

How to Survive in a Crisis: Experian's Recipes

In times of crisis, demand for services of financial consultants rises sharply in the banking sector. Daniel Zelenski, Country Manager, Experian in Russia and CIS, explained what can help banks survive in difficult times.

1. Experian is well known as a consulting firm. What would you recommend banks to do first during the crisis?

Experian's proposition consists of three components: consulting, analytics and software which enables financial organizations to set up their crediting process. In times of crisis not only consulting can help companies but also having a flexible credit risk management infrastructure. It is needed to adapt to the changing environment. Here is an example from our experience: one of our clients introduced around 1000 changes in October-November into his credit policy. And he did it throughout the entire company structure in just one month.

In other words, banks need to be ready to quickly and flexibly adapt their credit policy to new conditions. The winners will be those whose credit processes are set up in a way which allows them to quickly and painlessly change their credit policy throughout the country. Therefore, the primary requirement is a flexible infrastructure.

The second thing is that in the nearest future banks will focus on collections. This is natural because the size of the social default will grow: people may lose their jobs, their financial state may deteriorate and so on. Because financial organizations want to make money in times of crisis too, they should pay attention to their current portfolios, their existing customers. Thanks to cross-sales and concentration on existing customers which the bank already knows well and which not only have loans but, say, deposits as well, the bank has the opportunity to track customer behavior literally online.

The third thing I would point out is fraud. In times of crisis, due to the deteriorating social environment fraud risks increase dramatically so this problem should also receive close attention and adequate measures of protection should be taken.

2. How deep, in your view, is the impact of the global financial crisis on the Russian market? Which banking risks has it brought with itself? How has this affected the banking business, especially the areas where Experian products are used? How can a bank increase the quality of management of the new risks? What opportunities are offered by Experian products?

Russia is part of the global economic system so it has felt the effects of the crisis as any other country. If we look at influence on business, I would firstly point to the impossibility or increased cost of funding on global financial markets. This is the key issue for retail business which has appeared because of the crisis.

Undoubtedly, the complicated economic situation has brought additional risks. First of all, risks associated with deteriorating social opportunities, growing defaults and resulting delinquencies. Experts predict growth in delinquencies so I would like to draw attention to collections and managing existing customers as well as fraud.

In times of crisis collections solutions, both analytical and informational, are coming into ever greater demand. In times of rapid growth the margins made by banks allowed them not to pay so much attention to risks but now these issues are becoming a priority because banks will derive their revenue from managing their existing portfolios.

Undoubtedly, Experian has seen some clients downsize their plans and stop using our services. Many banks are shutting down their retail business, i.e. stopping to issue loans. In Russia, this trend is not as apparent as in other countries.

3. How many Russian banks currently use Experian products? Do you expect a series of bankruptcies of these banks in the near future? What will Experian do then? What will a consolidation of the Russian banking industry bring for Experian?

I can provide a figure for the CIS. In this region over 40 banks use Experian's products and around 200 banks use information from the credit history bureau. Experian's customers are the largest banks in Russia and CIS, mainly Ukraine and Kazakhstan. I do not think that our customers will go bankrupt because these are very large banks that have government support or support from large private groups, these are national-scale banks and if something happens they can count on government intervention. As for the 200 banks that work with the credit history bureau, there are some of them who may find it difficult to survive.

Consolidation will ensure some advantages for us because thanks to it a bank has a greater need in automating its credit risk management processes and specialized products come into greater demand.

4. When do you expect the crisis to reach its peak in Russia? How do you plan to stay in the market until then? Which products do you plan to develop?

Forecasts are not a rewarding thing so I would not speculate when the situation may deteriorate or improve. Perhaps, this depends not only on the Russian market but also the global economy. As for Experian, we are actively working on the issue of fraud. We have plans to create an anti-fraud system that would unite many banks. We are developing a scoring bureau which will bring benefit to customers not only from the point of view of making new business but also at the collections and customer management stages. In addition, our plans include the offering of customer monitoring thanks to which a bank will receive information on any changes in the customer's credit history. At present, banks need this monitoring to control their portfolio.

5. A standardization of the decisioning process and its automation form the foundation of Experian products and solutions. The detection and prevention of various types of fraud is based on selection of non-standard factors, i.e. deviations from the standard. How will Experian systems adapted to standard market conditions work in non-standard conditions, i.e. crisis, which they face today? Is it possible to reprogram them quickly? Where would one take the resources because the problem, it seems, is becoming very common? Which typical models stop being adequate and which can appear in the nearest future? What is Experian currently working on?

I already said that in times of crisis banks need to have an infrastructure which enables them to quickly adapt to market conditions. Experian solutions have that quality so we can boldly say that they can rather flexibly react to changes in the environment.

When the market conditions change so does the portfolio of customers because their so-called social parameters may change. A good example is scoring cards. In a complex situation,

monitoring and adaptation of a scorecard should be carried out on a more regular basis than in normal conditions. The same applies to credit policy rules: it should be analyzed more frequently to see which rules and triggers that worked in the past are today becoming ineffective. Customers with such parameters become delinquent more often.

But to analyze the market situation one needs to review changes for a certain period of time. Analytics are based on facts. When a default happens, after six months a credit's life is extended and only then can you see which changes in the social parameters of a customer have taken place. The crisis began in September and in my opinion the time has come to see how the social structure of customers has changed.

6. In spite of the crisis many banks are not eager to abandon the retail market. What new products does Experian offer to them? How does behavioral scoring change? Outsourcing enables banks to save about 30% on costs and personnel. In the conditions when banks have launched optimization of their costs which Experian products are in greatest demand?

Any problem creates new opportunities aside from difficulties. Some banks have used the current situation to make new acquisitions. Just recently I spoke with representatives of a number of banks and it turned out that some of them are quite optimistic. We have the desire to invest in retail products and use the situation to take over a share of the market, they said. This is especially characteristic of newcomers to the market.

Behavioral scoring is not used in Russia very actively. And now we are seeing a situation when it can come into broader use. One of the classic examples of behavioral scoring is a scoring bureau. And its predictive ability is much higher than that of application scoring based on demographics because it does not take into account facts from a customer's credit history. This sort of tool is quite important today from the point of view of managing the credit portfolio and collections.

As for outsourcing, demand is quite little. The tradition of having in-house solutions is still quite strong in Russia. We are seeing the biggest demand for anti-fraud systems, collections and portfolio management solutions.

7. Experian's products enable banks to reduce operational costs, simplify decision making, increase profitability and reduce risk in normal business conditions. What happens to them during a crisis? Are any new decision analytics products becoming available?

One analytical product currently offered by Experian is so-called scorecards or application scorecards. This is a standard product which we offered to the market. After providing this product we offered services for their monitoring and correction. We feel that this sort of service requires additional inclusions and we look not only at the monitoring of the scorecard itself but also providing analytics for monitoring the credit policy and credit rules. We also use benchmarking. We have a pool of data and we can benchmark to compare what is happening in the market.

If we look at a parameter such as industry of employment of a person, the bank may see this industry as a positive parameter but if we conduct benchmarking we may find that the situation in the rest of the market is quite the contrary. In this case the bank has the ability to use not only analytics based on its own data but also data on the market. These solutions are in demand now.

8. What exactly enables banks to achieve high efficiency when implementing credit support solutions?

Efficiency from the savings point of view is achieved in two ways. First, by reducing the share of manual labor. Many operations can be handled by computers so there is no need to hire people. From the point of view of operational costs work becomes more efficient. The second factor: by using various collections strategies in working with different people the efficiency of collections grows.

It's one thing if the approach to everyone is the same. For example, a customer may be one day late with an installment payment and the bank calls him up and asks to repay the money. But people may have different reasons for being overdue. Some customers are always one-two days late with their installment payment. But this does not mean that they are bad customers. These people do not need to be reminded or a bank may just send them an SMS. Vice versa, a bank may need to send some customers a formal letter.

9. It is known that Experian in partnership with other companies is developing biometric identification. How far have you been able to progress and what are some applications in this time of crisis?

Indeed, Experian does have this initiative. But it is so far not used in Russia so I cannot comment.

10. It is believed that the crisis does not only mean losses but also new opportunities. How much has Experian lost already and what does it try to gain?

We have not lost anything but we are trying to gain, first of all – new customers.