The Invisible Marketplace

Five ways Artificial Intelligence and alternative data can help lenders secure good customers in a digital world.

ACCELITAS™

The challenge lenders face in today's economy.

While the U.S economy continues to grow, there are signs that the U.S. credit market is tightening. Credit card spending surged 9.4% in 2017. U.S. household debt rose at the fastest rate since 2007. Consumers have now amassed over $3.5 trillion dollars in general purpose credit card debt.[1]

Some consumers will experience a short-term lift from the tax reductions, but will feel the impact of higher interest rates, caps on mortgage interest, and state and local taxes.

With costs rising, we will continue to see default rates creeping up on credit cards, bank cards, auto loans, student loans, and mortgages. **Experts say the economy will experience a correction by mid to late 2019 — making it even more challenging for lenders to approve borrowers and meet growth and profitability goals.**

[1] https://www.bloomberg.com/news/articles/2018-03-08/u-s-household-debt-rose-last-quarter-at-fastest-rate-since-2007

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Where and how do you find good customers?

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New technology can identify this overlooked demographic.

In this tighter market, good customers will be more valuable than ever. But where will they come from? Recent estimates suggest 30% of adults in today's credit market are virtually invisible to traditional screening methods. Mobile applicants, digital natives, and non-traditional customers are changing the landscape, but there's precious little data on them. It's up to new technology to identify, connect, and cultivate this overlooked and underserved demographic of potential customers.

Lenders need a new kind of identity intelligence that goes beyond traditional CIP-style identity verification, underwriting, and traditional fraud detection — a predictive intelligence that accesses alternative data comes unique sources that provide a complete picture of creditworthiness for Generation Z, immigrant, military, and financially underserved consumers. Teamed with the analytic power of Artificial Intelligence (AI), this process of "deep learning" can identify good customers and accurately predict profitable business.

Five ways AI and alternative data can help lenders.

#1 Be Alternative

The new growth markets are Millennials, Generation Z (the post-Millennial generation), and recent immigrants. Financially underserved households, including adults with little or no credit histories, now account for nearly **100 million consumers**.

The Consumer Financial Protection Bureau (CFPB) estimates that **26 million Americans are credit invisible** — they have no credit history with a nationwide consumer reporting agency. **Another 19 million consumers** have a credit history that has gone stale or is insufficient to produce a credit score under most scoring models.[2]

Although it's harder for lenders to get data on these customers — they represent a **$173 billion market opportunity** that grew 8% in 2017.

Financial services organizations need to re-tool and re-build their processes with access to unique alternative data quickly so they don't miss out on these markets.

Major credit bureaus in the U.S. have purchased alternative data vendors. The key to successwill be finding an alternative data resource that is responsive and has the knowledge and tools to unlock the power of predictive analytics, all customized to your business.

[2] https://www.consumerfinance.gov/about-us/newsroom/cfpb-report-finds-26-million-consumers-are-credit-invisible

> With alternative data and AI-driven analytics, lenders can access nearly 100 million consumers — a $173 billion market opportunity.
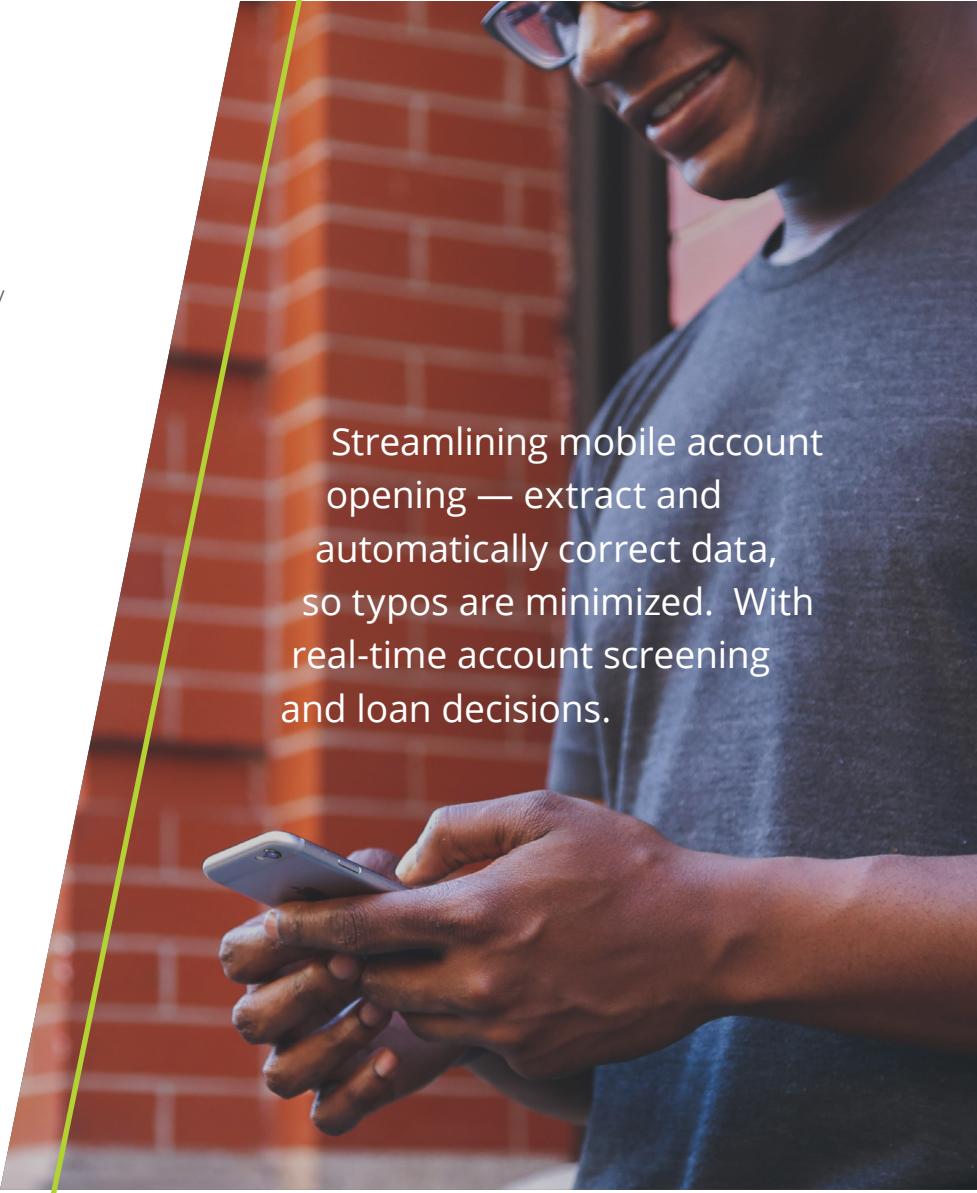
#2 Upgrade Mobile

Millennials and Generation Z consumers have little patience for digital experiences that are awkward, time-consuming, or incomplete.

- **56%** of Millennials report they would abandon an application if they learned they couldn't complete the application on a mobile device.

- **42%** report they left a financial services provider because it provided a poor mobile experience.[3]

Millennials will shop around for a fast, frictionless experience. If your company isn't signing up a representative portion of Millennials, your mobile experience probably needs an upgrade.

AI analysis of customer IDs can streamline mobile account opening by extracting and automatically correcting data, so typing and typos are minimized. And, real-time account screening gives impatient consumers a loan decision before they set down their phones.

Streamlining mobile account opening — extract and automatically correct data, so typos are minimized. With real-time account screening and loan decisions.

[3] https://www.realwire.com/releases/Research-reveals-millennial-demographic-meaningless

#3 Lower Rejections

Lending models are designed to strike a balance—delivering growth while curtailing risk. But the old approach to lending models no longer works, especially when evaluating financially underserved consumers, such as Millennials, Generation Z, and immigrants. They often focus on keeping out the bad applicants rather than identifying good customers.

Lenders need to be sure they're not overlooking profitable applicants in these populations because of limitations in traditional data analytics.

Using alternative data sources and advanced AI techniques, lenders can re-evaluate rejected applicants for overlooked signs of creditworthiness, and say "yes" to more profitable accounts. This additional, highly focused screening more than pays for itself. By identifying more customers, this focused, supplemental screening has delivered an ROI of 30:1 or higher.

Highly focused screening identifies more profitable customers, delivering an **ROI as high as 30:1**.

#4 Find Fraudsters

Synthetic identities, phishing, geo-spoofing, SIM card cloning, social engineering, dark web sites selling your customers' data — the bag of tricks that bad guys have for perpetrating fraud is more sophisticated than ever.

Fraud activity increased 58% in 2017, and fraud costs reached $2.67 for each $1 in funds actually stolen.[5]

To minimize losses and headline-making data breaches, lenders must be able to identify fraud immediately, even while broadening their business operations across multiple channels.

Leveraging alternative data sources and advanced AI techniques to detect fake IDs, lenders can discover signals for identity theft and suspicious transaction patterns — enabling them to detect fraud more quickly.

In 2017, account takeover fraud tripled, generating $5.1 billion in loses. And new account fraud increased 70%, abetted by data breaches.[4]

[4] https://www.business2community.com/cybersecurity/account-takeover-new-account-fraud-spike-2017-02030931

[5] https://www.creditunions.com/articles/rising-fraud-and-data-breaches-are-in-the-cards/

#5 Confirm and Predict

Customer Identity Intelligence allows companies to identify more customers and deliver value throughout a customer relationship, enabling lenders to make more profitable decisions while delivering best-in-class service and reducing fraud.

To accomplish this requires a unique approach that brings together two distinct and critically important types of predictive analytics:
- Analytics that confirm an applicant's identity
- Analytics that predict the creditworthiness of the applicant.

CONFIRM IDENTITY

MORE CUSTOMERS

PREDICT CREDIT

By using sophisticated AI techniques to analyze disparate types of traditional and non-traditional data, we are able to separate the signal from the noise and deliver insights that are both predictive and interpretable.

Advanced analytics techniques can confirm identity and appraise creditworthiness of an overlooked population — giving lenders access to a new demographic of potential good customers.

Conclusion

Customer Identity Intelligence is especially useful at two key moments—the moment of account opening, while extending credit, and any moment when a customer initiates a high-risk transaction. At those moments, and in real time, Customer Identity Intelligence leverages advanced AI techniques like machine learning and deep learning to deliver predictive intelligence.

Using that intelligence, businesses can open the right account and deliver a winning customer experience. They can detect and reject a fraud operator before any losses are incurred. They can review rejected applicants with more advanced screening techniques, and welcome up to 25% of those applicants as customers.

Customer Identity Intelligence can deliver the predictive insights that lenders need to identify good customers, grow profitable accounts, improve customer experiences across all channels, and reduce fraud.

ACCELITAS ™

Identify with Intelligence

Our Accelerated Insight® API platform delivers real-time Customer Identity Intelligence for lenders making credit decisions, and anyone else opening digital credit accounts. A secure SaaS platform, Accelerated Insight API Platform features real-time web services that integrate easily with the decisioning platforms and other applications that lenders rely on.

Today, Accelerated Insight is helping leaders identify nearly 25% more applicants, reduce First Payment Default rates by 40%, and achieve an ROI of 30:1 or higher.

To learn how Accelerated Insight can help your loan operations grow and prosper even in a tightening credit market, click the button below to schedule a free consultation.

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