GRANTING CREDIT TO E-CUSTOMERS – MANAGEMENT BRIEF

PURPOSE OF THE BRIEF

This brief is aimed at fraud control and credit strategy managers responsible for implementing internet-based credit products within the context of a financial institution. “Internet” includes the World Wide Web; e-mail based products; direct response digital television (DRTV), and WAP based products. “Lending” includes secured and unsecured instalment loans, mortgages and credit cards, as well as hybrid offerings.

The brief offers interested credit risk and fraud managers an opportunity to debate the issues raised.

WHY IS THE INTERNET DIFFERENT?

Why is the Internet more difficult than other “credit revolutions” that have hit the market over the last few years? After all, we have survived centralised credit processing; branchless banks; telephone banking; “instant” credit, and the multi-product offer. These initiatives have been implemented without (much!) fuss and disaster. Why fear this new revolution?

In brief, we are more nervous about the Internet, because, whilst we are trying to do all the things we always did in the credit world, we are trying to do them without the same benefit of dialogue and open-ended fuzzy human reasoning. This is difficult! It makes the relationship between lender and debtor much more formal and “pre-planned” than it has ever been. So we experience far more strain on our formal processes than is the case with other channels.

In detecting fraudulent use of credit cards, for example, 70% of frauds come to light not because the retailer followed the merchant acquirer’s brilliantly simple yet insightful process guide, but because an alert shop assistant thought the customer was “behaving suspiciously”. We are nervous about the Internet because it reduces our opportunity to check out the customer using the common-sense of our staff in an open-ended way.

THE CHECKLIST

The critical success factors involved in e-credit are too numerous to cover in this short brief. I have, therefore, drafted a checklist of “e-credit issues”, to stimulate your thinking! Bona fide Credit and Fraud Control managers, currently operating in the financial services field should send me an e-mail at the address below. After security checks, I will reply with a copy of the check-list. If you think the check-list is wrong, or you have comments or suggestions, email me, and I will update the list with any (printable!) alterations I agree with.

TWO TOPICS FROM THE CHECK-LIST

Two topics are especially critical to success, and these are detailed here.

1. Identifying the individual accurately

Because we do not have the same opportunity for dialogue with the customer who applies for credit via the Internet, distinguishing the honest mistake from the attempt to deceive is especially difficult. Unless we choose to put them on-line, via a “Help” facility, the customer does not have our guide-lines for filling in forms properly available to him or her. Even then, people simply don’t use on-line help. How, then, are we to treat inconsistent financial data, for example? Does our waiter in a Chinese restaurant really earn £25,000 a year, or is there a decimal pint in the wrong place? Most lenders’ approaches favour using multiple sources of data. Some of these approaches are described in the overhead slides.

2. Operating effectively at a customer level

E-business leaves us with no choice but to conduct our credit businesses with the customer, as opposed to operating within the protective bunker of the product line. Customers quickly become irritated with inconsistent sign-on procedures or web navigation, or excessive numbers of keystrokes, when they see us as part of a single organisation. Once they lose patience with us, we have no geographical proximity, urging the customer to give us another chance. No, they simply never visit our web-site again.

Customers expect us to know what products they already own, and what their status is, even if their immediate query does not concern that product. They would like us to know what they have said before, so they are not just a number to us. They want us to do the work involved in knowing what they want to buy from us next, taking into account their circumstances and requirements - not just larding them with unwanted mail, whether e or otherwise.

We all have a long way to go to achieve this. Getting there will have an impact on:
- culture and organisation;
- customer segmentation;
- profit, and other metrics, and
- technical systems, including scoring systems.

CONCLUSION

E credit is inevitable. Customers want it. In the first 10 days of operation, the Halifax subsidiary, Intelligent Finance opened 8,500 customer accounts, including over 3,000 mortgages. Egg claims to see the day when it will become profitable. Cahoot was unable to handle the massive first day volume it attracted.

The low unit cost of handling e credit, and a competitive banking environment, mean that prices will quickly fall to levels that assume you do use “e” based techniques. So it is a question of “when” and “how well”, not whether. So let us in the fraud control and credit assessment industries make our usual professional job of ironing out the problems.

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