Research conducted the survey from February 12 to March 15, 2016.

74% of lenders believe it is **difficult to grow** their **portfolio without increasing risk**

70% of lenders wish they had **direct, immediate, self-service visibility** into their **analytics**
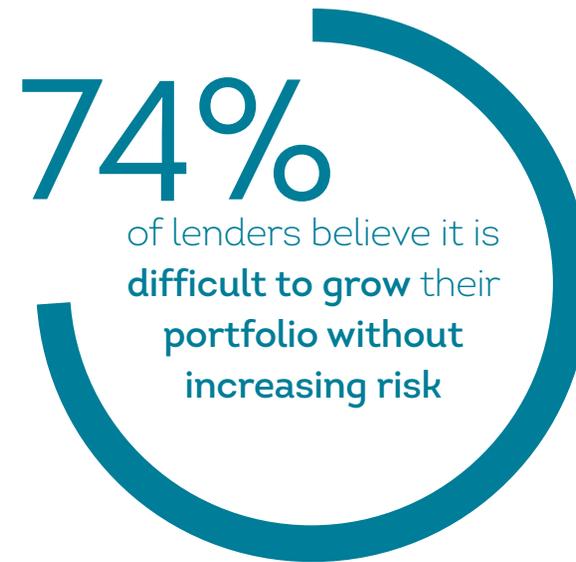
COMPETITIVE NECESSITY

Lenders use data every day in operations, but data has a strategic role as well. To be competitive, lenders need to be able to derive insights from data quickly and easily so they can:

- Keep up with the accelerating pace of business
- Demonstrate responsible decision-making to regulators and business partners
- Quickly distill data points for reports and other communications that are meaningful and digestible

Automated tools that analyze rich, normalized data sets are what make these capabilities and other benefits possible.

Respondents who said they are strong in analytics capabilities reported that their strength in analytics resulted in:

58%	Better strategic planning and decision-making
52%	Improved business outcomes
45%	Faster responses to management inquiries
45%	Better visibility into products, portfolios, services and markets
41%	Less manual work
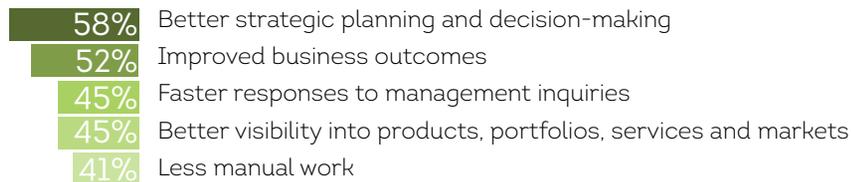
However, there's a flipside when looking at the lending industry at large: **66% of lenders say data and analytics are evolving faster than their internal capabilities**. So, at a majority of lending organizations, the competitive benefits of analytics are missing due to a lack of resources.

Lenders know that analytics play a role in their success and they see results when applying business intelligence. According to the survey, four out of five lenders (80%) say that better analytics would make their organization more competitive in the marketplace.

95% of lenders believe that **analytics capabilities are important for** their **companies to succeed**

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86% of those who are **strong in analytics** believe they **are seeing tangible results**

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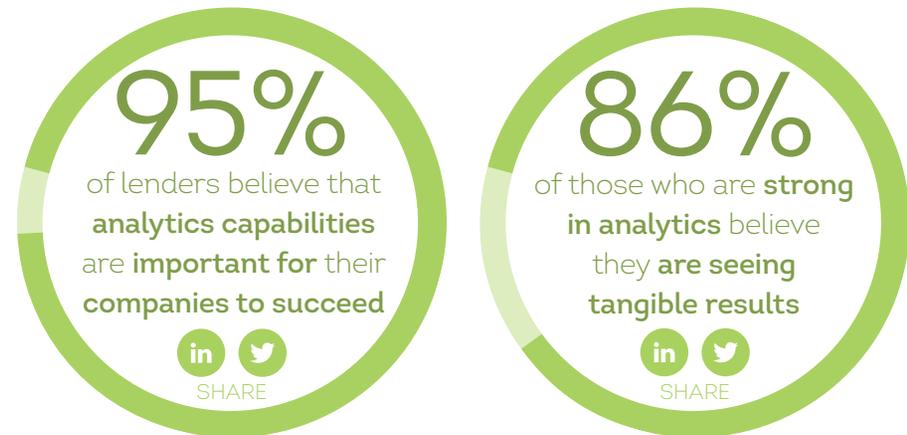
DATA STRENGTHS AND GAPS

Data is the raw material of analytics, and based on the responses of surveyed lenders, risk and peer data are most valuable. Likewise, 97% of lenders said the following types of analysis are extremely or somewhat valuable: credit and loan asset quality; loan origination and productivity; and market analysis.

The importance placed on these kinds of analytics reflects the competitive requirements of the market: Managing against peer benchmarks is a smart way to build and refine growth strategies with benchmarks relative to the market in which lenders compete. However, 50% of lenders say they are weak on benchmarking against market data; 58% are weak on access to broader market data; and 59% said their broader market data lacks depth and detail.

Therefore, up to **half of surveyed lenders don't have the type of data or depth of data needed to calibrate risk tolerance according to the current market standard**. Without this insight, growth opportunities could remain hidden or be overlooked, and/or data for defending growth decisions could be weak.

Another data-related challenge lenders cite is their ability to manage the growing volume of business data for meaningful use—only 51% said they are satisfied with the organization's current analytics capabilities.

92%
of lenders say there are **new or hidden opportunities in today's market**—it's just a matter finding them

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61%
of lenders believe the **vast amount of data available** to them **are overwhelming**

54%
say it's **difficult to discover** useful **insights** when there is **so much data**

TOP 3 MOST VALUABLE TYPES OF DATA

(cited as somewhat or extremely valuable)

96%
Data by loan asset category

96%
Data by risk tiers

94%
Peer group comparisons
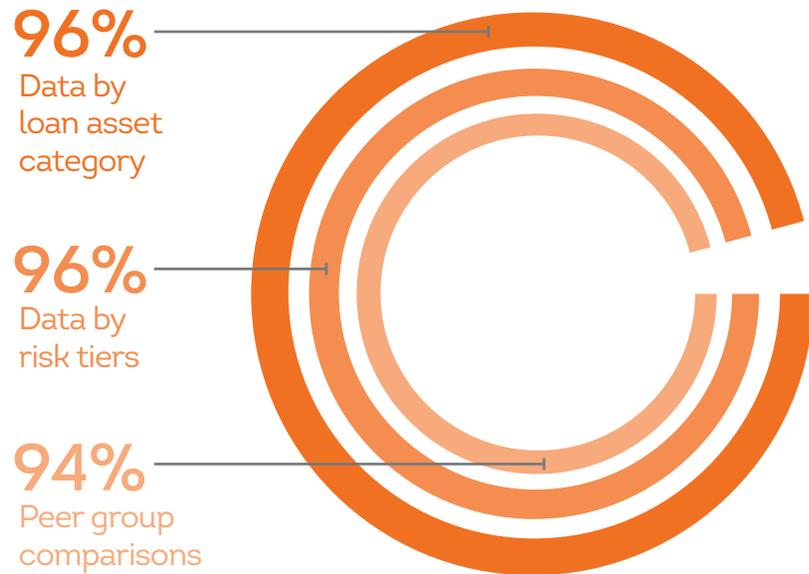
On the other hand, lenders are strong when it comes to internal data. Eight out of 10 say they are somewhat or very strong on having current internal data, while seven out of 10 say the same about accessibility, depth and detail, and the ability to compare current data to past.

DERIVING INSIGHTS

Two-thirds of surveyed lenders describe their overall analytics capabilities as strong—more than one in five (23%) report being "very strong." Overall, respondents reported that they are strongest in analytics for portfolio risk (78% say "somewhat or very strong"), fraud (67%) and customer profitability (58%).

Still, many lenders struggle with deriving the insights they need from data. A large portion of respondents indicate they lack tools that are essential for deriving insights in a manner that's fast enough and effective enough to have meaningful competitive impact.

These organizations likely face a common challenge: limited internal technical expertise and IT resources. This challenge can cause unacceptably long wait times for access to data and analysis, limited depth and breadth of data, disparate data and solutions formats, and, finally, high-cost of services.

ANALYTICS CAPABILITIES

A large portion of surveyed lenders **reported weakness** in essential analytics capabilities

39%	ease of accessing data
38%	speed of accessing data
36%	internal analytics expertise
47%	visualization tools
41%	analysis tools
41%	extracting business insights

DEFENDABLE DECISIONS

Analytics is a growing force in the lending industry, and the survey results reflect its influence on growth strategies and the day-to-day decisions needed for execution.

As lenders move faster to seize new opportunities, a strong analytics infrastructure is essential to assess opportunities that surface.

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Indeed, 74% of respondents say it's difficult to grow without increasing risk, an indication that lenders want to be confident about the decisions they make as they respond to leadership directives on growth.

CONCLUSION

Things are moving faster than ever in the consumer credit industry, and analytics are key to staying competitive through well-managed and well-informed growth strategies.

New competitors with innovative go-to-market models are challenging the way lenders think about growth—specifically, how they identify market opportunity, manage risk, make decisions and enforce accountability. As the survey results demonstrate, analytics deliver value across this continuum.

80%
of lenders **want** their **organizations** to be **driven** at least equally **by analytics and intuition/ experience**

20%
More driven by intuition and experience

46%
Equally driven by analytics and intuition/ experience

34%
More driven by analytics
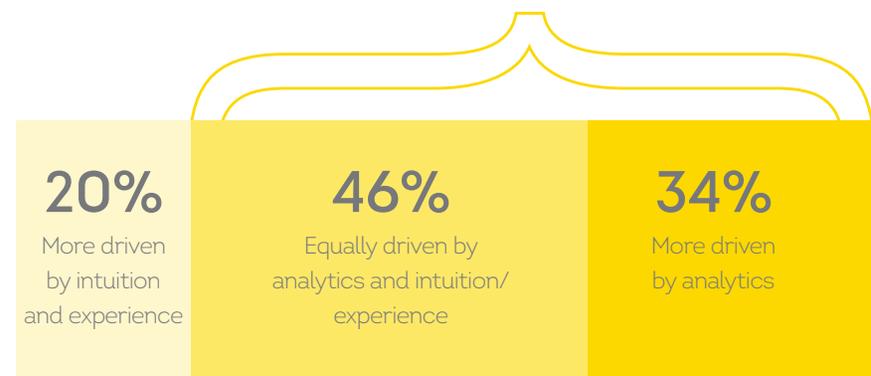
TRANSUNION'S PERSPECTIVE

THE COMPETITIVE BENEFITS OF ANALYTICS WILL ONLY GROW

By: Paul Siegfried, senior vice president and credit card business leader for TransUnion's Financial Services division

The flow of data in our industry and in individual businesses continues to widen, and consumer expectation increases daily. At the same time, risk and market analysts need to capture business insights and make defendable recommendations at the speed the market demands.

All of this makes growth a challenge, and to meet that challenge lenders need:

- ➔ Access to vast data assets to gain deeper business understanding
- ➔ The ability to derive meaningful insights through quick and flexible visualization tools
- ➔ Tactical-level empowerment to execute profitable strategies

Growth-leaders are using analytics tools to enable these capabilities, which allow them to identify pockets of growth, determine if their risk policy is yielding growth, and make adjustments so they can capture available opportunities.

We believe—and insights from lenders in our study show—that advanced analytics capabilities are quickly becoming a competitive necessity, and that lenders who lack them will be at a disadvantage.

Today's lenders need to know how they are performing compared to the market as a whole because the rapid pace of technology-driven commerce is causing ongoing changes. For example, it's not enough to know your delinquency rate. You need to know your delinquency performance in the context of the market. If competitors are operating on a different set of rules than you are, they'll be able to capture more growth opportunities.

Operational constraints can inhibit lenders from reaching their analytics goals. It can be difficult to control data, process data into insights, and empower on-demand access with the limited IT resources that have become the norm at many businesses.

We encourage lenders to look for solutions that don't require a large investment of resources, but accelerate decision-making and provide underlying scalability and flexibility. These elements are the foundation of a powerful analytics infrastructure, which can can be accomplished without a long, expensive implementation and burdensome maintenance.

Analytics technology is becoming more powerful and user-friendly as technology evolves. For lenders, that means new benefits to help you compete in a dynamic, fast-paced market where competition is fierce, but opportunity is plentiful.

Powerful analytics at your fingertips.

DISCOVER MORE

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(NYSE: TRU)
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VerstaResearch

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