

# Implications of the Credit Crunch within Data Management

A question and answer session with **Paul Birks**,  
Analysis Director at Ai Data Intelligence

**There is little doubt that the “credit crunch” has had an enormous impact on the UK financial services industry. From major first tier banks right through to smaller lenders servicing niche markets, the industry has reacted. A stringent review of lending strategies is rapidly being introduced, both of which has hit many businesses and consumers.**

**Paul Birks, Analysis Director at Ai Data Intelligence answers a series of questions on some of the issues that are now facing Financial Services organisation in this new environment.**

---

---

**Q. The rules of credit lending appear to have changed, so what’s the best way to deduce which customers and prospects to target?**

A. Over the past ten years supply has outstripped demand across all credit products. To build ones portfolio it was necessary to offer attractive and competitive facilities often at the consequence of profit margins. The credit crunch has changed the market radically and all areas of lending have been affected. Low margin offers with associated hidden charges and fees will disappear and hopefully be replaced with transparent deals that are suitable for both the consumer and lender.

In the post credit-crunch era where currently demand far exceeds supply lenders can be more selective on who they offer their product to. Currently, this selection is being controlled by risk, where customers without exemplary credit history are being declined. Unfortunately these low risk customers are unlikely to be the most valuable as they are also less likely to require or utilise the facility. Lenders need to develop multi-dimensional selection criteria to implement customer focused marketing and credit vetting processes. A lender must assess the individuals “appetite” or “need” for the product as well as their likelihood to respond and their ability and willingness to repay.

**Q. How do you derive the insight that helps you predict which ones will deliver a return and avoid potential credit risks?**

A. Why does the person want the product? In marketing, if we could establish this we would also be able to assess their current and ongoing need for the facility. For example, if customer X needs a car as they live remotely and require it for taking the children to school and the family groceries we would be in a better position to know what type of vehicle they want, how essential it is to them and how soon they are likely to be considering changing the car. Their need for or attitude towards the product is as important as the prospects credit score in identifying potential credit risks and much more valuable in assessing their potential return.

The industry needs to develop cohesive strategies that consider response, risk and requirement (return) to identify customer worth.

**Q. How are financial service brands reviewing their database segmentation to give them better insight and a better return on their marketing/targeting?**

A. Whilst most financial services recognise the need to update or adapt strategies to gain a better return on investment there is a wide variance in the breadth and depth of the changes being considered. Many businesses are struggling to define who their best customers are let alone ways to identify them within their prospect databases. Initially financial services are implementing more prudent risk assessments; striving to identify lower risk segments which want the product or service. Alternative data sources and dynamic event triggers are being investigated to add to their current database to help identify potential value.

**Q. Do the old segment labels still apply? For example, is a customer who was previously “happy with risk” likely to become a hard sell?**

A. The credit crunch has impacted on the definition, size and return of all previous customer segments. Many segments no longer apply whilst the dynamics of revenue and return have changed across most groups. Lenders need to reassess segments and re-analyse the database based on the post credit crunch risk, response and return.

For example a key group for credit cards was the “balance transfer” segment – the previous high-value must have customers are now also potentially too high risk and an unacceptable level of exposure.

**Q. How many customers/prospects with bad credit ratings are now simply obsolete in terms of their value on a database?**

A. In the current conditions prospects with bad credit ratings will be un-mailable; even if they respond they will fail the application credit assessment. As the market emerges from the shadows of the credit crunch some of these high risk prospects may be reconsidered based on their potential value although a proportion will remain obsolete.

Over the past ten years credit facilities have been available to nearly all individuals whatever their credit history. Over the coming months the rebalancing of the credit market will be completed and although most will be offered revised facilities a proportion of the market is likely to be identified as not credit worthy.

---

---

## About Ai Risk

Ai Risk is an Independent analytic consultancy solution for credit and risk. Ai's team of consultants and analysts are one of the UK's leading teams in modelling and decision systems. With over 15 years experience across many sectors including Financial Services, Telecommunications, Mail Order and Retail they can help you make the most effective and profitable strategies to move your business forward. Some of the benefits that Ai are currently providing clients include:

### **Reduction in Bad Debt**

Ai expertise in developing bespoke bureau scorecards has led to discrimination improvements of up-to 17% over generic offerings.

### **Reduction of 'early' Bad Debt**

Ai's bespoke fraud and risk scorecards have provided improved identification of potential "never paid" and "early bads". Strategies implemented using this measure, requiring deposits, pre-payment or further verification have resulted in a substantial reduction in early defaulters by up to 16%.

### **Reduction in Referrals**

Terms of business developed using a combination of value and risk have provided a substantial reduction in both decline and referral rates. Clients that implemented terms of business decisioning have been able to measure this reduction in referrals to a 15% lessening in required underwriting resource.

For further information about our products and services, please call **020 8614 7333** or visit our website **[www.aidataintelligence.com](http://www.aidataintelligence.com)**