Credit union

Moving beyond risk to a member-centric strategy

Leveraging data and analytics to understand and act on a member's needs and preferences

An Experian perspective

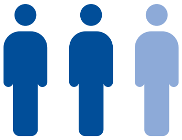
Executive summary

This paper will look at the evolving expectations of borrowers — who demand personalized products and offerings — and ways to satisfy those expectations. We will introduce how a multidimensional view of the member lets lenders segment more accurately, which can drive product and service design, improve data-driven decisioning, and tailor communications strategies. And we'll walk through tips for designing and deploying an effective strategy using integrated decisioning.

Expanded choice, expanded insight

Developments in the internet, social media and the mobile world have fundamentally changed the way people interact and do business. Today's consumers are more informed and have access to more choices than ever before. They can review and compare products and services in detail, whenever they want, in the comfort of their own home. They're empowered to educate themselves before they make decisions about which products they purchase, and from whom.

With an expanded array of choices at their fingertips, consumers are highly informed, and they're expecting highly personalized products and services that focus on their needs. They no longer tolerate the idea of "one size fits all." Why should they, when it's so easy to find another company whose services are more appropriate to their needs? Consumers expect products and services to be delivered how, where and when they want them — usually immediately.



66%

According to Forrester,[1] 2 out of 3 adults (66%) feel that valuing their time is the most important thing a company can do to provide them with a good online customer experience.

Today's knowledgeable and discerning consumers are forcing organizations to step up their game or risk losing profitable customer relationships to competitors.

The evolution of technology, the internet and mobile capabilities have enabled this large and continuing increase in customer awareness and education. But these same technology enhancements have also given companies an opportunity to deliver more focused and appropriate products and services to customers.

[1]2018 Customer Service Trends: How Operations Become Faster, Cheaper — And Yet, More Human (*https://www.forrester.com/report/2018+Customer+Service+Trends+How+Operations+Become+Faster+Cheaper+And+Yet+More+Human/-/E-RES142291*), *Jan. 24, 2018.*

Both customers and lenders have access to exponentially increasing data. Successful organizations will be able to transform this data into consumer insight that they can act on, now and in the future. This helps them make sure they're offering the right products and services to the right consumer, at the right time, optimized for the right channel. The unsuccessful ones may not have access to the right data or may be unable to use it in a meaningful way to enhance their customer proposition.

To make the most of this opportunity in a highly competitive marketplace, you need effective strategies and processes in place to capture, manage, understand and effectively use the new information available to consumers — including real-time, mobile and online data. By developing a multidimensional view of members and incorporating this view into your lending strategy, you can build customized products and services that ensure each member receives the products and services they want while simultaneously maintaining your strategy objectives.

Building a member-centric strategy starts with gaining a full view of a member's many attributes.

Credit unions intent on staying relevant need to focus on:

Knowing the member through data

Gain a complete member view by bringing together and enriching data from internal and external data sources.

Understanding the member with analytical models

Extract the right information from the data and apply statistical models to predict member behavior from many different perspectives.

Differentiating the member by applying strategies

Develop segmentation strategies that let you apply personalized decisions and treatments that best fit each member profile.

Organizations have been applying these three core principles successfully for years. By applying rich data and more sophisticated decisioning tools, you can take these basic principles a step further. They can support more educated, demanding members and create a foundation for building new products and services to support future member needs.

Toward a member-centric strategy

In this connected, data-driven world, credit unions need to enhance their credit decisioning strategies and product features to meet member wants and needs. Otherwise those members will go elsewhere and quickly find an organization that can support their needs.

An effective credit decisioning strategy must go beyond the traditional dimension of simply evaluating risk. It must also incorporate a dimension for member requirements, creating a much more complex and data-driven member-centric decision strategy.

Traditionally, increased data access, enhanced decision capabilities and flexibility have been associated with larger organizations that have the infrastructure and resources to harness and use it. In today's world, these more informed consumers no longer associate personalized products with only large organizations. Sophisticated consumers expect the same service, instant decisions and tailored products based on their needs and activities — regardless of the size of the lender they're dealing with. More recently, there are many new emerging technology-rich organizations that are agile enough to harness the data to embrace a more member-centric strategy, dramatically changing the way financial service industries are looking at and using data.

As the variety of member interactions grows, credit unions are also taking a closer look at members' channel engagement preferences.

Gaining a deeper view of members

Member data was once limited to understanding individual behavioral risk levels. For decades, credit unions have had access to members' credit activity and performance data, such as payment performance, exposure and collection activities. This type of credit bureau information has been a cornerstone of credit risk decisioning for years and will continue to play a critical role.

Today, the scope and scale of available data are increasing exponentially, providing a more complete understanding of members. For example, relationship data is providing improved insight into how credit unions have interacted with members in the past. It's also showing how members behave and how they are performing with the products they purchase. By harnessing existing relationship data fully, credit unions can increase their understanding of a member's preferences and behavior dramatically.

As the variety of member interactions grows, credit unions are also taking a closer look at channel engagement preferences. They can monitor which channels members use and determine which ones are most effective for specific activities. For example, a business could determine whether a letter, a phone call, SMS or email is most effective in generating member contact. Credit unions can also monitor how and when members use particular channels. All this information can be captured, analyzed and used to enhance how and when products and services are positioned to members.

Harnessed properly, this multidimensional view of members can help you gain greater insight about a member than with the traditional approach of assessing whether a member can afford a product or service. It can enable you to really understand and predict what a member wants, why they want it, when they want it and how they want it delivered.

85% of organizations consider data and analytics "vital" or "very important" to running their business.[2]

Member-centric views through attributes and scores

It's clear that credit unions have access to a vast array of data that can give them a more complete perspective on members. The next challenge is putting all that data to use to help understand and predict member actions. Statistical models help you explain how a member is behaving today — and predict how they're likely to behave in the future.

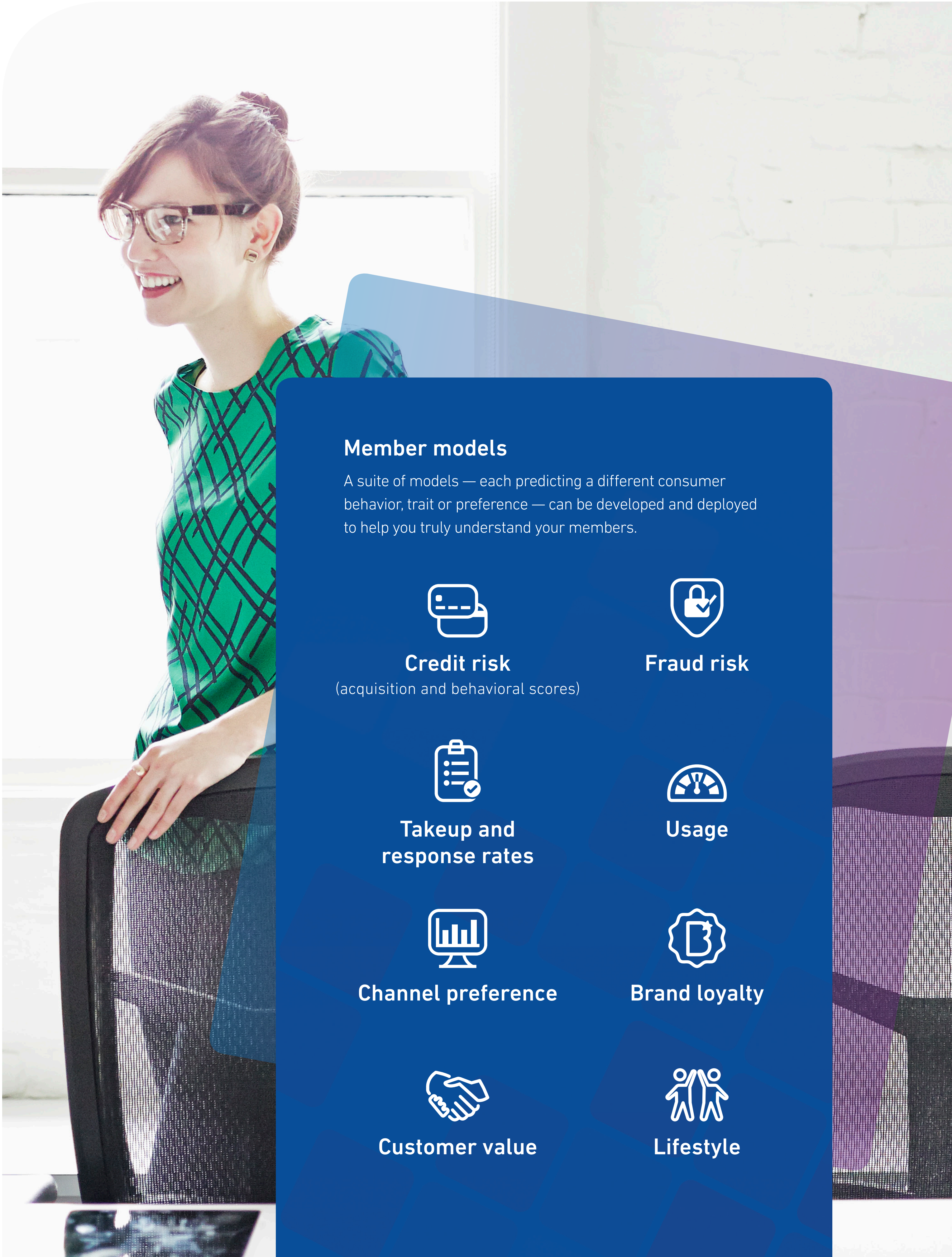
Statistically developed models have been used successfully for years to evaluate the single dimension of risk. Assembled primarily from data available from credit bureaus, at one time these types of traditional models were the only dimension lenders considered.

Today, lending decisions are no longer one-dimensional and risk-focused. With a wealth of data available from internal and external sources, credit unions are developing models that can be used to predict much more than just risk.

Credit card lenders, for example, now apply models to distinguish credit card transactions from revolvers, to decide which types of rewards or promotions are most appealing to various members, and to predict a member's profitability and lifetime value. These predictions can then be used to define the products and terms that will be provided to that member.

The richer the data and the better the models, the better you can understand and predict a potential member's needs and future behavior. With that understanding, you can tailor products, services, decision strategies and communications to appropriately meet each member's needs.

[2]The Business of Data *(https://eiuperspectives.com/technology-innovation/business-data-0), Jan. 12, 2016.*



Member models

A suite of models — each predicting a different consumer behavior, trait or preference — can be developed and deployed to help you truly understand your members.

Credit risk
(acquisition and behavioral scores)

Fraud risk

Takeup and response rates

Usage

Channel preference

Brand loyalty

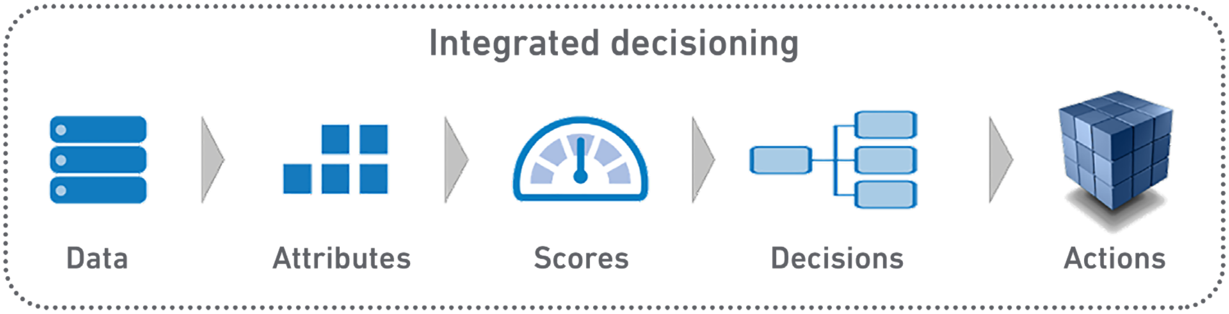
Customer value

Lifestyle

Creating a strategy to differentiate members

With a rich range of data knowledge distilled into an in-depth, multidimensional understanding of members through models, credit unions can move forward building a strategy to differentiate their members. Lenders can segment members into focused, homogenous groups, then match the right product terms to each group. The strategy can define product terms such as credit limits, APRs, balance transfer promotions, rewards, and applicant acceptance and declines. Agility is important in a fast-changing environment, so organizations need to be able to roll out these strategies quickly and effectively.

Our strategies are designed to help credit unions make better decisions faster and more consistently. Combined with industry-leading data, rich analytics and expert-designed strategies, Experian's integrated decisioning gives you access to a powerful decision engine to help you make the best decision right away.



In the past, a decisioning strategy could be based on limited data such as a member's credit score. Today's decisioning is more complicated because of the additional data available and the ability to use that data to segment members. To control risk while increasing volume and profit, an effective lending strategy should support:

- Constant testing and learning to continually refine the strategy while maintaining business agility
- Flexibility and agility to change product terms and introduce new features in a highly dynamic marketplace
- Robust monitoring of decisions and performance in the short term and focusing on key performance indicators (KPIs) in the long term

The proof of whether a new strategy is superior comes once it is deployed into a live production environment. Start with a detailed definition of your winning strategy. Constant A/B testing is vital — putting challenger strategies into production on small, random samples and then promoting them into champion strategies if they prove superior on your chosen KPIs. Lenders need to define KPIs such as profit, take rates, acceptable delinquency levels and other variables in advance.

For each KPI, credit unions should determine which level represents success or failure. Using consistent data and carefully defined testing, organizations can develop, refine and optimize their strategy before making it operational.

With an in-depth, multidimensional understanding of borrowers, credit unions can increase member satisfaction and profit while reducing risk.

Case study

EECU enhances credit underwriting strategies

Many credit unions are challenged with expanding their portfolio, controlling bad debt, and creating and maintaining a positive member experience. EECU is no exception. The credit union — which serves more than 180,000 members in Fort. Worth, Texas — strives to "meet members with the products and services they need" and become their financial advocates.

EECU solicited member and employee feedback and, based on what it learned, decided to implement a strategy that would:

- Improve the automation of its credit underwriting process and reduce its exposure to bad debt
- Open new revenue streams by offering a higher level of convenience for staff and account holders
- Increase member satisfaction.

All while keeping operation costs in check.

Solution

EECU looked to Experian and MeridianLink for help developing a strategy to meet its goals. Experian Advisory Services consultants proposed best-in-class decision strategies and connected to the PowerCurve® Strategy Management decision engine through MeridianLink's loan origination system, LoansPQ. By pairing PowerCurve Strategy Management and LoansPQ, EECU can quickly and easily develop and deliver more insightful member acquisition and origination strategies.

Results

EECU can now apply advanced multidimensional decision strategies during the automated credit underwriting process. These decision strategies are based on more than credit score alone, enabling better decisions by providing cost-effective access to the same advanced decisioning capabilities.

Even more, EECU now may test new decisioning strategies in a champion/challenger environment to discover which are most effective. In the end, the solution enables EECU to improve operational efficiencies, decrease operational expenses and approve more loans for its members.

"Prior to working with Experian and MeridianLink, our automation process became stagnant," said Matt Kaudy, EECU Chief Retail and Marketing Officer. "We needed to automate a higher percentage of our loan applications to meet consumer expectations while improving operational efficiencies. The combined power of Experian and MeridianLink will allow us to make decisions faster, while enabling our underwriters to spend more time evaluating riskier applications."

Conclusion

Understand fully, target precisely, test carefully and execute consistently

Developing an effective member strategy isn't a single one-off initiative, but an ongoing process. The traditional approaches to knowing, understanding, differentiating and interacting with members are still valid and pivotal to a good strategy. Many credit unions are still basing their decisions on risk alone, since that approach has worked for them in the past. But in a competitive, fast-changing environment, it's time to put the rich variety of available member data to use to develop member-centric strategies that provide the personalized products and services that borrowers — and that are ultimately more profitable for the lender.

By developing a full understanding of borrowers based on multiple data sources, lenders gain the insight they need to make better decisions about their products and services. They can match new and innovative products and services to the right member, at the right time, via the right medium, creating benefits all around.

Members will be more satisfied and loyal when they use the products and services they want and are most suitable for them. The credit unions that serve them gain improved growth and profitability, increased retention, reduced risk and positive word of mouth.

By moving from a one-dimensional, risk-based focus toward a more multidimensional view of members, you can build a business that's better aligned with their members — now and in the future.

The consumer-centric concept is simple:

Understand fully, target precisely, test carefully and execute consistently.

The implementation isn't always simple.
But we can help.

Let'stalk.

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