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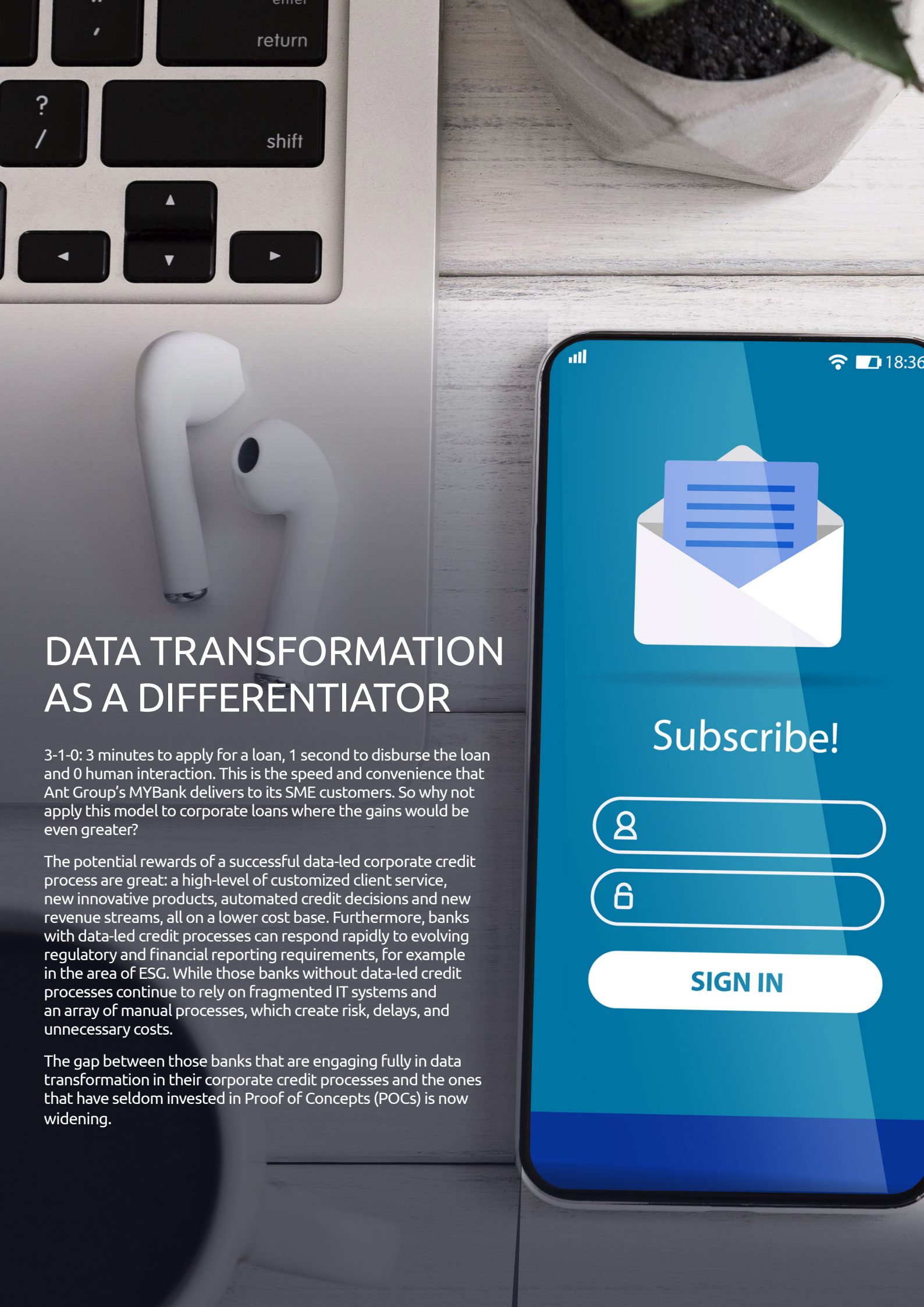
THE CREDIT DATA REVOLUTION HAS COME: ARE YOU READY FOR IT?



DATA TRANSFORMATION AS A DIFFERENTIATOR

3-1-0: 3 minutes to apply for a loan, 1 second to disburse the loan and 0 human interaction. This is the speed and convenience that Ant Group's MYBank delivers to its SME customers. So why not apply this model to corporate loans where the gains would be even greater?

The potential rewards of a successful data-led corporate credit process are great: a high-level of customized client service, new innovative products, automated credit decisions and new revenue streams, all on a lower cost base. Furthermore, banks with data-led credit processes can respond rapidly to evolving regulatory and financial reporting requirements, for example in the area of ESG. While those banks without data-led credit processes continue to rely on fragmented IT systems and an array of manual processes, which create risk, delays, and unnecessary costs.

The gap between those banks that are engaging fully in data transformation in their corporate credit processes and the ones that have seldom invested in Proof of Concepts (POCs) is now widening.

EXPLAINING THE GAP: THE DOS AND DON'TS FOR A DATA-DRIVEN CREDIT PROCESS

THE DO'S

In our experience, successful data-driven strategies are based on the following pillars:

1 - An obsession with Customer Experience (CX)

Many of the digital native firms that we see in the banking space demonstrate this obsession with customer experience, whether its functionality, simplicity or speed of delivery.

The 3-1-0 model applied by Ant Group's MYBank to SME lending is a good example. MYBank's credit process is augmented with direct insights into merchant orders, inventory and liquidity from Alibaba's marketplace Taobao. MYBank can deliver this high level of convenience to its clients because its end-to end loan operation is based on more than 3,000 automatic risk models to assess loan applications without manual interventions.

2 - Data-centricity

Such is the importance of data in banking that it is an asset class in its own right. Corporate banks that recognize this, and become data-driven, understand that corporate credit is a data supply chain. This provides a solid approach to extracting, augmenting, virtualizing, normalizing, modelling, analyzing and visualizing data.

Essentially, banks that have set up an end-to-end data-driven corporate credit process operate faster, take better credit decisions, optimize products offered to their clients tailoring them to their portfolio strategy and do all of it at a lower cost.

The benefits of an optimized corporate credit process with end-to-end data flows can be realized quickly. Recently, we supported one of our clients to build an end-to-end solution based on AI capabilities aiming at automating 70% of the credit spreading and financial analysis undertaken by over 300 credit analysts. This data transformation project resulted in savings of 25%, and significantly reduced the time to validate credit requests.

3 - Embracing the associated changes that data transformation brings

A data-led strategy requires much more than large data sets and AI powered technology. With data usage comes a data culture that can be very different from banks' traditional ways of operating. "Agile at scale", "fail-fast approach" and "data quality by design" are not buzzwords: they are essential to sustain a value generating corporate credit data process.

Due to the centrality of the corporate credit process to banks' activities, its transversal characteristics and its inherent complexity, it is a great vehicle for data transformation. Indeed, after implementing AI products to partly automate and improve credit decisioning, two of our major banking clients noticed the considerable gap they had bridged in terms of data upskilling of the project managers involved.

4 - Augmenting products and services by building ecosystems and platforms to enhance existing capabilities

Traditional banks that help to build ecosystems through collaboration with other firms will increase their access to data and increase further their ability to develop tailored products and services. Take Citibank for example, which was one of the first major banks to monetize its vast retail data sets and now generates more than USD 100m per month in fee income from connecting corporate clients with their retail base. Furthermore, its data service can be enhanced to generate even greater fee income.

Collaboration could also provide opportunities to enter growth markets through a low opex, low capex and reduced risk approach.

5 - Making credit sustainable, through delivering transparency and ESG performance

Corporate banks have a major role to play in the transition to a low-carbon and sustainable economy but this will require a major transformation of the credit process and reporting:

- Introduction of regulations (EU Taxonomy, upcoming CSRD) designed to ensure transparency on the sustainability of banks
- Implying the importance of demonstrating performance through displaying green and more broadly sustainable credit portfolios (Green Asset Ratio) – 2 levers:
  - Spotting and targeting the greenest projects and companies
  - Accompanying clients in their transformation through advising on and funding their transition
- Implying an end-to-end transformation of credit value chains:
  - Rethinking credit offerings and policies
  - Embarking and upskilling staff, particularly on the sales side
  - Refactoring operational processes to ensure inclusion of ESG considerations in credit decisions and portfolio supervision
  - Including non-financial risk factors in traditional risk models.

Rolling out such a transformation particularly requires end-to-end mastery of a new domain of data:

- Factoring sector-specific intelligence in credit decisions to address the issue of performance measurement and identify transition levers
- Adapting to the gradual introduction of new regulations and adoption of opt-in standards both providing more precise, quantitative and comparable disclosures to fuel these efforts, and requiring an increasing amount of data collection to fuel the FI's own disclosures
- Orchestrating the integration of new data sources and types (vendors, open data, etc.) and more advanced models to complement the latter, and scale developments
  - Integrate
  - Scale with Data Science

THE DON'TS

While most traditional banks have tried to undertake data transformation projects, often they have been unable to realize the full range of benefits. To avoid this:

- don't have a fragmented process involving too many stakeholders resulting in the lack of an end-to-end data strategy;
- don't fix existing infrastructure, either buy an off-the-shelf platform and customize it or develop a modern solution and a data-led culture to implement it;
- don't de-prioritize data projects and cut their budgets on the erroneous assumption that innovation is a "nice to have" rather than a need to have;
- don't undertake a half-baked investment, for example by multiplying POCs or Minimum Viable Products, instead of investing consistently in data transformation as a whole.

GENERATING VALUE FROM CORPORATE CREDIT: NOW AND IN THE FUTURE

So far, corporate credit processes have benefitted little from digital transformation. However, now that several global banks have started their data-centric transformation, the market is being disrupted.

As end-to-end data-centric corporate credit processes become the new normal, the time for traditional banks to invest in data transformation is now.

Seize the opportunity today.

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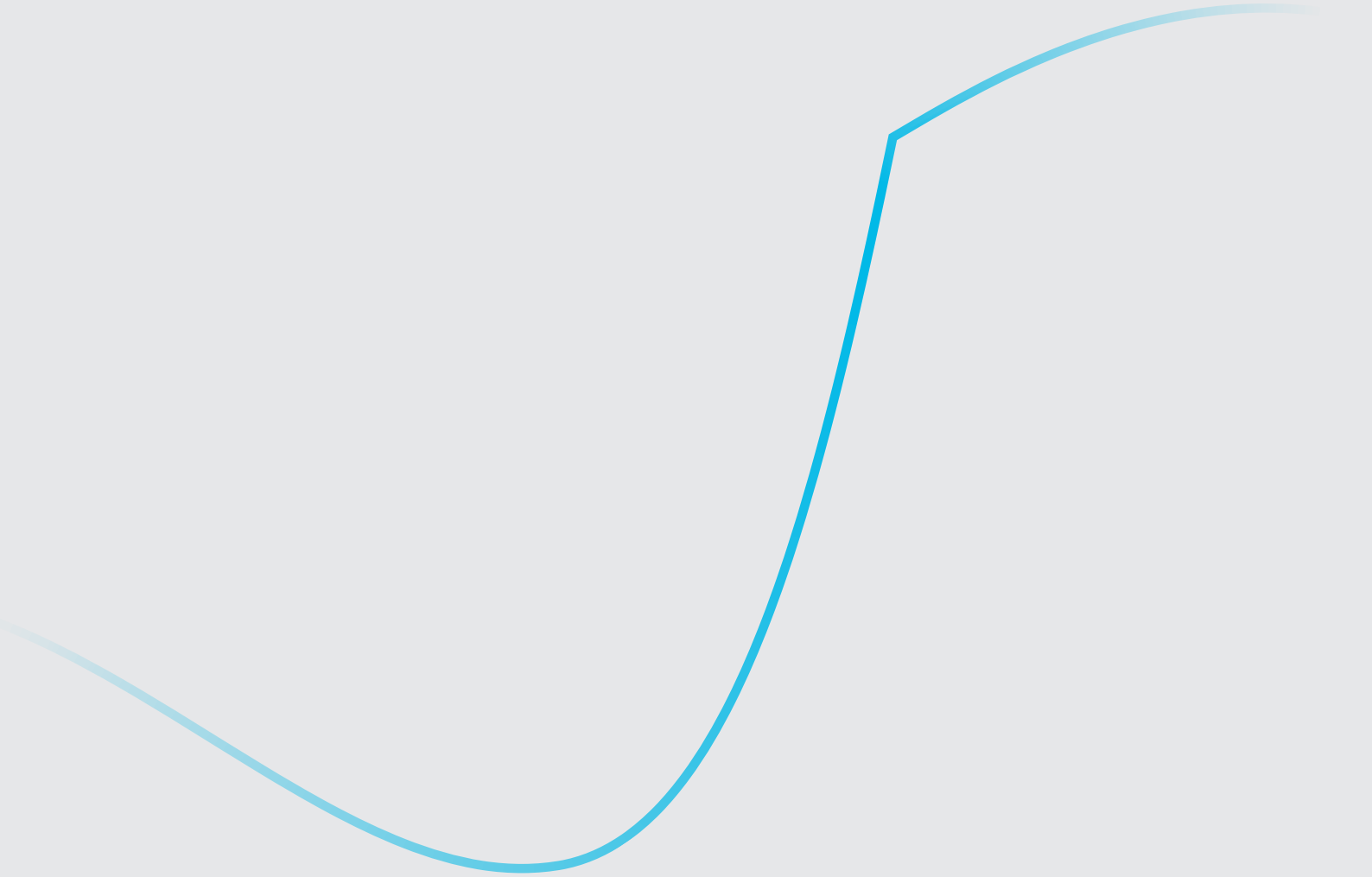

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