FStech experian

How are FinTechs using AI and machine learning to optimise decision making and support customers at a time of economic uncertainty?

INTRODUCTION & METHODOLOGY

INTRODUCTION

Ensuring decision-making processes are precise, agile, and speedy is crucial for FinTechs trying to respond quickly and effectively to market changes, particularly when faced with an uncertain socio-economic backdrop.

Companies operating in the FinTech arena must grapple with the need to make responsible lending decisions as consumers and businesses face rising inflation and a cost-of-living crisis. At the same time, FinTechs are under growing pressure to fight fraud and stay compliant in an ever-changing regulatory landscape.

Artificial Intelligence (AI) and Machine Learning (ML) can be used to optimise decision making whilst supporting customers during a time of economic uncertainty, but finding the right strategy, technology partners, and data sources to leverage these technologies can be a challenge for FinTechs.

FStech and Experian conducted a survey to assess the ways in which FinTech companies are harnessing AI and machine learning to optimise decision making, drive innovation, and support customers and clients through the cost-of-living crisis.

The following results provide a representative snapshot of the key challenges, strategies, and solutions for FinTechs as they look to use data, AI, and new technologies to keep up with competitors in an era of digital transformation and innovation.

METHODOLOGY

FStech and Experian surveyed 104 financial services professionals, across various business functions from a range of leading UK FinTechs.

CONTENTS

1. Which of the following are current priority areas for your business when it comes to making credit-related decisions? *(Select all that apply)*

1%
LEVERAGING THE INSIGHTS IN DATA TO IMPROVE CREDIT RISK

6%
IMPROVING CREDIT STRATEGIES

17%
IMPROVING AUTOMATION/ REDUCING MANUAL INTERVENTION

18%
IMPROVING AFFORDABILITY ASSESSMENTS

44%
REGULATORY COMPLIANCE

60%
LEVERAGING AI AND ML

66%
MANAGING FRAUD/ FINANCIAL CRIME

With the UK a hotspot for fraud, financial crime is on the rise, and fraudster methods are becoming increasingly sophisticated. It's therefore no surprise that managing this kind of illicit activity when making credit-related decisions takes precedence for two thirds (66%) of FinTech professionals.

This result is echoed by the more than two-fifths (44%) of respondents who said that meeting regulatory standards was a priority. Arguably one of the most important compliance responsibilities for FinTechs is having the right checks, strategies, and technology in place to stop fraud and other criminal behaviour such as money laundering,

The survey reveals that the majority – 60% – of FinTech senior leaders believe that rolling out AI and ML is a priority when it comes to their credit decisions. The need for some organisations to boost existing systems and processes with technology is further highlighted by the 17%who said they want to improve automation or reduce manual intervention .

Fraud is now a greater and more costly threat than ever before and as the risk landscape continues to change, AI and ML are turned to more and more to help solve the challenges many FinTechs face.

> "The majority of FinTech senior leaders believe that rolling out AI and ML is a priority when it comes to credit decisions..."

2. Where would your organisation benefit most from using AI and ML?

(Select all that apply])

The results demonstrate that there are a number of key functions FinTech leaders believe could benefit from greater use of AI and ML within their organisation.

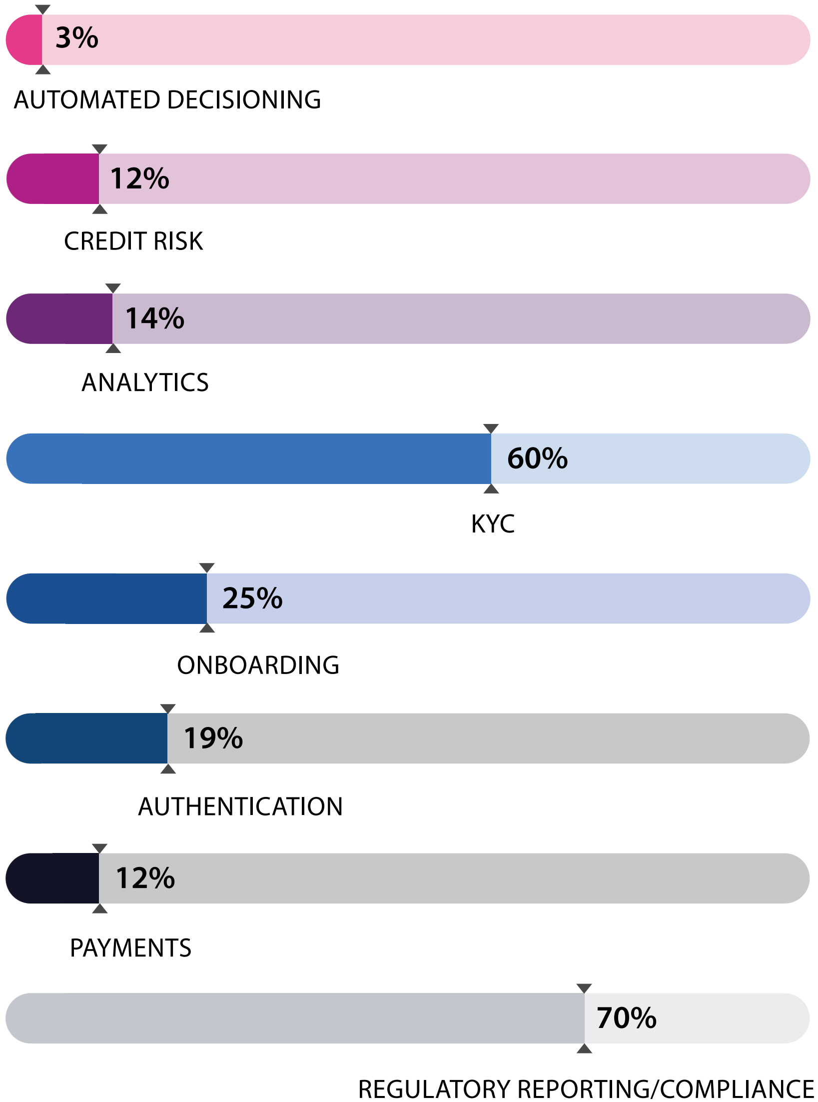
Regulatory compliance has once again been highlighted as a key priority for organisations, this time when it comes to rolling out the latest technologies. The highest number of respondents – seven in 10 – chose this option, suggesting that companies want to address some of the challenges associated with manual processes in compliance, including human error, high costs, and false positives.

The importance of meeting regulatory standards is highlighted further by the fact that the majority – 60% – chose Know Your Customer (KYC) as an area that could take advantage of the latest technologies. These results highlight the importance of KYC and customer due diligence, and the need for financial services organisations to have access to the right data, at onboarding stage. A further fifth picked authentication as an area that could benefit from automated processes, while onboarding was chosen by a quarter of respondents.

Given the uncertainty of the current socio-economic environment, it's perhaps surprising that less than 15% of those surveyed felt that AI and ML would help support teams responsible for credit risk. A further three per cent think that implementing these technologies could help to drive more automated decisioning. Analytics and payments were also not as high on the agenda – chosen by 14 and 12% of respondents respectively.

In reality, all of these processes could benefit from greater use of AI and Machine Learning technologies, particularly against a backdrop of an uncertain economy, as they could provide the necessary insight to anticipate changes and make decisions quickly.

> "In reality, all of these processes could benefit from greater use of AI and Machine Learning technologies..."



3. What are the key drivers for rolling out automation, AI and machine learning in your organisation? *(Select top three)*

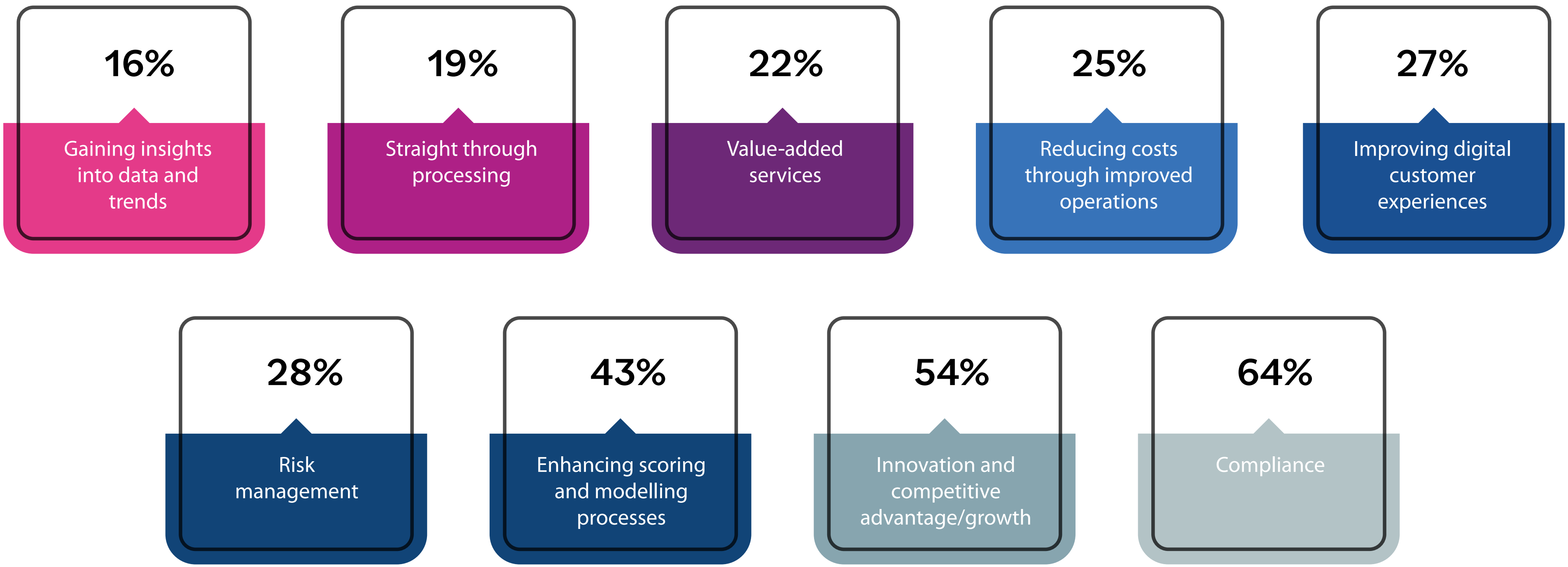
Echoing results from earlier in the report, meeting regulatory compliance standards is the top reason FinTechs are adopting automation, AI, and ML – with around two thirds choosing this option. Nearly 30% identified risk management as a top-three driver, highlighting the ongoing need for FS companies to meet increasingly strict regulatory requirements in the UK and Europe, along with managing risk internally to ensure resilience in tough economic headwinds.

Implementing the latest technology as an avenue to boost innovation and competitive advantage was a top-three reason for more than half of respondents, which evidences the continued drive towards growth and technological advancement for companies despite wider economic pressures.

It's clear from the results that streamlining and accelerating customer-facing credit procedures and managing operations for risk is important for FinTechs, with over two fifths selecting enhancing scoring and modelling processes as a driver for rolling out the latest technologies.

A significant proportion of FinTech leaders think technology should be used to improve customer experiences – with a combined 49% identifying improving digital customer experiences and value-added services as important reasons for deploying automation. Given this result, it's surprising that gaining insights into data and trends - which could be used to further improve the customer journey - was chosen by just over 15%, while less than a fifth felt that straight through processing was a key driver for implementing AI, automation, and ML.

A further quarter of senior leaders said that reducing costs was the main reason for adopting technology.



4. To what extent does your organisation use AI and machine learning to automate decisions? *(Select the most appropriate option)*

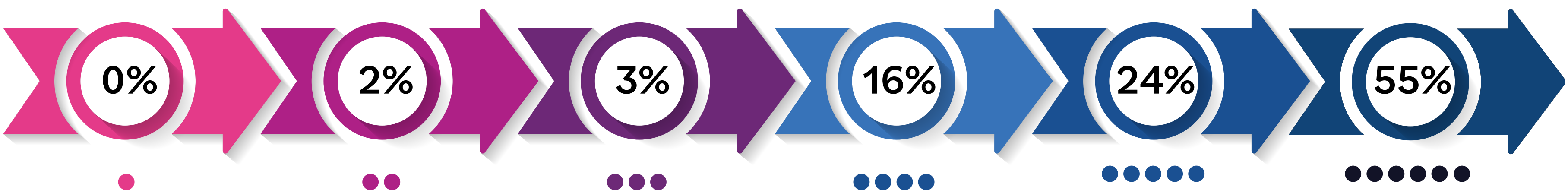
The vast majority – a combined 97% – are either starting to roll out AI and ML to automate decisions, or have plans in place – with none of the respondents in the survey saying they don't use either technology for their credit decisions. The results indicate that we may begin to see FinTechs rapidly adopting these technologies over the coming years as AI and ML strategies begin to make headway and more use cases are found.

The highest number of respondents – more than half – said that they have a strategy in place to roll out AI and machine learning for credit decisions, suggesting that firms are aware of the potential advantages of these technologies both from a customer experience and a risk management perspective. A further quarter are in the early stages of rolling out the technology but say there is still progress to be made.

The figures imply that some FinTechs are biding their time and being extra careful with their tech roll outs, with 16% having implemented AI and ML across a limited number of products and saying they are still in the process of using the technology for more complex processes.

But there are several companies that have already deployed the technology for fully automated credit decisions, a trend we are likely to see expand over the next few years if strategies are implemented and companies find the right technology and partners to help roll them out. Finding a partner who will work with FinTechs to address these challenges may be crucial to success.

> "The results indicate that we may begin to see FinTechs rapidly adopting these technologies over the coming years.."



- We do not use AI and machine learning for credit decisions
- We have implemented AI and machine learning for fully automated credit decisions
- Credit decisioning is a mostly manual process for our credit risk teams
- We have rolled out AI and machine learning for certain products but are still working on the more complex/higher risk use cases
- We have started rolling out AI and machine learning for automated credit decisions but there is some way to go
- We have a strategy in place to roll out AI and machine learning for credit decisions

5. What are the key barriers to automating credit decisioning in your organisation? *(Select all that apply])*

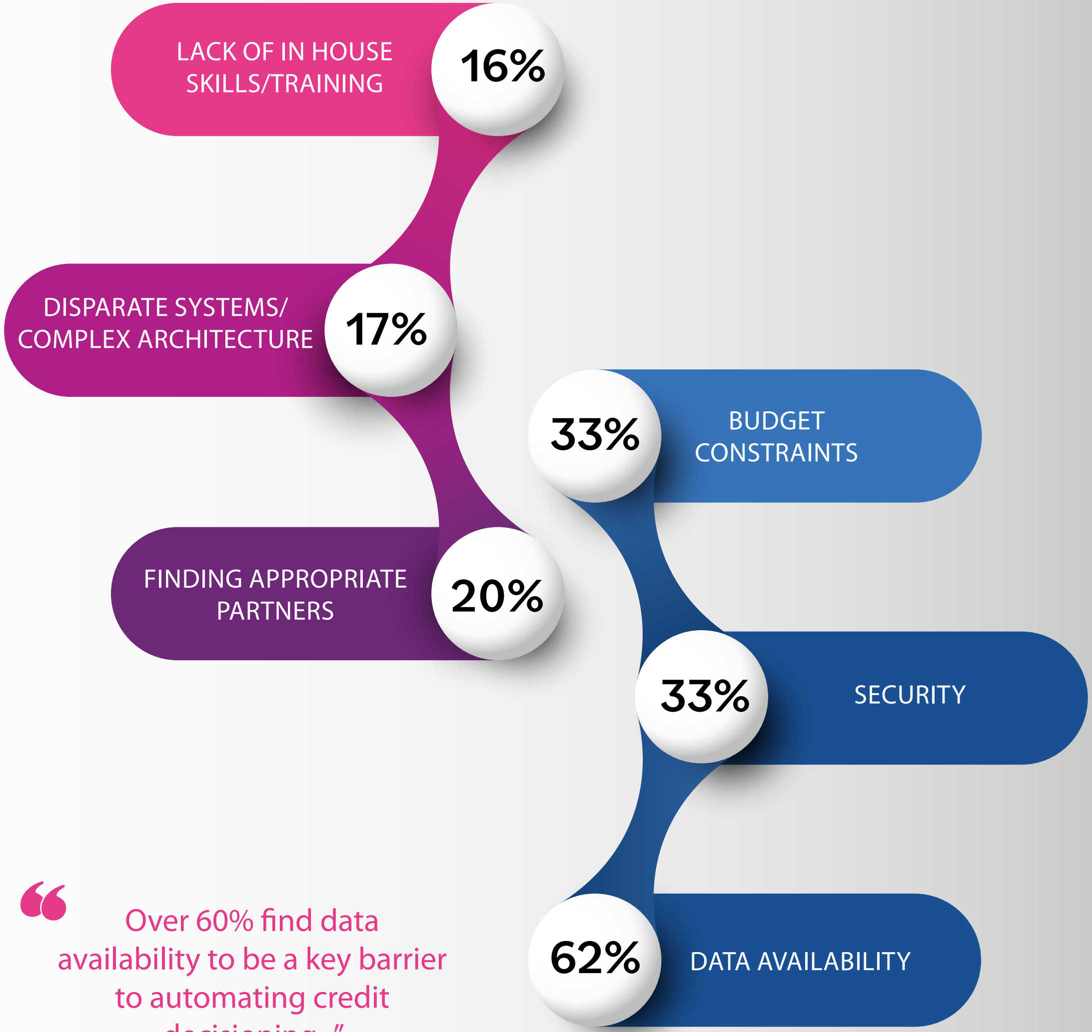
While the previous figures demonstrate that over half of senior leaders have a strategy in place to roll out AI and machine learning for credit decisions, more than that – over 60% – find data availability to be a key barrier to automating credit decisioning.

With data access being an essential component of these technologies, this may shed some light on why the majority of respondents have a strategy in place to implement AI and ML for their credit decisioning but have not yet fully executed their plans. FinTechs must therefore ensure that they have high quality, relevant data in addition to the underlying technology infrastructure needed to improve decision making.

A significant issue for a fifth of businesses is finding the right third-party partners to help them automate their decisioning, perhaps another reason for many being stuck in the early stages of rolling out automation when it comes to credit decisioning.

Despite the fact that technologies like AI and ML can ultimately reduce overall costs by streamlining and speeding up processes and reducing human error, budget constraints were identified as a barrier by a third of respondents. In a climate where digital crime is on the rise, it's unsurprising that concerns around security are holding back the same number of FinTechs from automating their decisioning. However, while companies may be concerned by potential security hazards, automating credit decisioning could actually help to mitigate security risks for companies by accelerating verification and conducting ongoing monitoring throughout the customer lifecycle.

Lower on the agenda but still an issue for around a fifth of respondents, are a lack of in-house skills/ training to implement and run automated decisioning, and the issue of disparate systems and complex architecture.



“Over 60% find data availability to be a key barrier to automating credit decisioning...”

6. How does your organisation operate credit risk decisioning? *(Select all that apply])*

0%
We have built an in-house credit risk decisioning function

7%
We have a mix of in-house and third-party credit risk decision tools

22%
We have a mix of in-house automated and manual credit risk decision tools

23%
We use mainly third-party credit risk decision tools

48%
We have limited capacity for credit risk decisioning technology

The research mirrors results from earlier in the study, which show that while the of majority organisations have plans to automate credit risk decisioning with AI and ML, they are struggling to get to roll out stage.

Nearly half of respondents said that they have limited capacity for credit risk decisioning technology; with no one building their own in-house credit decisioning function. Companies could benefit from automating and outsourcing from a third party to address this capacity issue, which almost a quarter of respondents are already doing.

Just over a fifth of companies have a mix of automated and manual in-house credit risk decisioning technology, while less than 10% are using internal tools alongside third-party technology.

> “Nearly half of respondents said that they have limited capacity for credit risk decisioning technology...”

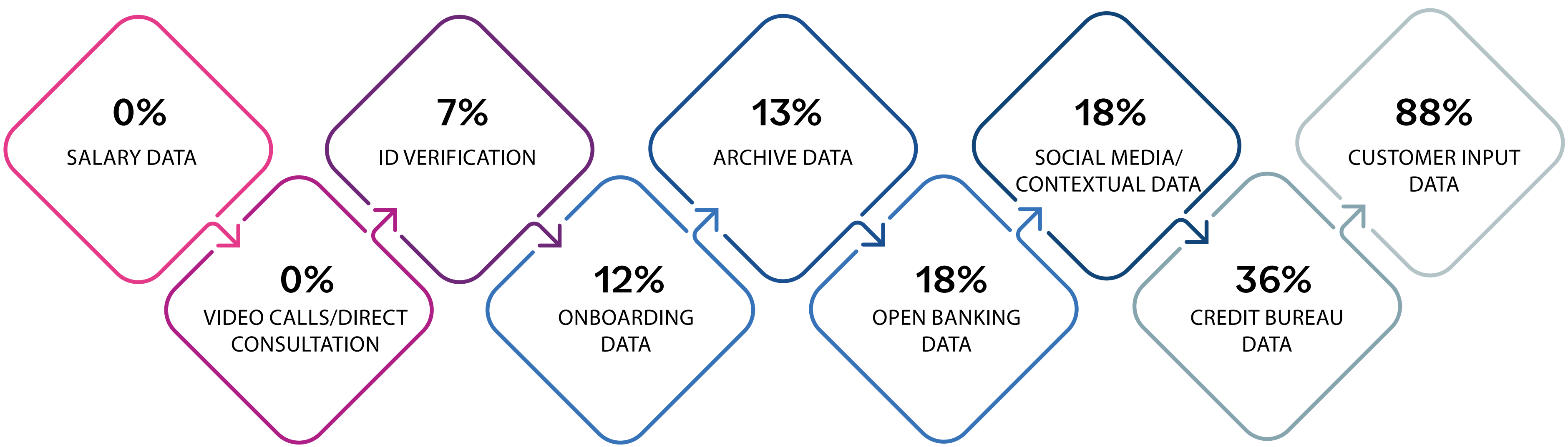
7. Which data sources are you currently using to make decisions? *(Select all that apply])*

The survey demonstrates that the vast majority of respondents – almost 90% – are using data obtained from consumers to make decisions. Being such a rich source of information, which can reveal everything from payment history to account balances, it's unsurprising that a third of companies are gathering credit bureau data to support decision-making within the organisation.

Less traditional data sources, such as Open Banking and social media, were less popular – with just under a fifth choosing these options. As these areas develop, it's likely that they will be increasingly used by FinTechs to gain valuable insight which can help bolster decisioning.

Salary data and video calls or direct consultation are not being used as data sources by any of the companies, while onboarding and ID verification were chosen by less than 15% of respondents.

> "The vast majority of respondents are using data obtained from consumers to make decisions..."



8. What are the biggest data-related challenges for teams tasked with making credit risk decisions?

(Select one option)

The greatest data-related challenge for senior leaders – chosen by nearly six in ten respondents – is one of the most important processes associated with credit risk decisions – affordability checks. This area is dominated by stringent regulation and is likely to be particularly difficult to approach in the current socio-economic environment. But it is crucial that companies operating in the FinTech arena are able to understand customer affordability and any changes in circumstances at the earliest possible stage. That's where technology can step in to speed up the process whilst reducing risk.

This result is reinforced by the fifth of companies that say a lack of data to complete due diligence is an obstacle for teams responsible for handling credit risk decisions, suggesting the need for new strategies and technologies to improve this process.

As highlighted elsewhere in the report, fraud is a key concern for FinTechs, with over a third choosing fraud risk as a challenge.

Perhaps worryingly, confidence in credit risk models and their accuracy was also highlighted as a key challenge for half of FinTechs. This is arguably a big concern, as accurate modelling is essential in successfully predicting risk and value in a particularly disruptive socio-economic climate.

"It is crucial that companies operating in the FinTech arena are able to understand customer affordability and any changes in circumstances at the earliest possible stage..."

9. How do you project the cost-of-living crisis will impact your business over the coming year?

(Select one option)

Overall the results show that financial services companies are adapting their processes to improve services for their customers and alleviate the impact of rising inflation on consumers rather than retrenching and withdrawing key products and services.

To address the increased complexity driven by the cost-of-living crisis, a fifth of FinTech leaders said they are likely to adapt decisioning processes. This suggests that for some businesses, improving decisioning is a key route to supporting customers in a time of economic uncertainty.

Rather than reducing products, scrapping plans for products, or pausing product development, over half of respondents will instead be developing new products and methods that support struggling customers, suggesting that FinTechs are taking a customer-centric approach to the cost of living crisis. A further fifth of companies are planning to ensure they are performing well amid economic headwinds by rolling out model monitoring to ensure their decisions and ongoing customer service is accurate and responsive.

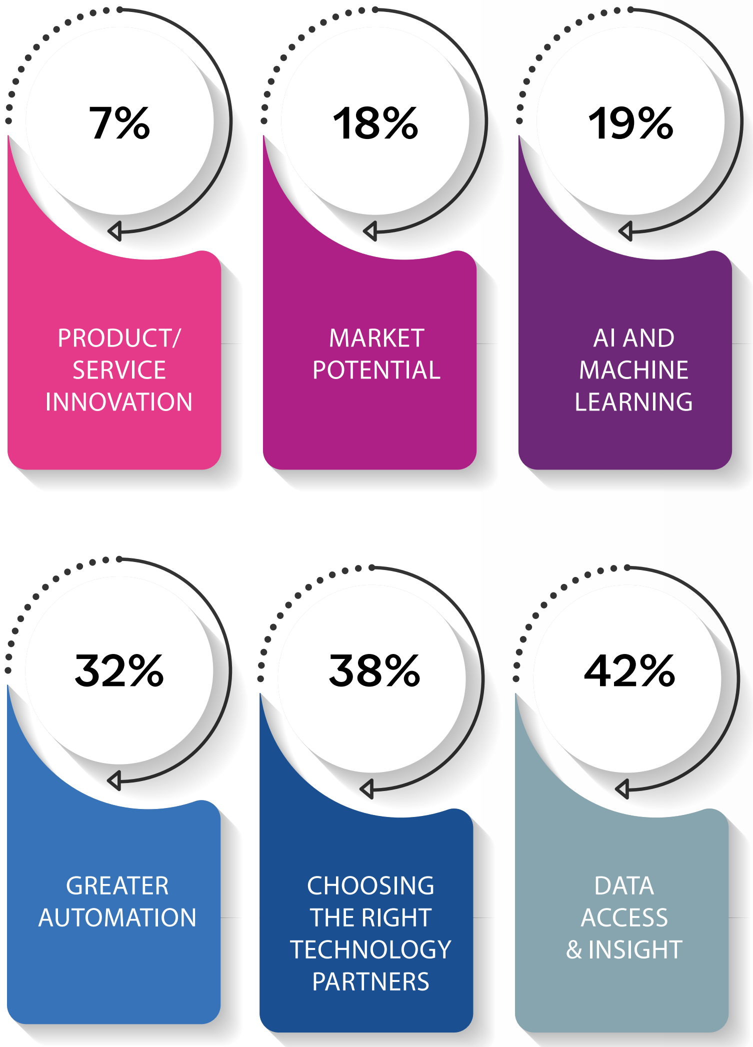
Despite compliance being revealed as a priority for companies elsewhere in the survey, it's clear that this is not an area businesses think will be impacted by the cost-of-living crisis – with none of the respondents choosing this option, while less than 10 per cent say they need additional data and analytics for confidence across their market and portfolio.

> “FinTechs are taking a customer-centric approach to the cost of living crisis...”

0%	We are expecting to see higher default rates/ delinquency
0%	We are likely to scrap plans for BNPL products
21%	We are likely to adapt decisioning to cope with added complexity
5%	We are likely to need additional data and analytics for confidence across our market and portfolio
20%	We are looking to implement model monitoring to ensure we are performing well
0%	We are likely to offer fewer products
0%	We are likely to pause product development
53%	We are likely to develop products/ methods that support struggling customers
0%	We are likely to focus specifically on compliance and regulation

10. Which of the following are priorities for your company for enabling innovation and future growth?

(Select all that apply)



While earlier results reveal that companies are not taking full advantage of the complete range of existing data sources and the majority citing data availability as a key barrier to automating credit decisioning, more than two fifths of FinTech leaders have highlighted data access and insight as a key priority when it comes to enabling innovation and future growth. It's clear that most companies are aware that data is crucial to their future growth, but many are struggling to effectively source and manage it.

Choosing the right technology partners is also high on the agenda, with almost 40% of respondents identifying this as a priority – demonstrating that for many FinTechs, partnerships are directly linked to achieving better growth and driving innovation.

The appetite for rolling out new technology is also evident, with a combined 51 per cent citing greater automation and AI and ML as a priority, while nearly a fifth revealed that market potential is an important factor for companies.

Less of a priority for businesses is product and service innovation – chosen by less than 10 per cent of respondents.

“More than two fifths of FinTech leaders have highlighted data access and insight as a key priority...”

CONCLUSION

> “Streamlining and accelerating customer-facing credit procedures is important for FinTechs...”

Meeting regulatory standards and addressing financial crime, particularly fraud, are highlighted as key priorities for FinTech leaders throughout the report.

When it comes to the functions that would most benefit from the latest technologies, compliance takes precedence for 70% of respondents.

As the regulatory landscape adapts, it’s clear that firms want to tackle some of the pitfalls of manual processes, like human error, which can have unwanted outcomes. Unsurprisingly, compliance is also revealed to be a key driver for implementing innovative tech like automation, AI, and machine learning.

Managing fraud and other illicit activity when making credit-related decisions is a clear priority for the majority – two-thirds – of FinTech professionals, while making the most of AI and ML is another key area for businesses. The report also found that fraud risk is one of the top data challenges for teams handling credit risk decisions.

Despite the uncertainty of the current socio-economic environment, only 15% of senior leaders felt that credit risk would currently benefit from greater use of AI and ML.

But the results demonstrate that streamlining and accelerating customer-facing credit procedures and managing operations for risk is important for FinTechs, with over two fifths selecting enhancing scoring and modelling processes as a top-three driver for rolling out automation, AI, and machine learning.

The customer is once again revealed to be a key consideration for FinTechs later in the study, with a combined 49% identifying improving digital customer experiences and value-added services as important reasons for deploying automation. However, companies are missing out on the benefits of data in boosting the customer journey, with only 16 per cent saying that gaining insights into data and trends was a driver for rolling out these technologies.

Most FinTechs are either in the early stages or have a strategy in place for AI and ML to automate decisions. A combined 97% have either started adopting this technology, have a strategy in place, or have implemented it for certain products but are hesitating when it comes to rolling them out to complex or higher risk use cases.

The results suggest that we could see FinTechs increasingly implementing these technologies over the coming years as strategies begin to make headway, especially when firms find the right partners, environment, and systems in which to roll them out.

While just over half of senior FinTech leaders have a strategy in place to roll out AI and machine learning, more than 60% highlight data availability as a key barrier to automating credit decisioning. Data is vital to these technologies, perhaps revealing why many companies have not yet executed their AI and ML strategy.

With this in mind, it’s not a surprise that nearly half of respondents say they currently have limited capacity for credit risk decisioning technology. At the same time, none of the respondents are building their own in-house credit decisioning functions. Firms could therefore stand to benefit from the support of third-parties to automate and outsource in order to address the capacity and skills issues highlighted – something around a quarter are already doing.

Most of the companies in the survey – nearly 90% –

CONCLUSION

are using data obtained from consumers to fuel their decision-making process. Credit bureau data was also chosen by a significant number of respondents.

But less traditional sources like Open Banking and social media are not yet fully being taken advantage of. These platforms are rich sources of data that could help build valuable insights for decision-making; it's likely we'll see these areas being increasingly exploited as they continue to develop and gain traction.

The number one data-related challenge for teams is linked to one of the most important processes associated with credit risk decisions: affordability checks. Confidence in credit risk models and their accuracy was also a key obstacle for businesses, with half of respondents highlighting this as a concern. The lack of trust in these models is perhaps concerning, as accurate modelling is essential in predicting risk and value during in this particularly uncertain and disruptive socio-economic climate.

Amidst the backdrop of rising inflation and a cost-of-living crisis, companies are adapting their processes to improve services for their customers. Instead of withdrawing or reducing products, businesses are instead developing new products and methods to support struggling consumers. Many are also looking to adapt decisioning methods to help cope with added complexity – perhaps by rolling out the latest technologies to simplify and improve the process during this uncertain time.

Many FinTechs – 42% – are relying on data access and insight to enable future growth and innovation, while a further 38% believe that partnerships are directly linked to achieving this.

It is clear from the report that FinTechs have a keen appetite to harness AI and ML in order to optimise decision making. Some are already on that journey, but many firms are still looking for the right strategy, technology partners, and data sources to achieve this. Those firms that do manage to harness new technologies to balance customer experience and risk are likely to establish true resilience and competitive advantage in the coming years.

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