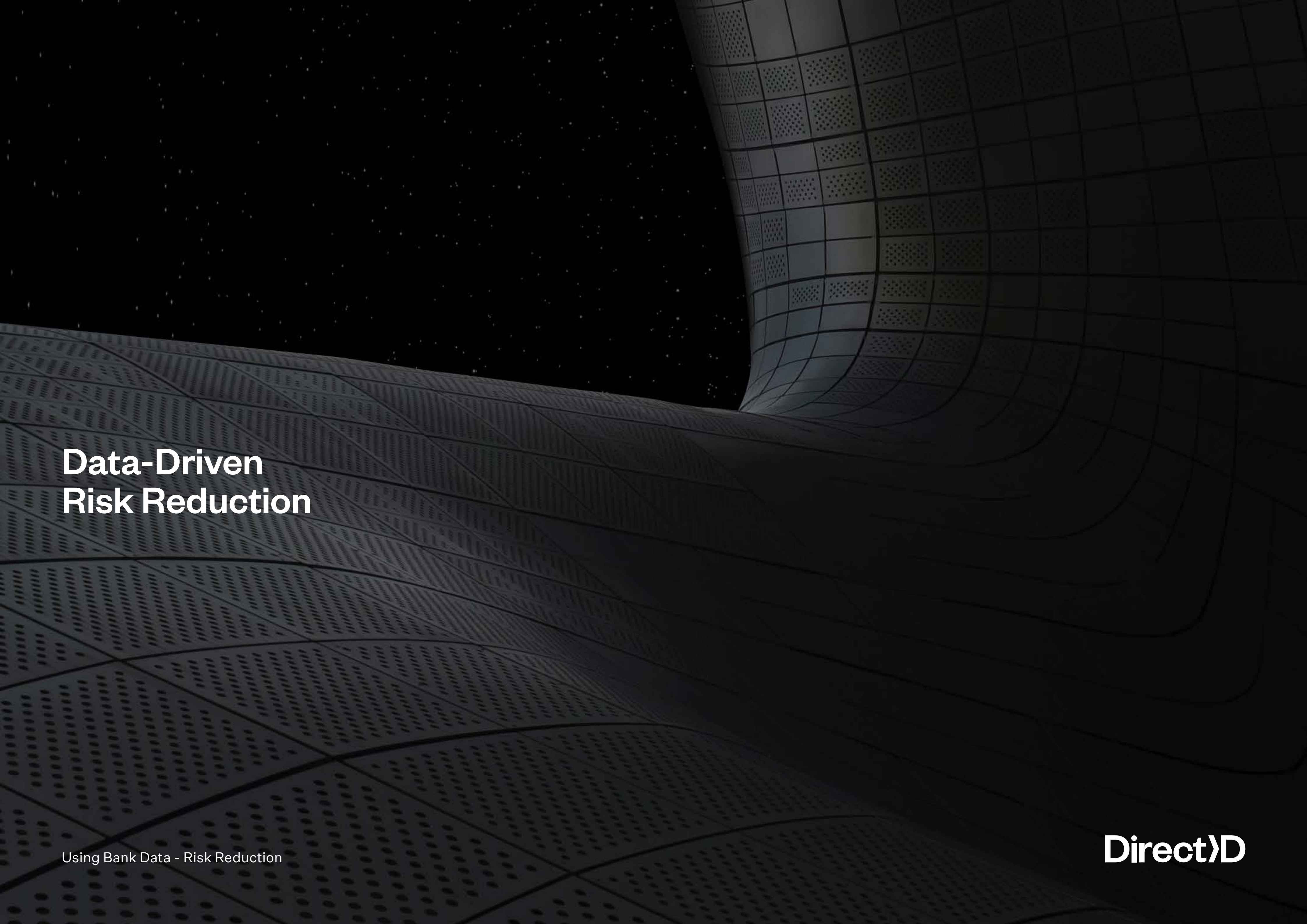
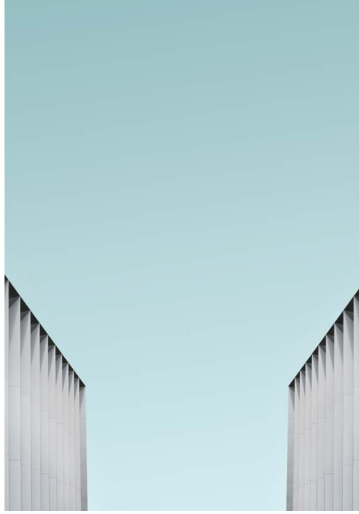


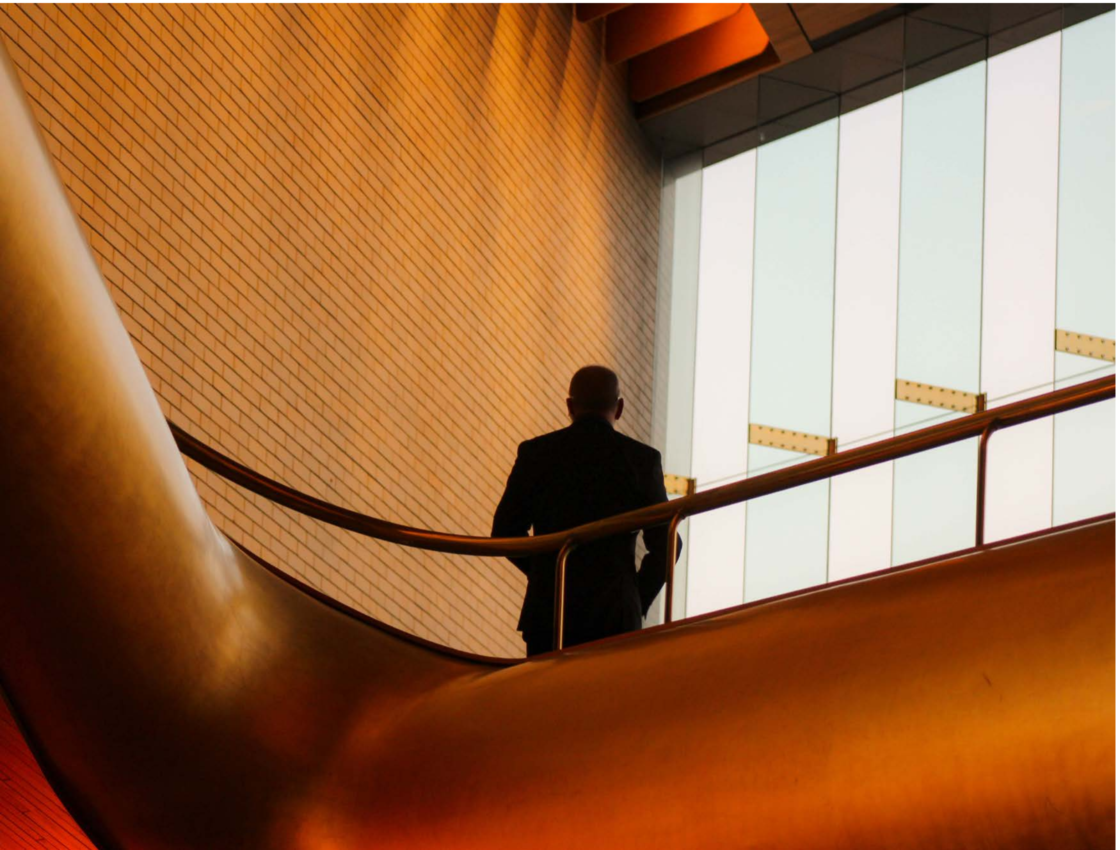
# Data-Driven Risk Reduction

Using Bank Data - Risk Reduction

DirectID



# Introduction



## Current Risks For Financial Institutions

Financial institutions calculating customer's credit risk have long had significant hurdles to clear in order to accurately and proportionately define a customer's credit risk. This has never been as critical an issue as it is now, with new regulations being brought in, and existing regulations beefed up, to ensure that KYC, AML, fraud, affordability and creditworthiness checks are all adhered to.

As new regulations have been brought into force, it has become clear that existing practices within financial institutions are no longer fit for purpose. Some practices see printed bank statements pored over line by line by fraud analysts and underwriters, swallowing up valuable time and resource, while others rely on services that do not provide the full picture of an applicant.

## Current Challenges, Problems And Risks For Financial Institutions

### Fraud

Third-party fraud, whereby an individual submits an application, claiming to be someone else is increasingly common.

### Loan Stacking

Applicants can apply for multiple loans in a short space of time. Were they to be accepted for them all, how would they expect to pay them back?

### Credit Scores Lack Full Picture

Information from credit reference agencies can be helpful in making a credit decision. However, CRAs do not provide the full picture of a customer

### Paper Based Applications

Paper-based statements represent a massive undertaking for both applicants and financial institutions.

### Time And Manpower

Arriving at a credit risk decision can take a considerable amount of time and effort, particularly if an underwriter or credit risk officer has to inspect bank statements line by line.

### Credit Scores Are Retrospective

One of the CRAs failings is that they only look backwards. They provide no information on how likely or unlikely an applicant is to repay a loan, which is what credit risk is primarily focused upon.

### Temporary Income Stacking

Applicants can temporarily receive additional income, boosting their income in the months prior to a loan application.

## Bank data provides financial institutions a solution to the requirements placed on them in onboarding new customers or offering credit risk-based decisions.

The requirements for financial institutions in onboarding new customers or offering credit risk-based decisions are substantial. That is why each provider must complete an exacting list of processes to satisfy regulators. These processes focus on aspects such as creditworthiness and affordability, as well as identity checks such as AML, KYC and fraud checking.

Fraudulent applications are a well understood and ongoing problem for finance houses. Third-party fraud, whereby an application is made in someone else’s name, is one of the most common. In this instance it is vital that banks are in a position to match applicant’s details. The challenges involved in matching these details is a current problem. Using bank data, however, negates this problem, as all information is readily available from the applicant’s bank details.

The use of bank data further removes the need for applicant’s to submit physical statements. As well as being cumbersome for the applicant, and a reason why the onboarding process can be elongated, physical documents can be tampered with to alter salary or other key information which may be of importance to the application being accepted.

One of the primary benefits of using bank data is the advantages that it holds over Credit Reference Agency (CRA) data. CRA data is entirely retrospective and offers very little insight into customers financial lives. Bank data can offer insights such as views on gambling and loan repayments, can highlight loan stacking, provide true insights into salary and income, and can categorise transactions to highlight to illustrate how, where and when a customer spends their money.

The insights provided by using bank data ultimately allow credit risk professionals, underwriters, and fraud analysts to make better decisions, faster. The information portrayed by bank data highlights the critical information required by credit professionals. By illuminating the required information, it also saves on vital time by removing the need to critically evaluate line-by-line paper statements.

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