

A Nordic niche bank specialized in consumer loans and payment solutions

Experian consulting services support the entrance to a new business area, secured car loans market, with an 80% approval rate

Our client is a Nordic niche bank that offers leading payment and financing solutions for the retail industry and its customers. They offer to their customers various financial products such as consumer loans, home loans, credit cards and insurance. They have a broad experience in the retail sector with a customer base of millions of private customers.

The challenge

When they approached Experian in 2019Q2, the bank was planning to expand its business area offering vehicle asset finance for new cars. The bank had experience operating in unsecured loans, however they were not in the vehicle asset finance market. They asked if Experian could provide its expertise in vehicle asset finance market and develop an appropriate risk framework to manage applications for secured car loans.

1. Lack of internal data and insufficient affordability models

One of the challenges the bank had was the lack of available internal data especially for specific car and collateral type information. In addition to that, the bank was looking into assess their affordability models which they use in their credit decisions.

2. Highly competitive market

One of the other challenges was a highly competitive market in the channel that they chose for entering the market. They would enter the market with only one car dealer as a starting point and the same car dealer would also promote the loan offered by the market leader in Denmark. This is why they needed to differentiate themselves from their competitor by providing extra services and creating loyalty to the partners.

They were targeting 80% of approval rate, which would start with lower levels in the beginning to be more conservative and it would gradually increase with the expanding experience of the bank in the market. They were planning to update the risk-based pricing strategy.

Experian's local analytics consultants and business experts analysed their situation in the following areas, in order to provide the most suitable solution sets to ensure the bank could enter the secured loans market successfully:

- Review of the current credit decision flows
- Review of the available internal application data
- Discussion of the new possible data fields giving information about the applicants and the vehicle based on Experian's market knowledge and the bank's preferences
- Considering the competition in the secured car loans market in car dealer channels
- Targeted approval rates and portfolio performance rates.

The solution

Various online meetings and on-site workshops were held in Nordics with the key stakeholders from the bank including Credit Risk Manager, Product Manager and IT.

Experian's solution package composed of the diverse elements below to address the bank's challenges and to ensure their market entrance safe and strong.

- Knowledge share on the optimal number of variables and their distribution within different categories,
- Knowledge share on commonly used information set in credit decision process for secured car loans from market best practices,
- An expert based application scorecard for secured car loans fitted in the bank's needs,
- A score and risk level distribution analysis using the bank's approval rate and risk level expectations in the lack of real performance observations,
- A tailor-made affordability model that will ensure the bank making right credit decisions,
- Risk based terms of business recommendations for used car loans to balance the maximum duration of the loan considering the age of car,
- Risk based down payment recommendations for used car loans to balance the risk with collateral.

Results and next steps

Experian completed the project and delivered all the deliverables within the agreed time frame and budget. Currently, the bank is looking for a car dealer partner to start their partnership in the vehicle asset financing area. As next steps, the bank is aiming for data collection as soon as they launch their new product with risk framework set up by Experian. The project will continue with the next phases as risk framework monitoring and risk framework finetuning based on the bank's bespoke data and Nordics expansion by set-up of new risk frameworks also for Norway and Sweden. As a result of the good relationship built up between the bank and Experian, the bank is also interested in a project with Experian regarding the assessment of the bank's pre-collection processes.