



# RAISING THE BAR

The transformative  
effect of AI on risk,  
CX, and analytics



# WELCOME TO EXPERIAN'S 2023 BUSINESS INSIGHT REPORT

Economic uncertainty, geopolitical unrest, regulatory change, cybersecurity risks and sustainability concerns are forcing Financial Services and Telco providers to develop new business strategies that tackle these challenges head-on. There is no other option. To thrive in these conditions, businesses need greater precision and accuracy. To achieve this, they must embrace Artificial Intelligence (AI).

At the heart of AI is innovation – finding new ways to unlock insight from data and delivering step-change improvements across business operations. But great leaps in technology bring new risks. Rapid developments in generative AI are creating new-use cases with potentially significant opportunities, although the speed of change is in danger of outpacing regulatory control.

However, AI is here to stay, and in response to a trading environment that continues to bring economic uncertainty, this technology enables unprecedented analysis that is becoming essential to ensure precise decision-making within

risk management and fraud. Moreover, it enables greater operational efficiency through automation which ultimately improves the end customer experience.

This year we've surveyed 889 business leaders in Financial Services and Telcos across 10 countries in the EMEA and APAC regions: Australia, Denmark, Germany, India, Italy, New Zealand, the Netherlands, South Africa, Spain and Turkey. The research was conducted by Forrester Consulting. We set out to understand how organisations are using AI to enhance analytics, risk assessment and CX while also investigating the challenges they encounter.

I am delighted to share our findings with you, and I hope they are valuable in helping establish a strategic bearing for new growth.

## MALIN HOLMBERG

CEO Experian EMEA & APAC



# ONE

## Uncertainty, risk and resilience

We kick off by exploring the impact of uncertain economic conditions on Financial Services and Telcos – looking at the biggest risk priorities for the year ahead and how AI is key to developing resilience in these turbulent times.

# TWO

## Data and analytics through the eye of AI

The world of analytics is being transformed by AI – we investigate the biggest data and analytics-related challenges affecting Financial Services and Telco providers.

# THREE

## Maximising AI implementation

To take advantage of the opportunity that AI represents requires the right combination of building blocks – our research shows exactly what these are.

# FOUR

## Managing AI risks

Innovative technology always has inherent risks – mitigating these is key to the responsible and ethical use of AI.

# FIVE

## The future: business priorities and budget allocation

We reveal the top 5 critical business priorities for the year ahead and how these align with budget allocations.

# SIX

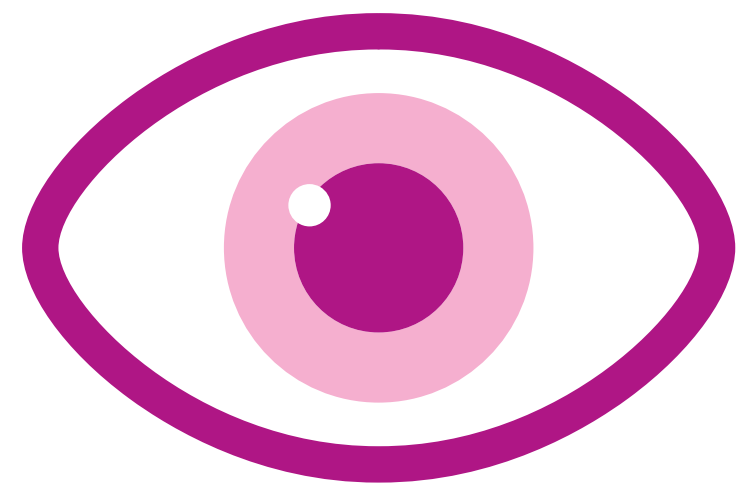
## Key takeaways

# SEVEN

## Survey firmographics



# SNAPSHOT OF KEY FINDINGS



79%

are prioritising the adoption of advanced analytics with AI/ML capabilities.

79%

are prioritising investments in Software-as-a-Service (SaaS) and cloud technology.

75% for Financial Services vs 83% for Telcos

75%

are prioritising investments in new data sources to better understand risk and affordability.

65%

believe that AI/ML is providing their organisation with a competitive advantage.

65%

believe AI/ML initiatives have enhanced CX at their organisation.

62%

have seen the volume of customers defaulting and entering collections increase.

69%

are optimistic for growth in the next 12 months.

Base: 889 EMEA & APAC decision makers at Financial Services and Telco providers  
Source: Experian research conducted by Forrester Consulting, July 2023



## UNCERTAINTY, RISK AND RESILIENCE

Despite ongoing economic uncertainty and slow growth across many markets, most business leaders remain positive for the year ahead.

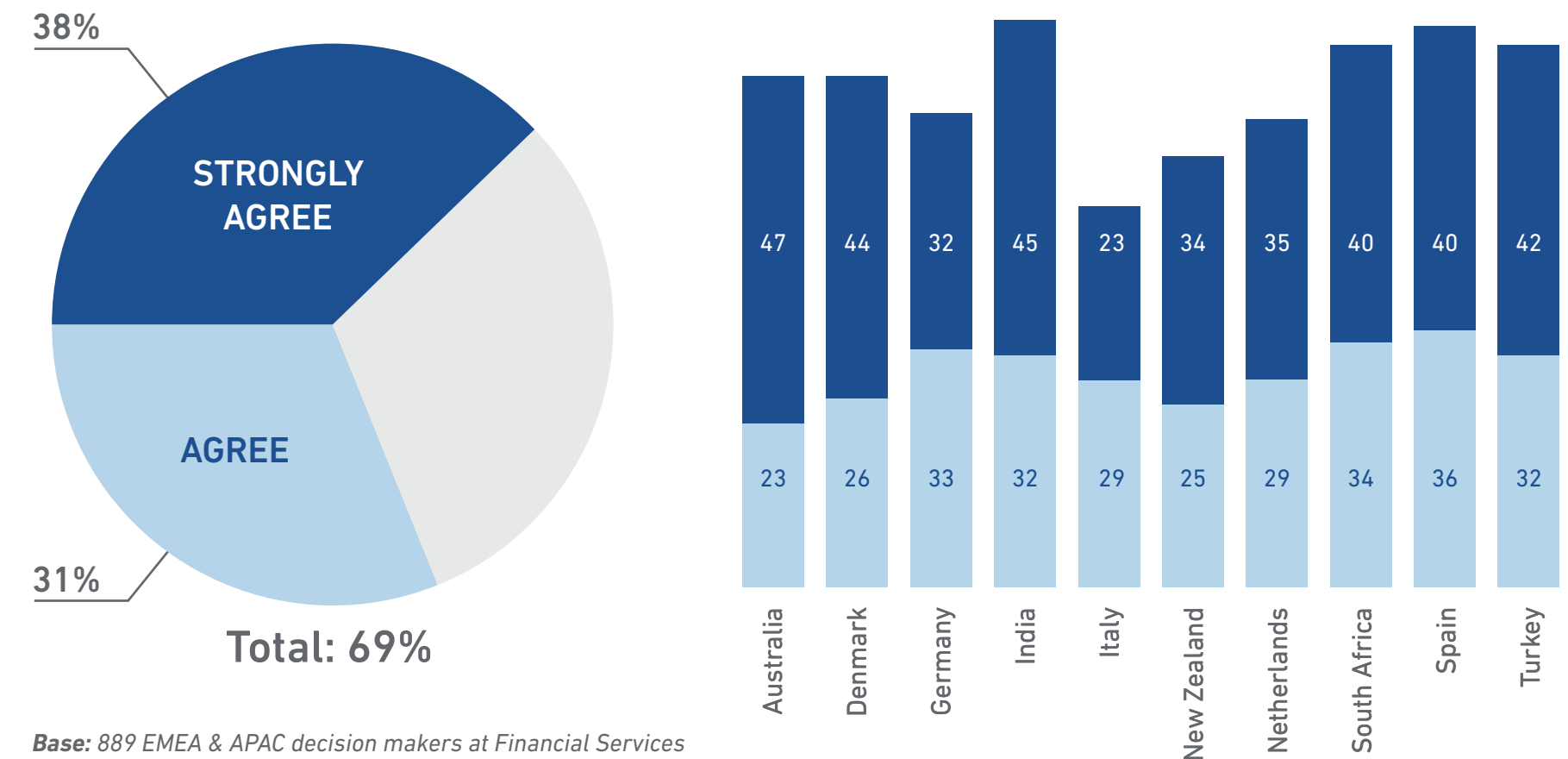
Indeed, 69% of the Financial Services and Telco leaders in our survey are feeling optimistic about growth – with 64% expecting their turnover to increase in the next 12 months. More than half (59%) of respondents believe that trading conditions will significantly improve as inflation gradually eases. Although these results are encouraging there is still a strong emphasis on cost management – as seen by the 60% who are focusing on lowering costs.

Macroeconomic pressure has caused more consumers and businesses to borrow, with 62% of firms seeing an increase in the volume of customers defaulting and entering collections. There is a corresponding increase in the cost of collections for 65%, with bad debt levels increasing for half of our respondents.

The opportunities that arise from the current challenging macroeconomic environment are closely linked to understanding risk. Winning organisations are using a wide variety of data sources and Machine Learning (ML) to improve the accuracy of their models. These two factors are key to creating resilience in the face of rapidly changing conditions.

As economic uncertainty may well persist into the foreseeable future, driven by geopolitical threats and climate disruption, lenders will continue to need highly responsive models. Last year's research highlighted that the need to update credit risk models more frequently was a major concern for businesses. This ability to update models in faster cycles is likely to shape which organisations thrive as agility remains key in times of change.

Percentage of business leaders optimistic about growth in the next 12 months



Base: 889 EMEA & APAC decision makers at Financial Services and Telco providers. Source: Experian research conducted by Forrester Consulting, July 2023

**71%** OF FINANCIAL SERVICES

are seeing an increase in the volume of credit applications from net-new customers.

**68%** OF TELCO BUSINESSES

are seeing an increase in Average Revenue Per User (ARPU).

[CLICK TO READ THE WORLD ECONOMIC OUTLOOK REPORT →](#)

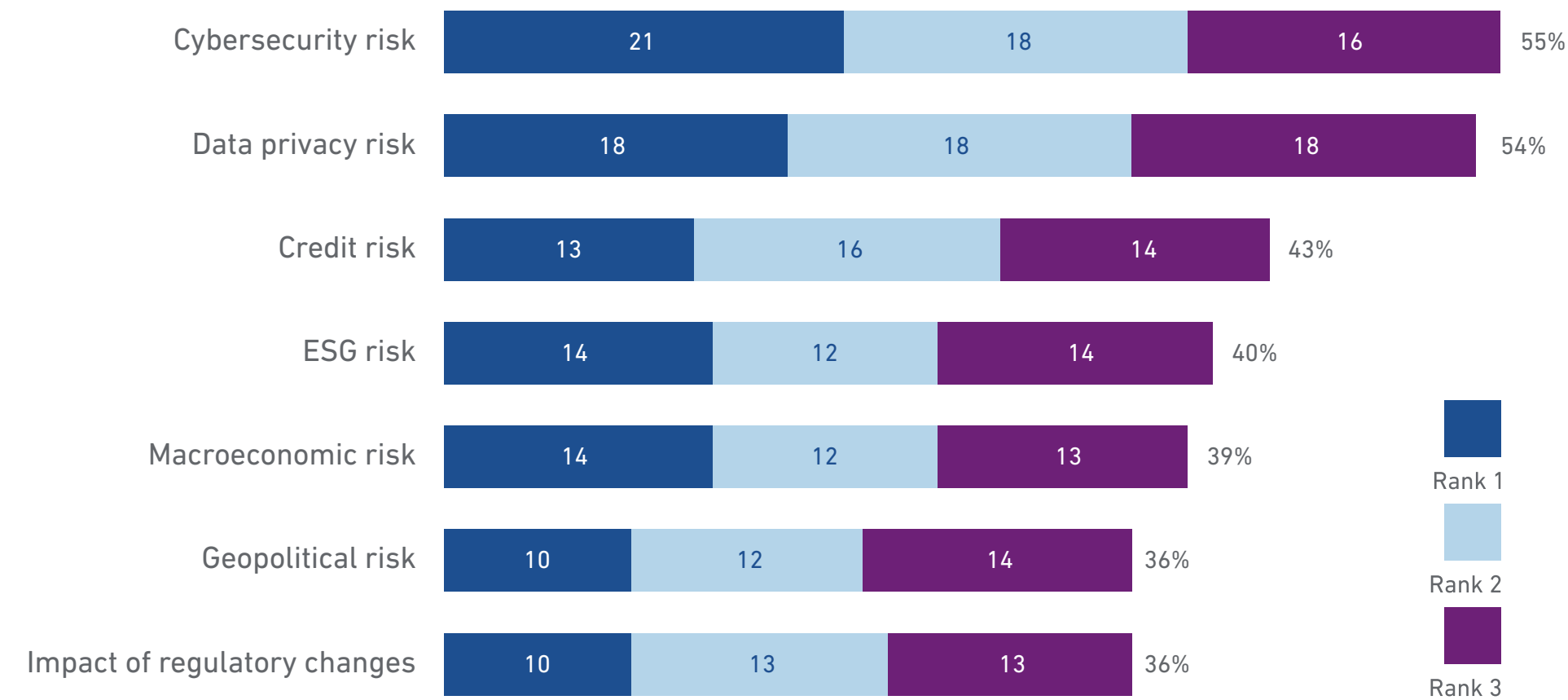


## Top risk factors

According to our research, the top risk priority for most business leaders (55%) is cybersecurity. This is unsurprising considering that 49% have seen an increase in fraud losses over the last year. Given the severity of the fraud risk, we will publish a detailed investigation into this topic in an upcoming dedicated fraud report.

Following closely behind cybersecurity is data privacy risk at 54%. These risk priorities are interlinked and involve more than protecting data from cyber criminals. As regulations around managing Personally Identifiable Information (PII) data become more demanding, lenders find themselves in a tight corner. The accuracy of their ML models depends on ready access to data across their analytics departments, yet access to this data must be strictly controlled. Highly secure cloud platforms that enable safe data access and sharing within organisations can play a pivotal role in mitigating this risk.

## Risk priorities for the year ahead



**Base:** 889 EMEA & APAC decision makers at Financial Services and Telco providers.  
**Source:** Experian research conducted by Forrester Consulting, July 2023

**Credit risk (42%)** is the third risk priority and is closely tied to macroeconomic risk. Although energy prices in most regions have decreased from last year's high, elevated inflation and the cost-of-living crisis is weighing heavily on consumers. Nearly two-thirds (65%) of our survey respondents anticipate that this squeeze on income will result in a rise in defaults. This puts pressure on lenders to deliver more accurate predictive decisions at originations and use customer insights (see budget allocations in [Section 5](#)) to better identify signs of vulnerability – so they can take preventative action before defaults occur.

**Environmental, Social and Governance (ESG) risk** is a growing concern for many businesses (40%). It is well documented that climate disruptions are increasing in frequency and severity with a corresponding impact on many economies. Accurate emissions estimates and reliable ESG profiles are critical to baseline and manage the climate-related risk within portfolios, with SME businesses often an ESG blind spot due to a lack of measurement and disclosure compared to large corporates. To tackle this challenge, progressive organisations are now using AI to analyse a variety of unstructured datasets to develop predictive ESG risk models that allow profiles to be created to assess this specific type of risk.




## Companies are starting to use modelling to estimate the ESG impact of SMEs in a portfolio, crucial to managing climate risk

	ESG Insight
Implications	Differentiating actionable insight
GHG Estimate Inputs	Cafe €266 turnover 6 employees 3 drive to work 12MWh energy consumption On mains gas
GHG Estimate	11T CO <sub>2</sub> x Scope 1,2,3
PCAF Data Quality Score (1-5)	4
Social Impact and Governance Rating	

## Proactive customer monitoring is critical.

The ability to improve the accuracy of vulnerability detection using Early Warning Signals (EWS) was highlighted by 62% of firms as a major hurdle to overcome in the next three years. Proactively identifying and engaging with consumers and businesses before they enter collections is becoming increasingly vital. Most businesses already have these measures in place but realise that improvements are essential during this period of heightened uncertainty.



# 62%

Early Warning Signals (EWS) was highlighted by 62% of firms as a major hurdle to overcome in the next three years.

As a result of the turbulent economic environment, many lenders are looking to ML-based models that can analyse large and varied datasets to facilitate more contextual decisions. This allows them to act quickly as conditions change. Traditional models are being replaced with forward-looking models that include a wide range of alternative data sources, such as consumer-consented Open Banking data, combined with macroeconomic forecast data, inflation sensitivity assessments and the latest innovations in analytics technology.

AI-powered technology – such as web data analysis and customer voice analysis from call centre conversations – can help lenders more accurately identify and manage risky customers before they move into delinquency. This proactive approach allows them to intervene early enough to avoid credit losses with customised restructuring and forbearance solutions. The net result is higher overall returns on equity and better capital productivity.

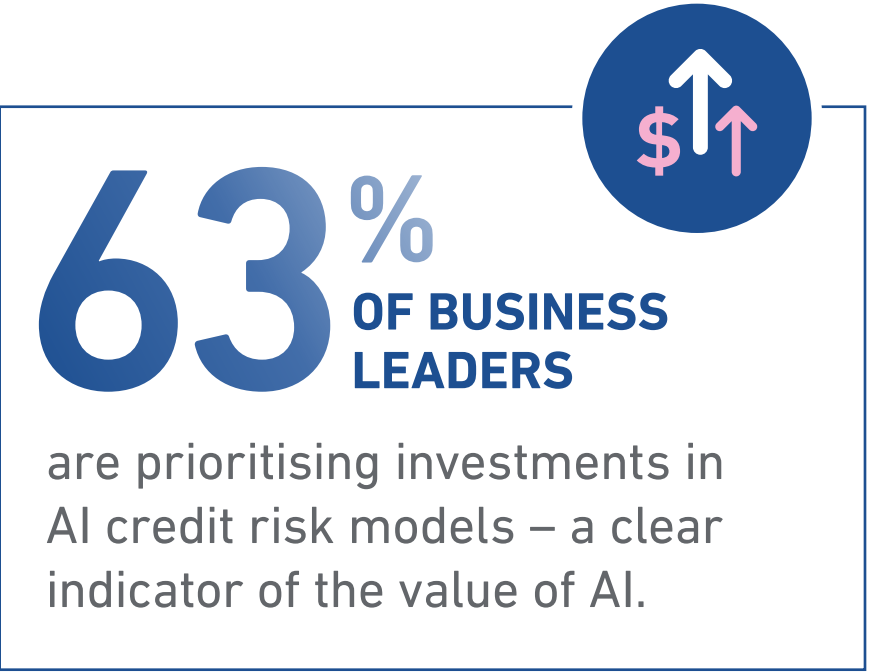


## DATA AND ANALYTICS THROUGH THE EYE OF AI

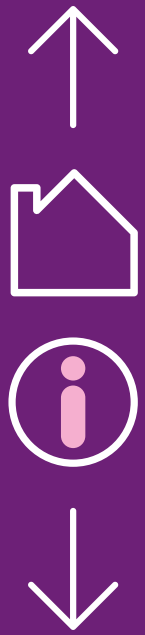
All the recent media hype over foundation models and particularly Large Language Models (LLMs) has put the spotlight on AI like never before.

These models have considerable potential to enhance analytics in the production of tabular synthetic data. However, their application will take time to mature and can be a distraction from current AI-based analytics.

Traditional AI, and specifically Machine Learning, has been powering credit decisions for years. And Financial Services are one of the most advanced sectors in terms of AI adoption. Although the use of AI credit risk and fraud models is still far from fully mature, many businesses in our survey are planning to implement them in the next 12 months. There is no doubt AI is transforming the way credit providers operate.



Data and analytics through the eye of AI







## Analytics-related challenges

For nearly half (48%) of our respondents, the biggest analytics challenge they face is the ability to seamlessly connect different data assets, databases, and database architectures, often referred to as data fabric. This is closely related to the second analytics challenge that limits the success of wider business objectives – having a data management infrastructure that can adequately support AI/ML use cases (46%).

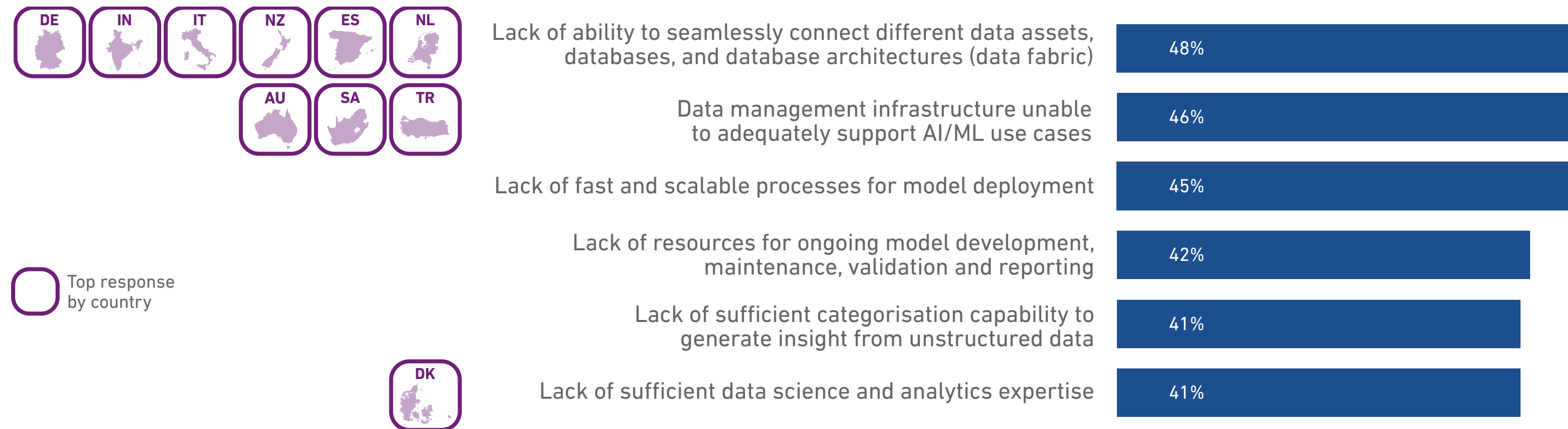
Both these factors are essential components to gain the most value from AI-powered advanced analytics. As a result, two-thirds (67%) of lenders are prioritising investments in cloud-based analytics platforms to manage their data more effectively. Cloud platforms can solve these issues by providing multiple internal departments with easy access to a centralised data warehouse.

Another key analytics-related challenge – for 45% of respondents – is the lack of a fast and scalable process for model development. [Research from Experian](#) suggests that the development and deployment of models can take up to 15 months. This delay can have a large impact on the ability of organisations to adequately respond to rapidly changing market conditions.

Reducing the time required to develop and deploy models can be achieved by using the most advanced ModelOps platforms for end-to-end model lifecycle management. Some of these platforms can accept models coded in any language to eliminate the time-consuming process of recoding. They can also automate model monitoring and management processes so that models can be registered and directly migrated into production far faster than was previously possible. This can greatly accelerate the deployment lifecycle of models and help businesses respond as conditions change.



## Top 6 analytics-related challenges limiting firms' success in achieving their wider business objectives



### Data-related challenges

Despite an increase in new data sources, the biggest data-related challenge (for 42% of respondents) is a lack of data to assess the creditworthiness of consumer and business customers. This could be due to the difficulty of accessing certain data sources. For example, a lack of maturity in Open Banking projects may mean that transactional data currently remains out of reach. Or perhaps, as highlighted in our analytics challenges, a lack of connection between internal data sources means that the value cannot be realised.

As businesses start to seamlessly connect data sources, they will be able to use new data sources with improved performance output thanks to

advanced analytics. For example, combining traditional bureau data with newer sources like transactional data from Open Banking can enhance model results by around 20% on average.

The research also indicates that many organisations struggle with safely sharing data at scale (39%) and have insufficient tools and technology to make use of data (38%). One solution for this issue is cloud-based sandbox environments. These can safely connect internal teams with disparate data sources, making it possible to consolidate vast amounts of structured and unstructured data, from both internal and external sources. This creates the flexibility to share data across departments and experiment

with a range of AI analytics tools – both of which are becoming increasingly essential for successful data analysis. AI can help lenders create actionable insights by analysing vast amounts of data to improve the predictive accuracy of their models.

**42% OF RESPONDENTS** reported that the biggest data-related challenge is a lack of data to assess the creditworthiness of consumer and business customers.



## MAXIMISING AI IMPLEMENTATION

There are multiple ways in which AI can improve productivity, efficiency, and service delivery. Many organisations are actively exploring new AI use cases, with a diverse range of possibilities, from targeted marketing to risk assessment and many others.

### HERE ARE SOME WELL-KNOWN EXAMPLES

- **Enhanced underwriting** – combining bureau scores with ML-driven categorised transactional data to provide near-instant decisions and accept more marginal customers.
- **Introduction of ML-based risk models** – replacing regression-based models to improve affordability predictions and probability of default risk assessments.
- **Proactive and early identification of vulnerable customers** – using AI to analyse alternative data and behavioural data to intervene before they enter collections.
- **More accurate fraud prevention** – using ML models, trained on past fraud cases, to automate decisions with greater accuracy and reduce both false positives and the volume of manual reviews.
- **Faster customer service** – using chatbots to respond to queries across the customer lifecycle.

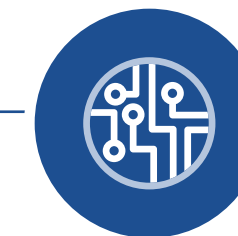
These use cases show how AI is driving innovation and increased profitability.

As AI adoption becomes more entrenched it is highly likely that innovators will identify new use cases. The core benefit of AI is the ability to find patterns that human analysts cannot, especially with unstructured data. The more that organisations integrate AI processes and governance into their analytic toolkit, the more value can be created.

Our research shows that only around a third of organisations have already implemented AI/ML in credit risk, portfolio monitoring, identity verification and fraud prevention. However, more than a third are planning to implement AI in the next 12 months. For those organisations that are still on the fence, it is worth noting that more than half (54%) of those already using AI find the productivity gains from AI have already offset the initial cost.

# 59%

believe AI/ML has fundamentally changed how their organisation operates.



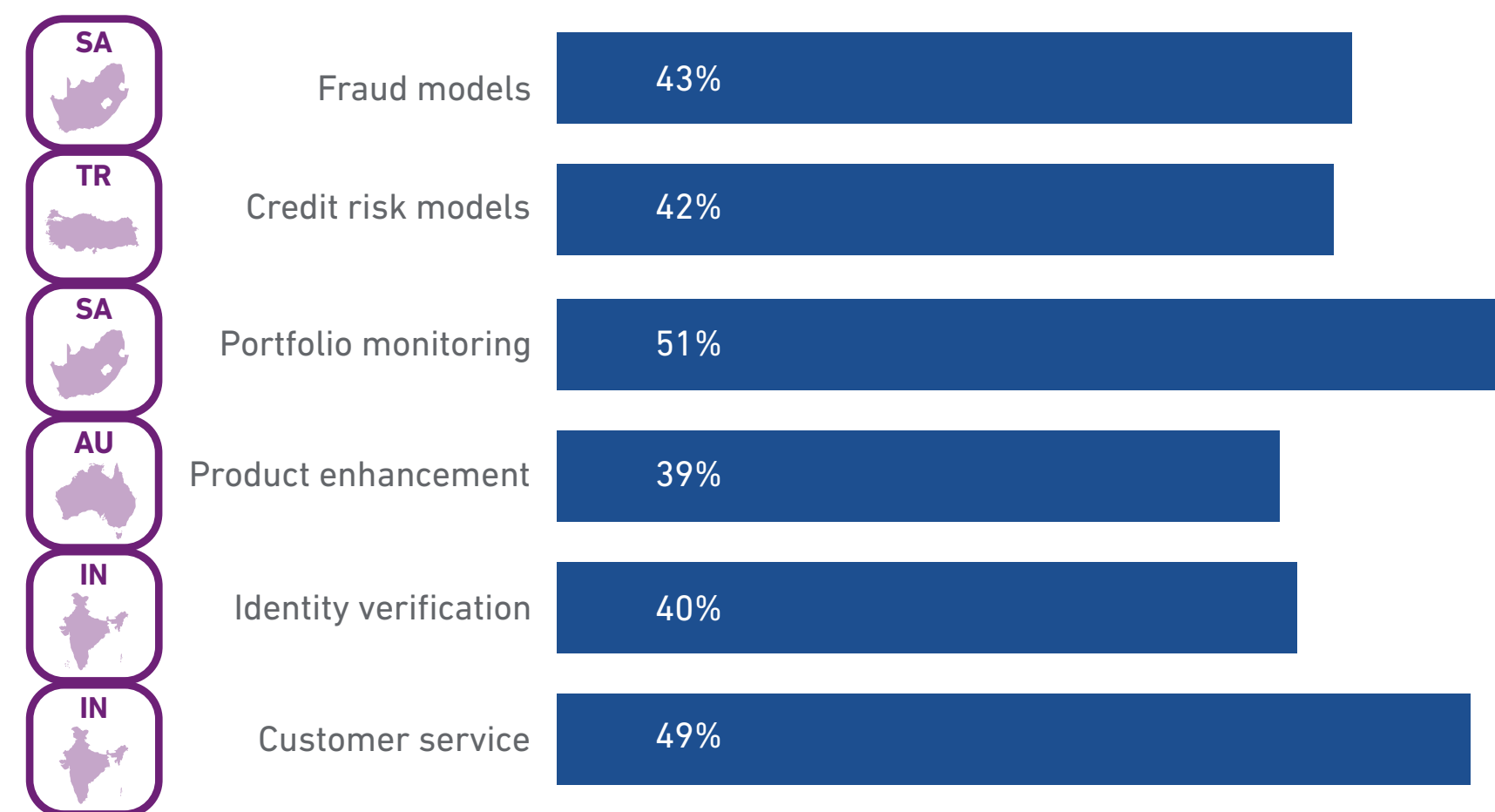
# THREE

## AI/ML use within Financial Services and Telcos

	We are already using AI/ML	We aren't using AI/ML yet, but plan to use AI/ML in the next 12 months	We have no plans to use AI/ML
Fraud models	35%	39%	24%
Credit risk models	34%	40%	25%
Within portfolio monitoring to identify predelinquent customers	34%	39%	25%
Use of AI/ML to enhance products	33%	40%	26%
Identity verification	30%	39%	29%
Customer service	36%	37%	27%

**Base:** EMEA & APAC decision makers at Financial Services and Telco providers.  
**Source:** Experian research conducted by Forrester Consulting, July 2023.

## Highest adoption by country in each AI/ML category



## Maximising AI implementation

To take advantage of the opportunity that AI represents requires the right combination of building blocks – our research shows exactly what these are.

## So, what is needed to maximise the potential of AI/ML?

In the following sections, we look at the biggest challenges involved with implementing ML and what is needed to overcome these.

**MORE THAN 50%**  
of firms have found that the productivity gains from AI/ML have already offset the initial cost.



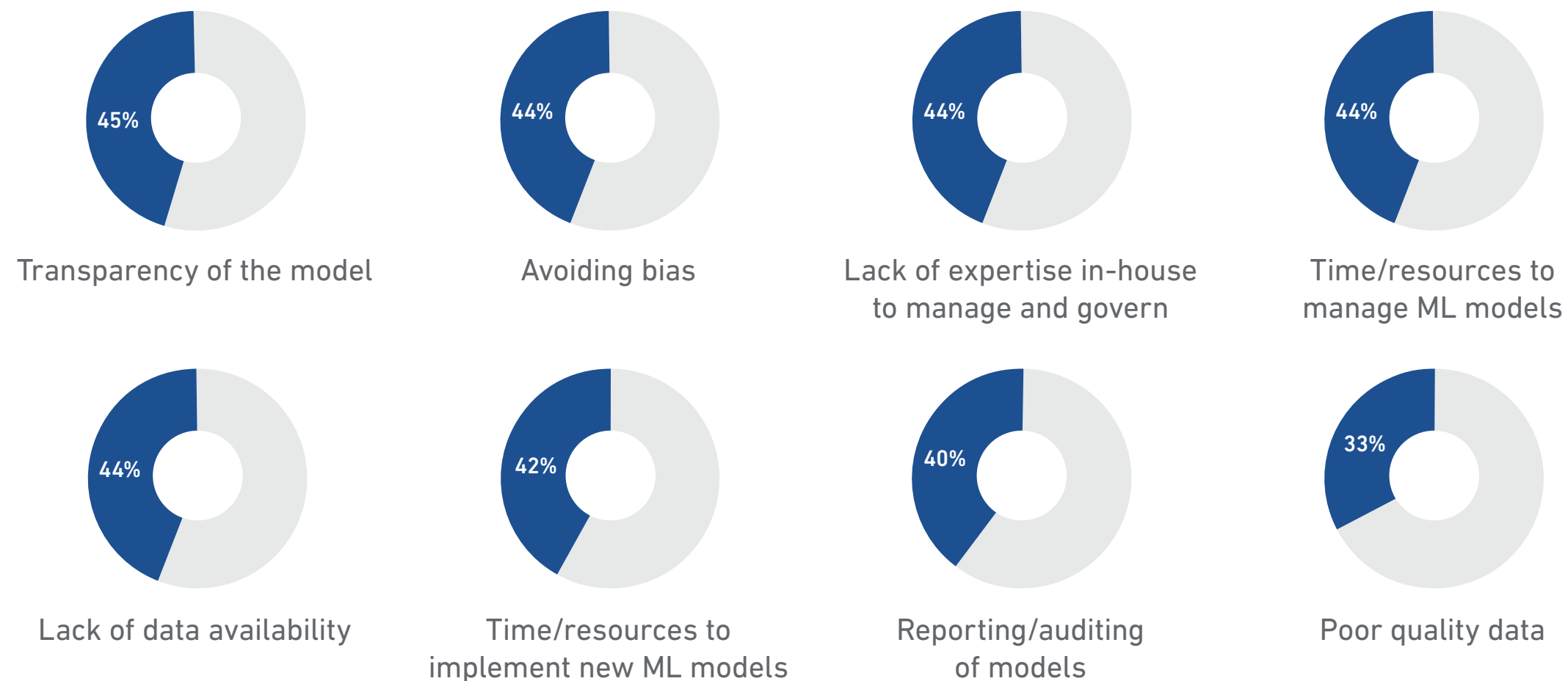
# THREE

## Successfully navigating ML optimisation

Charting a course to ML success starts by identifying the biggest obstacles to avoid. By having a clear understanding of common pain points, business leaders can focus attention where it is most needed. More than half (52%) of respondents lack the necessary data and expertise to develop their own ML models. For these organisations to remain competitive they will need their internal experts to partner with experienced external ML experts to help them understand best practice and achieve successful deployment.

Our research shows that the biggest challenge involved with ML continues to be the transparency of the model. Recent advances in explainability solutions mean that established ML models can now be retroactively interpreted. This capability is model agnostic and can be used on previously opaque models such as neural networks, opening the door to more widespread use of ML-based models.

## Biggest challenges with ML models



Base: 889 EMEA & APAC decision makers at Financial Services and Telco providers. Source: Experian research conducted by Forrester Consulting, July 2023

## BUSINESSES THAT CAN EXPLAIN THEIR ML MODELS STAND TO BENEFIT IN MULTIPLE WAYS:

- 1 Ensuring regulatory compliance –**  
this is critically important to avoid potential future fines for non-compliance.
- 2 Avoiding bias –**  
analysing the impact of each contributing feature in a model allows for bias to be identified and to avoid unintentionally discriminatory models.
- 3 Transparency enables human oversight –**  
to help identify how model performance can be improved and encourage responsible ML use.

Explainability allows for improved long-term model auditing, management and degradation diagnostics, helping to address another key challenge highlighted in the research – the time and resources needed to manage ML models. In this era of uncertainty, the ability to identify and adjust model parameters is essential to maintain highly accurate predictive models.

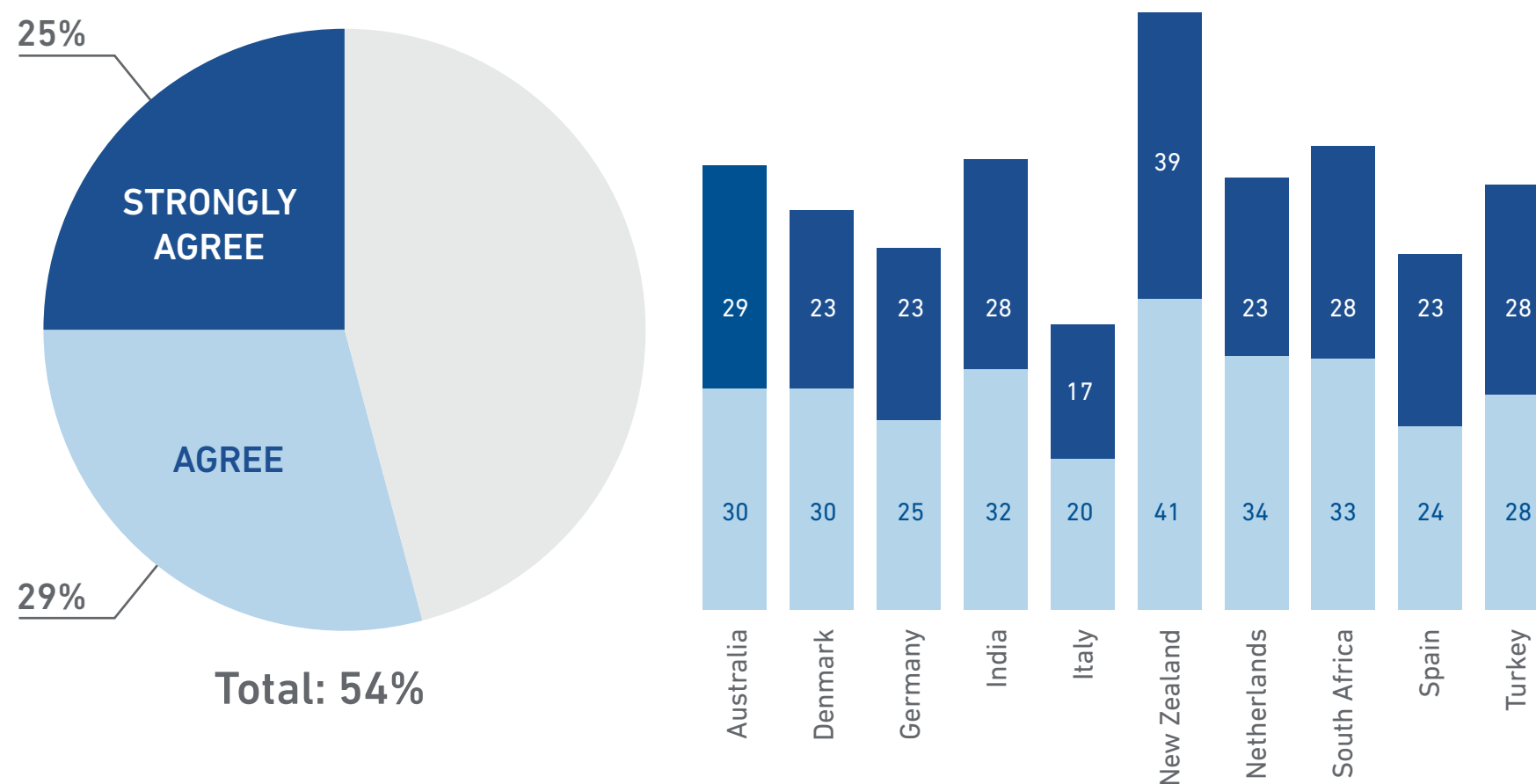


# THREE

## Open Banking: an open door to data treasure

The level of Open Banking maturity varies across the regions surveyed. More than half (54%) of our respondents are still trying to figure out how to get the most value from Open Banking. Customer-consented transactional data is already having a positive impact on creditworthiness and affordability assessments, and for many firms, this is the start of a longer-term strategy. 60% of businesses agree that Open Banking is the start of a journey towards new sources of customer-consented data within Open Finance.

### “My organisation is still trying to figure out how to get the most value from Open Banking”



Base: 889 EMAP & APAC decision makers at Financial Services and Telco providers.  
Source: Experian research conducted by Forrester Consulting, July 2023



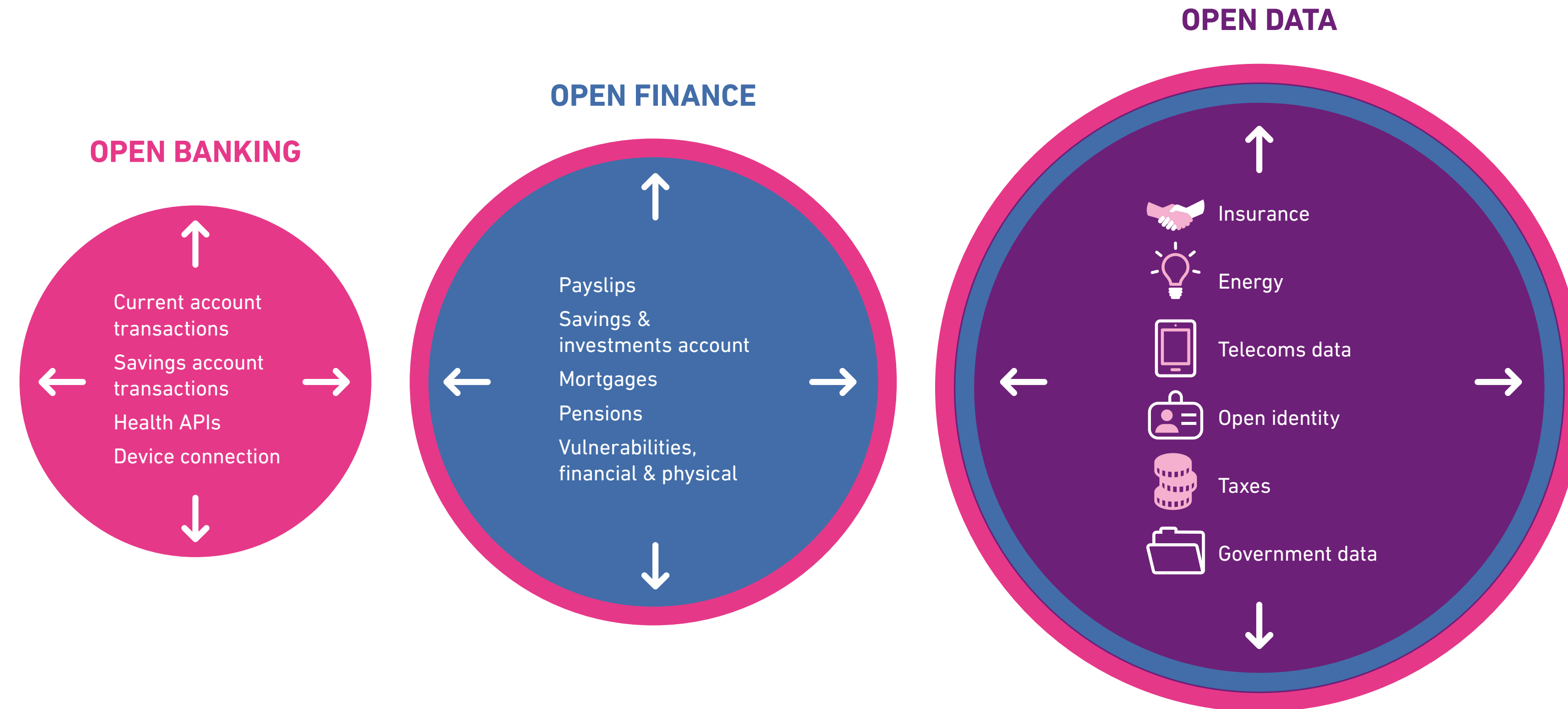
## Maximising AI implementation

To take advantage of the opportunity that AI represents requires the right combination of building blocks – our research shows exactly what these are.



# THREE

Our research shows that for many organisations (63%) Open Banking has led them to review their ability to incorporate new data types into their existing analytics infrastructure. With Open Finance on the horizon, and gathering momentum in mature markets like the UK, nearly two-thirds (65%) of respondents are already assessing the implications of Open Finance, with 61% having a clear strategy.



## Maximising AI implementation

To take advantage of the opportunity that AI represents requires the right combination of building blocks – our research shows exactly what these are.



# THREE

## Cloud, the key to enabling AI

Cloud is no longer an 'if' but rather a 'when'. To expand on a common analogy – if data is the lifeblood of AI-powered analytics, then cloud is the blood vessels and APIs the valves. Just as AI is the key to driving innovation, cloud is the key to enabling AI. Why? Because cloud is becoming essential to provide the capacity and compute resources to ingest and manage the high volume of data that is needed for AI and ML. It also provides flexibility and scalability that can be easily adjusted when delivered as a service implementation. More than half of our respondents (53%) agree that the adoption of cloud-based software will be key to enable their organisation to accelerate their AI/ML programme.

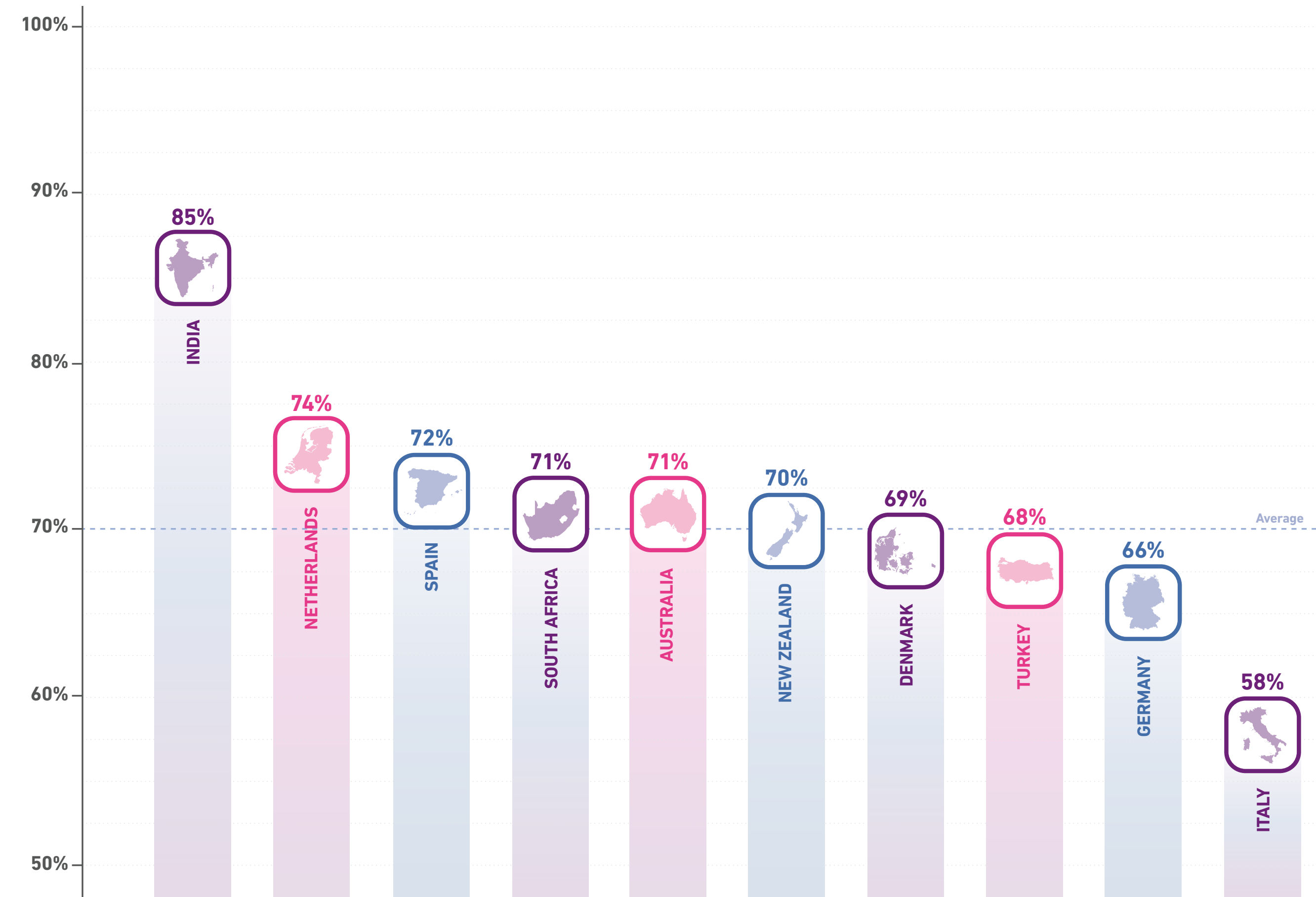
MORE THAN **50%** of firms believe that cloud helps avoid data silos, accelerate the adoption of AI/ML and save money

## Maximising AI implementation

To take advantage of the opportunity that AI represents requires the right combination of building blocks – our research shows exactly what these are.

## Cloud maturity

% of firms that are using external cloud providers to manage their analytics platforms



Base: 889 EMEA & APAC decision makers at Financial Services and Telco providers. Source: Experian research conducted by Forrester Consulting, July 2023





# THREE

Accessing data through a consolidated data infrastructure – or data lake – is essential to gain the maximum value from AI. 52% of our surveyed business leaders agree that externally hosted cloud services are the best way to avoid data silos and aggregate data sources. Cloud makes it easier to connect data feeds, allowing different internal departments to safely work with data from a variety of sources.

The result is faster model development, reduced IT costs, improved reliability, and the capability to scale as needed. The majority of our respondents are already using external cloud providers

to manage core business functions, including analytics platforms. Our research suggests that is India leading the way in terms of the proportion of businesses using cloud providers to manage their analytics platforms at 85% adoption, with Italy the least mature comparatively at 58%.

Only 27% of the decision-makers we surveyed are not using cloud for credit risk management. One of the top reasons for not using cloud (for 47% of this group) is that cloud-based services are not secure enough to meet the regulatory requirements in their market.

## Percentage of organisations using external cloud providers to manage core business functions

**71%** CREDIT RISK MANAGEMENT SOFTWARE

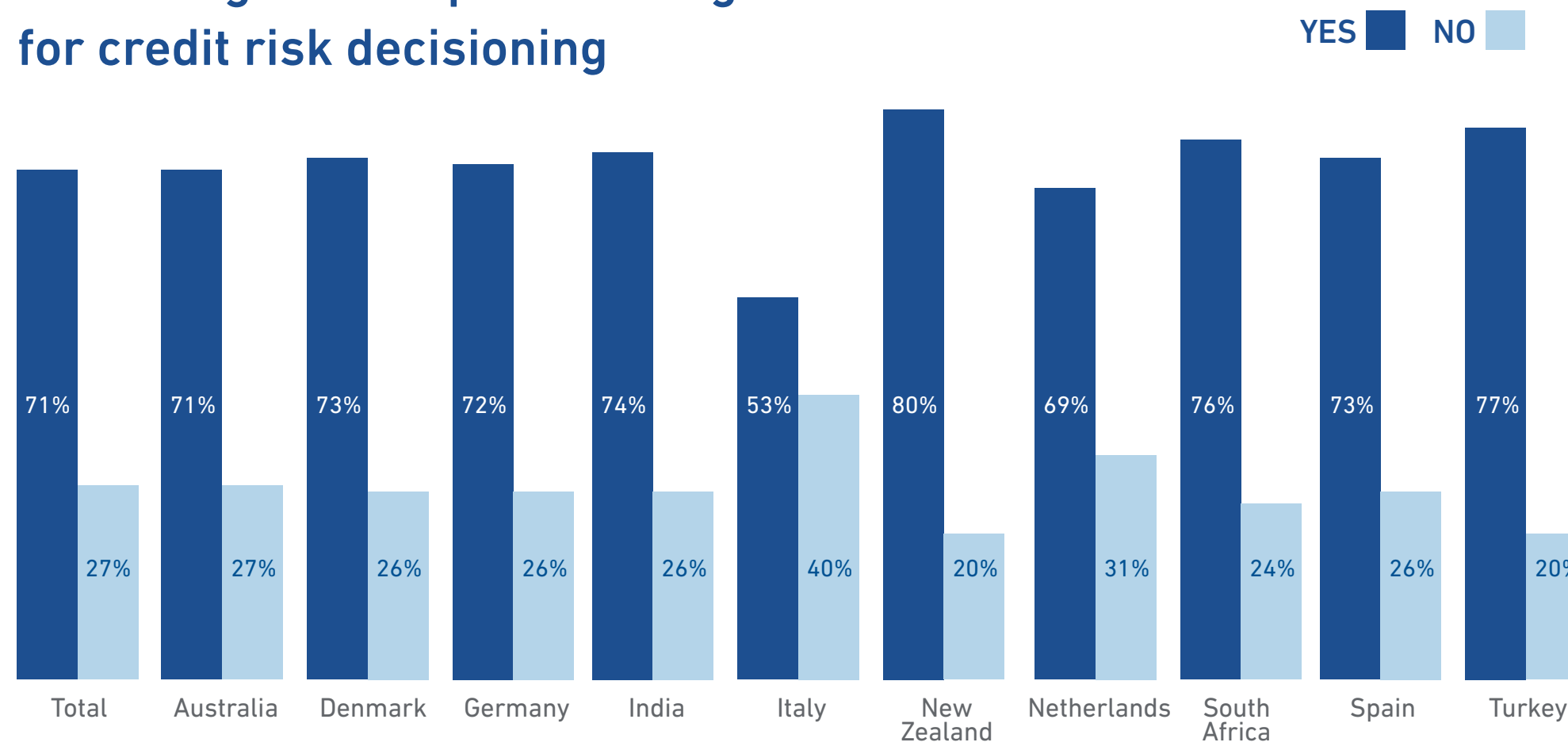
**69%** IDENTITY MANAGEMENT SERVICES

**70%** ANALYTICS PLATFORMS

**68%** FRAUD SOFTWARE

*Base: 889 EMEA & APAC decision makers at Financial Services and Telco providers. Source: Experian research conducted by Forrester Consulting, July 2023*

## Percentage of companies using cloud for credit risk decisioning



*Base: 889 EMEA & APAC decision makers at Financial Services and Telco providers. Source: Experian research conducted by Forrester Consulting, July 2023*

The adoption of cloud differs according to the business size and maturity levels. FinTechs are better placed to adopt cloud-based services across the business, whilst some of the larger banks must overcome legacy infrastructure challenges. A third of those yet to implement cloud say that their organisation does not understand the benefits of adopting cloud-based services. As firms continue to explore and invest in AI, the benefits of cloud-based services in credit risk and for hosting analytics platforms will become very clear. Failing to take advantage of cloud will have a knock-on effect for these organisations in their AI/ML maturity trajectories.

## Maximising AI implementation

To take advantage of the opportunity that AI represent requires the right combination of building blocks – our research shows exactly what these are.

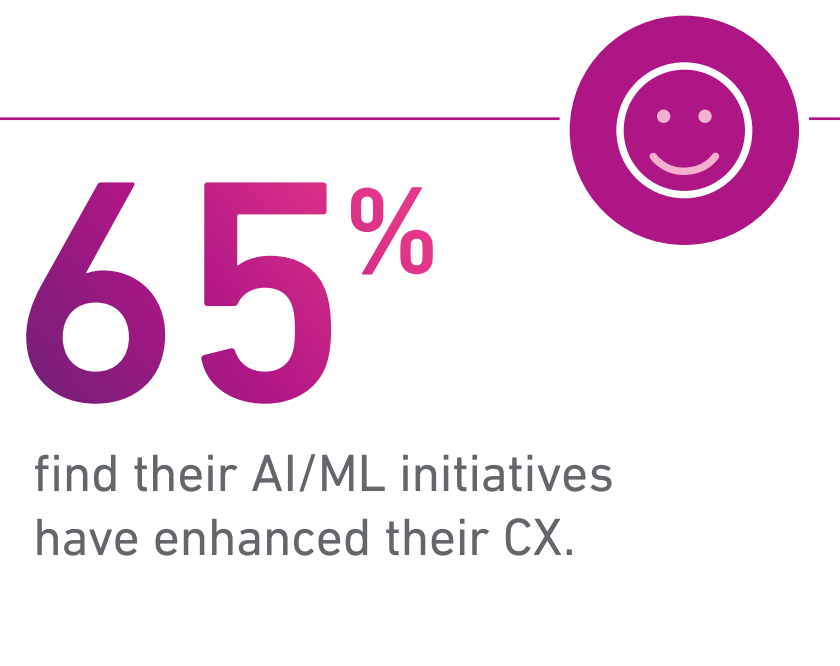


# THREE

## AI impacting customer experience

The ultimate measure of success for any business is its customer experience (CX). Only those organisations that have a solid foundation of data, infrastructure, technology, and expertise can maximise the potential of AI to deliver exceptional CX. It's interesting to note that just over a third (38%) of our respondents rate their CX as best in class and a key differentiator. This aligns closely with the number of organisations that are already using AI/ML.

Looking at the top priority customer-onboarding initiatives for the next 12 months illustrates how important ML models have become to CX. Three-quarters (75%) of respondents are prioritising investments in new data sources to better understand risk and affordability. Of equal importance (75%) is the need to implement a fully digital customer onboarding experience.



These two priorities are closely linked as larger data sources can improve the accuracy of decisioning, so that businesses can reliably automate this process. In turn, this provides customers with a near-instant decision and a corresponding reduction in application abandonment rates. Once again, our research highlighted that the biggest challenge in achieving onboarding objectives (for 49% of respondents) is a lack of new data sources to improve the accuracy of credit decisions.



## Maximising AI implementation

To take advantage of the opportunity that AI represents requires the right combination of building blocks – our research shows exactly what these are.

# THREE

## Seven ways AI can help improve CX: top customer-onboarding priorities for the next 12 months

Customer onboarding priority	Percentage of respondents rating as high/critical priority	How AI/ML resolves this challenge
Investing in new data sources to better understand risk and affordability	75%	Obtaining the data is only the first part of the equation. To maximise the use of new data to inform decision-making, firms will increasingly look to ML. The CX benefit is realised through being able to better understand affordability and risk to provide a more personalised offer to the customer, one that is sustainable and better suits their financial circumstances.
Implementing a fully digital customer experience	75%	AI enables processes to be automated with a faster decision for the customer, delivering a more convenient digital onboarding experience.
Improving fraud prevention to lower fraud rate and financial impact	72%	AI-based fraud models can find patterns in data that traditional techniques can't. Importantly, AI means that these models can continually learn and adapt as more data is fed back to better identify new fraud patterns before they impact revenue. This delivers better protection for customers.
Improving time to decision for the customer	71%	Automated credit decisioning reduces the time to decision considerably. As an example, many firms now use Open Banking to obtain consented transactional data that can be categorised using ML and then analysed to remove the need for manual underwriting of financial information. This creates a digital journey and reduces manual steps for the customer.
Leveraging automation to improve efficiency within the application journey	68%	ML is a tool that can be used to fully automate the lending process for many applications, giving a higher proportion of customers a straight-through process, and reducing the volume of cases requiring manual intervention.
Reducing the friction associated with verifying the identity of customers	68%	ML-powered behavioural and physical biometrics solutions combined with device fingerprinting data can instantly verify customer identity. ML can also be used to analyse data from multiple identity and fraud services to make an overall decision rather than individual recommendations. This prevents one specific check from blocking a customer when all other signals are green, improving accuracy and efficiency.
Reducing the amount of underwriting time and/or number of resources required to assess applications	66%	ML can automate underwriting using customer-consented transactional data, bureau data and alternative data. This reduces the abandonment rate in the application process.

Base: 889 EMEA & APAC decision makers at Financial Services and Telco providers. Source: Experian research conducted by Forrester Consulting, July 2023

### Maximising AI implementation

To take advantage of the opportunity that AI represents requires the right combination of building blocks – our research shows exactly what these are.



# MANAGING AI RISKS

Managing the risks involved with AI implementation is critical to ensure this technology is used in a responsible and ethical way.

As regulators around the globe scramble to finalise a robust legal framework, most firms in our survey (63%) are actively working on internal AI governance in preparation for future legislation. Establishing an inclusive AI risk management process now will allow for a smooth transition into the regulated environment.

Financial Services and Telco organisations play a crucial role in the societies they serve. They provide indispensable services to consumers and businesses, meaning that every decision counts and has potential consequences. As these organisations expand their use of AI to augment and in some cases make these consequential lending decisions, they have a duty of care to ensure their systems are ethical.

**FINANCIAL SERVICES AND  
TELCO ORGANISATIONS PLAY  
A CRUCIAL ROLE IN THE  
SOCIETIES THEY SERVE.**

It is reassuring that 61% of our respondents have a comprehensive AI risk management program in place, and that 56% conduct external audits of their ML models through independent third parties. With public perception of AI balanced on a knife edge, those organisations that are actively addressing bias while delivering fully transparent and explainable decisions will do well to educate their customers and publicise their efforts.

Ethical ML-based models – that are built within a transparent framework – can increase financial inclusion and provide fairer access to many consumers and small businesses that were previously excluded from the opportunity of credit. Without clear regulatory direction, specifically in regard to ML explainability requirements, it is understandable that

only around half (52%) of organisations have a clear understanding of how future legislation will impact their use of AI/ML. Once the EU AI Act clarifies exactly which ML explainability techniques will be acceptable it is likely that many regions will follow these guidelines.

The 46% of respondents that admit to currently using ML models that lack transparency, will soon find themselves up against a wall. Financial Services and Telco providers within the EU that continue to use black box models face prosecution and large fines of up to 30 million euros or 6% of their global annual turnover. Fortunately, model-agnostic explainability solutions can be applied to existing models.



### Is synthetic data the silver bullet of ML?

ML is a powerful technology. However, maximising its potential is challenging.

#### OUR RESEARCH HAS HIGHLIGHTED SEVERAL MAJOR ISSUES WHEN IT COMES TO DEVELOPING ACCURATE ML MODELS:

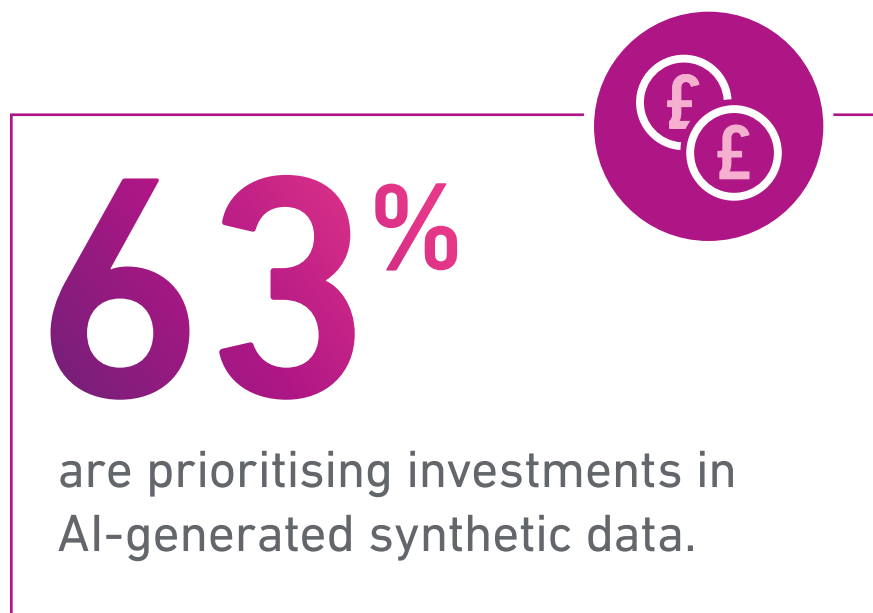
- A lack of sufficient data
- A lack of adequately diverse data
- Data privacy regulations restricting access to data
- Difficulty identifying and removing bias from data
- The extensive time required to clean, label and categorise datasets can be prohibitive

What if there was a way to leapfrog all these challenges with a simple technological hop? Synthetic data has the potential to be a quantum leap for analytics, much as ML itself has been. Many of our respondents have already recognised this opportunity with 63% prioritising investments in AI-generated synthetic data to accelerate their analytics development cycle.

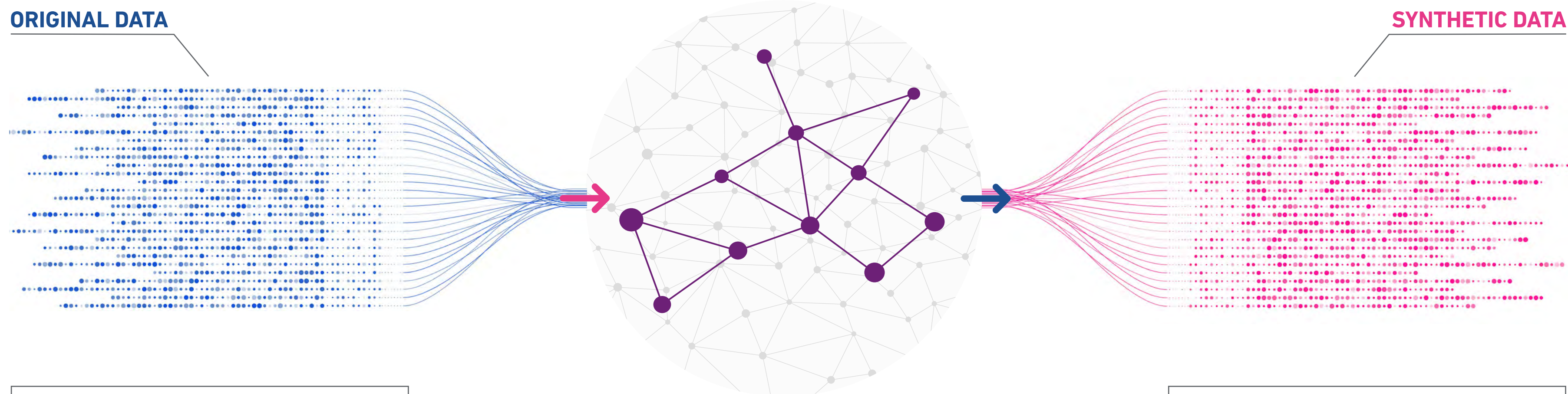
The use of Generative AI to develop synthetic data for credit risk represents a transformative approach to risk assessment, modelling, and decision-making processes. Synthetic data is generated through advanced algorithms and allows financial institutions to create artificial datasets that mimic the properties of real-world data – without compromising individual privacy. This is pivotal, as it offers a solution to the traditional challenges of data scarcity, privacy regulations, and the costs associated with data acquisition.

Usually, removing all PII data from datasets, reduces the models' predictive power as these data points contain valuable insights. Synthetic data retains all of the characteristics of these key data points without any PII data, and the original sensitive information cannot be inferred from the synthetic version. The result is a highly valuable dataset that complies with current privacy regulations around the world.

With these enhanced datasets, institutions can refine their credit risk models, improve accuracy in predicting defaults, and tailor their offerings to cater to a broader range of clientele. Moreover, the continuous evolution and integration of synthetic data can foster innovation and drive the industry toward more inclusive and adaptive financial solutions.



## GenAI Data generation via chosen method



Before using the data an audit is carried out to ensure that direct identifiers are removed. After synthetic data is created, a further audit is undertaken to ensure there are no duplicates between original and synthetic data.

- AI generated synthetic data is created by taking the statistical properties of the original dataset to create a proxy version which can be successfully used for modelling purposes because it behaves like the original data set.
- Various methods can be used (e.g SMOTE, GAN) that ensure similarity and anonymity whilst retaining data quality for modelling purposes.
- The real value in synthetic data is that firms can run complex modelling without using sensitive and valuable data assets, thus removing risk and GDPR concerns.

Synthetic data is created data that is statistically highly representative of the original data, but remains anonymised. This enables analytics teams to use the data to model in the same way they would with the original.

Synthetic data is also highly relevant for ML-based fraud models. Fraud signals are often as low as 0.5-1% in real-world data whereas the ideal training dataset would contain a 50/50 split. Augmenting training datasets with synthetic data can boost the predictive accuracy of the model considerably.

Synthetic data may well be the next big thing in analytics. [Gartner](#) predicts that synthetic structured data will grow at least three times as fast as real structured data in the years through to 2030 and that by 2035 the use of synthetic data will reduce the data required for ML by 70%.

# FIVE

## THE FUTURE: BUSINESS PRIORITIES AND BUDGET ALLOCATION

Not every priority is created equal. Strategy is about selecting critical business priorities and putting plans in place to deliver.

For our respondents, the area deemed most critical is 'adopting advanced analytics with AI/ML capabilities'. AI and ML are not new wonders. But the application of advanced analytics is reaching new heights and powering radical changes to processes that have remained largely unchanged for years.

This is the first time that AI/ML has been the most critical priority in all our years of research and shows that the shift has reached a tipping point. It has become a vital enabler. Whether that is fighting the ever-evolving fraud threat, automating credit risk processes, or making sense of alternative data, AI is quickly becoming a necessity to underpin improved business performance.

Growth through new customer acquisition is a consistent top priority. With the array of choices available for today's consumer, firms are spending more budget on data-driven customer insights to create more relevant products and services that can be better targeted at the right customers. For Financial Services and Telco providers, the affordability decisions made at acquisition will be critical to delivering on that growth. With the advent of AI and ML, decisions around extending credit can now become a lot smarter.

Investing to improve protection against fraud is the third most critical priority. Fraud looms over the global economy. As an ever-evolving menace, cybercriminals are now adopting AI to devise more elaborate strategies to breach security defences and manipulate unsuspecting victims. The result is that businesses continue to invest in prevention methods, with solutions now increasingly utilising AI and ML to help increase detection accuracy.

**THIS IS THE FIRST TIME THAT AI/ML HAS BEEN THE MOST CRITICAL PRIORITY IN ALL OUR YEARS OF RESEARCH AND SHOWS THAT THE SHIFT HAS REACHED A TIPPING POINT. IT HAS BECOME A VITAL ENabler.**

### The future: business priorities and budget allocation

We reveal the top 5 critical business priorities for 2023 and how these align with budget allocations.



## Budget increases align with business priorities

As we have seen throughout the report, a key focus area for Financial Services and Telco providers is data-driven customer insights. This is reflected in the budget allocations for 2023, with nearly half (46%) of respondents increasing year-on-year spending in this area. A similar number (45%) are increasing their budget for AI/ML services as these priorities are closely related.

Investing in AI and new data sources is a practical way to navigate through this period of persisting economic uncertainty. It allows businesses to improve the accuracy of their credit risk models and to update their models more frequently as conditions change. AI-powered insights are key to extracting the most value from data, to make better decisions at originations, and for proactive and early identification of vulnerable customers – both of which are essential given the prevailing circumstances.

The digitalisation of both internal user tools (45%) and customer experience (44%) is also a key focus area that is seeing an

increase in spending. Digital services have become the new normal in CX and the automation of internal processes helps drive efficiency and cost reduction. It is encouraging to see that nearly a third (32%) of businesses are increasing their budgets for Open Banking. Our research shows that many businesses are yet to realise the full benefits of Open Banking, yet this data treasure trove can provide highly granular insight into customer behaviour and directly address the biggest data-related challenge we identified in this survey – a lack of sufficient data to assess creditworthiness.

### Top 5 critical business priorities



**1** Adopting advanced analytics with AI/ML capabilities (43%)

**2** Growing through new customer acquisition (43%)

**3** Investing to improve protection against fraud (40%)

**4** Investing in digital transformation (40%)

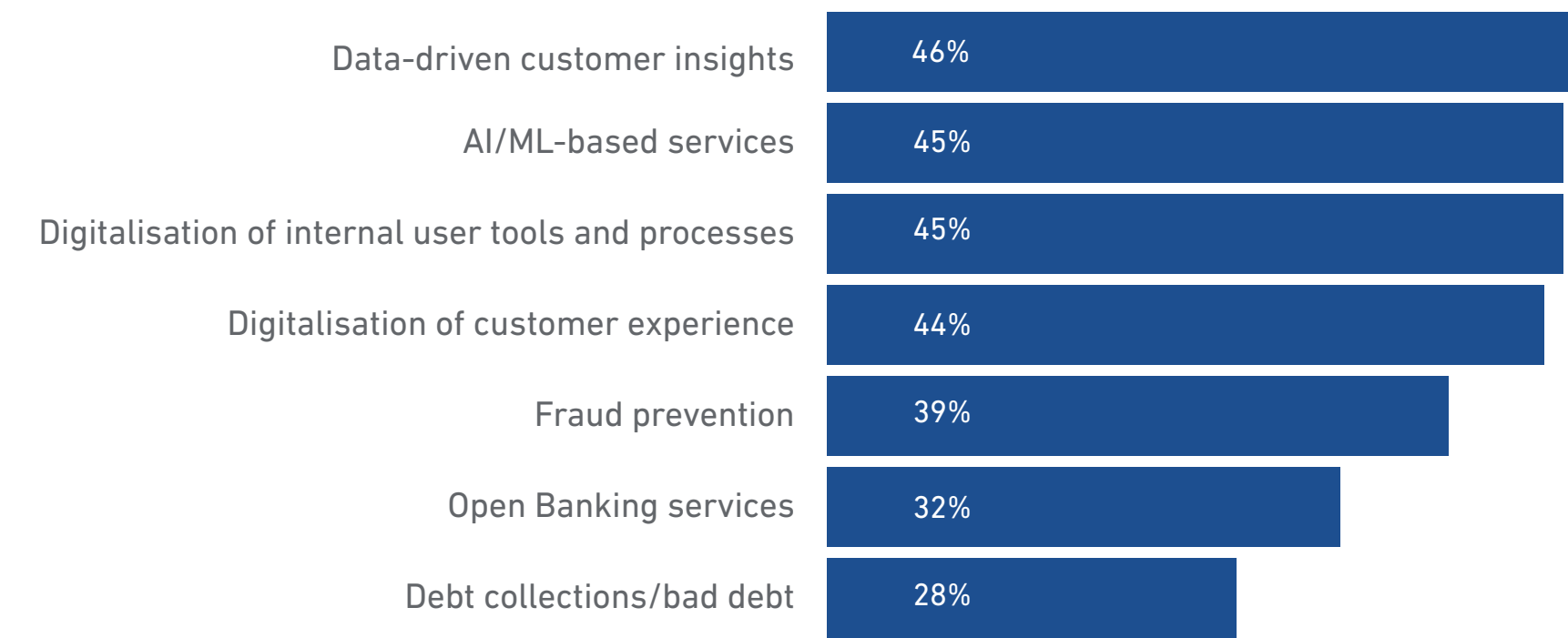
**5** Investing in software-as-a-service (SaaS)/ cloud technology systems (39%)

Base: 889 EMEA & APAC decision makers at Financial Services and Telco providers. Source: Experian research conducted by Forrester Consulting, July 2023

## The future: business priorities and budget allocation

We reveal the top 5 critical business priorities for 2023 and how these align with budget allocations.

### Year-on-year budget increases for the next 12 months



Base: 889 EMEA & APAC decision makers at Financial Services and Telco providers. Source: Experian research conducted by Forrester Consulting, July 2023





# KEY TAKEAWAYS

SIX

Key takeaways



### AI-POWERED INSIGHTS

Persisting economic uncertainty – driven by high inflation, geopolitical threats and climate disruptions – means that businesses need to update credit risk models more frequently and improve the predictive power of their models. AI is key to enhancing model performance, and when combined with the right analytics infrastructure, can shorten the time to deployment.



### SEAMLESS DATA CONNECTIVITY

Connecting and managing data assets in a coherent data fabric that can adequately support AI/ML use cases is the biggest stumbling block preventing businesses from realising the full potential of AI. Cloud platforms that allow for a secure consolidated data infrastructure can help answer this problem by providing easy access to data across internal teams with a scalable capacity to manage the quantity of data required for effective AI-based analytics.



### MANAGING AI RISKS

Explainability continues to be a significant challenge and has become essential to mitigate the risks associated with AI. Transparent AI decisions are likely to be a critical component of the upcoming AI regulatory framework and allow for human oversight to ensure that AI is used in an ethical and responsible way.

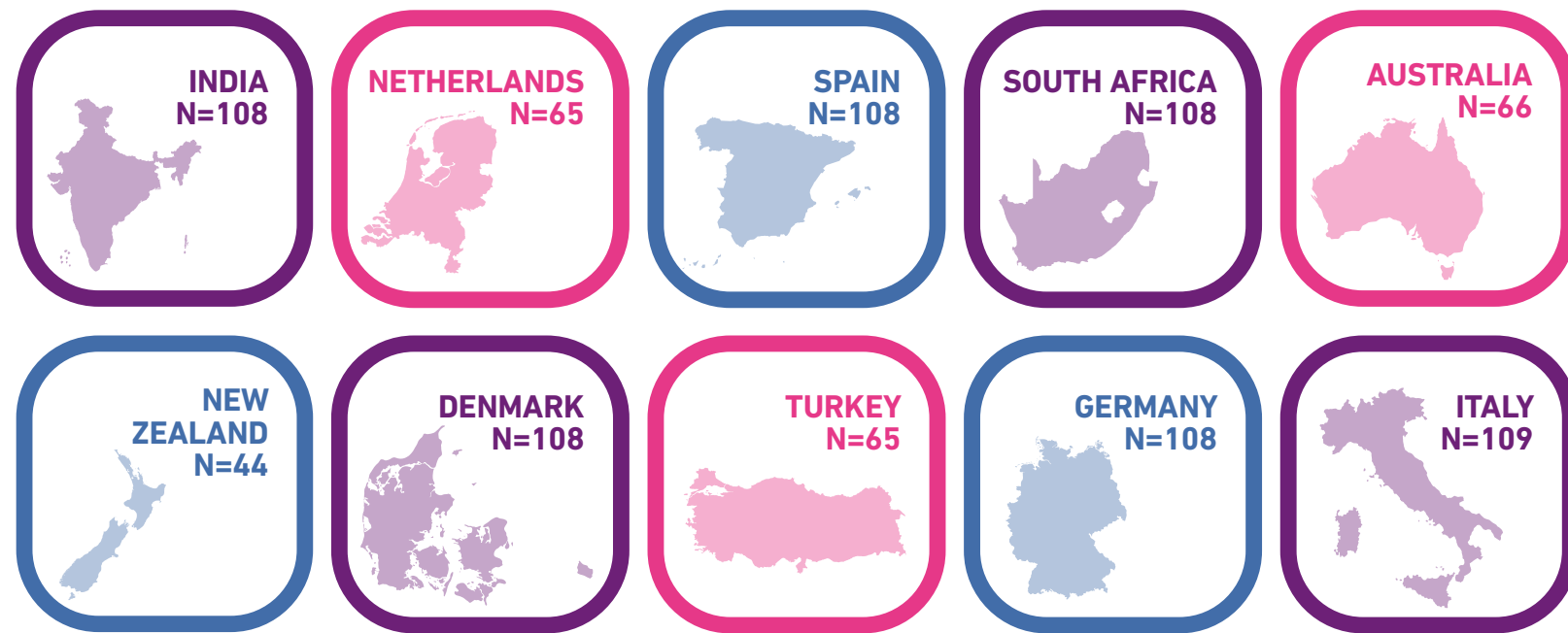


### PRIORITIES AND BUDGET PLANS

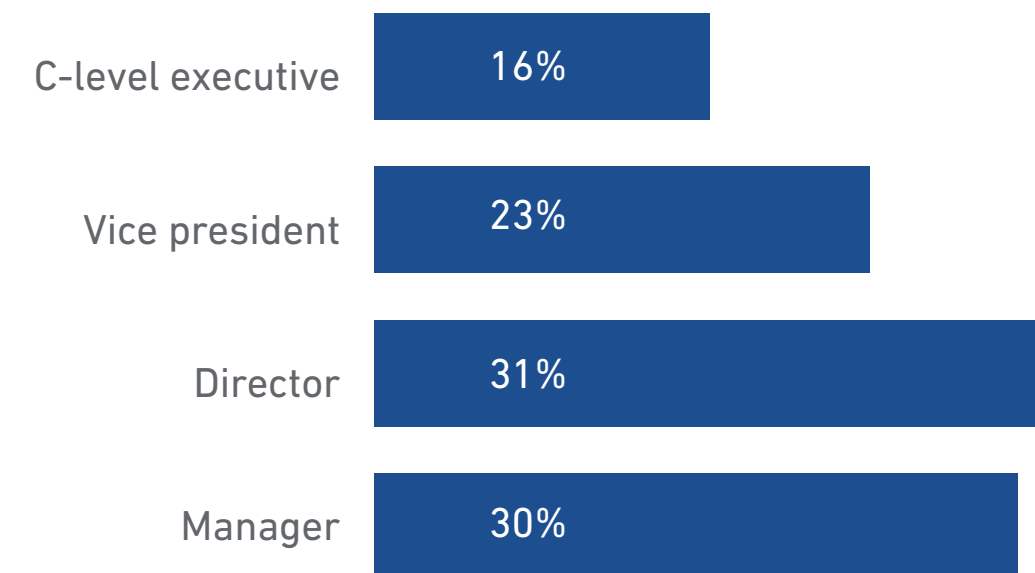
Adopting advanced analytics with AI/ML capabilities is the most critical business priority for the next 12 months. This priority aligns with the top two budget allocation areas of data-driven customer insights and AI/ML-based services. Businesses are starting to implement AI in a wide variety of different areas after initial testing in a few selective use cases.



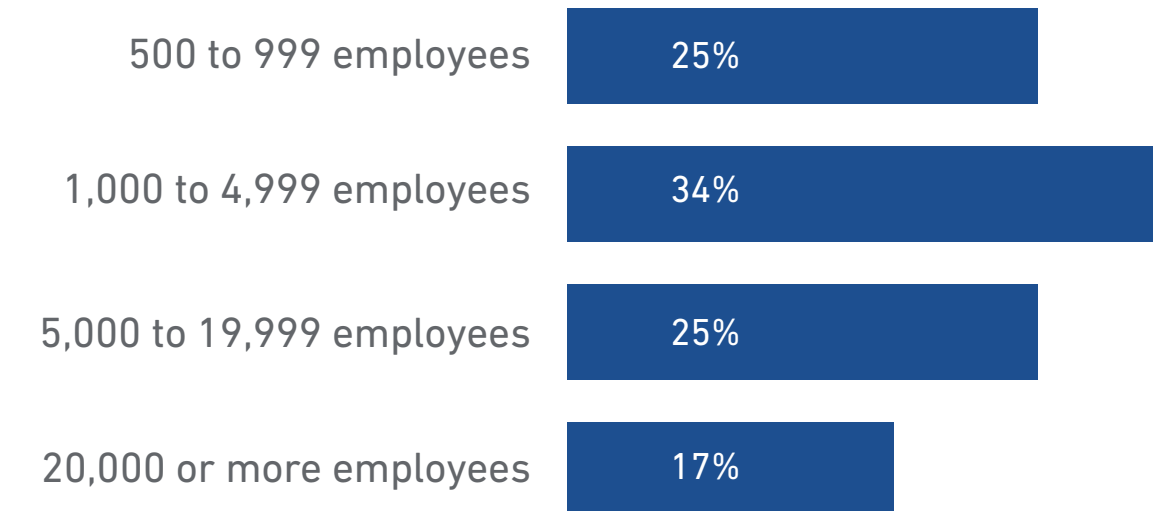
## SURVEY FIRMOGRAPHICS



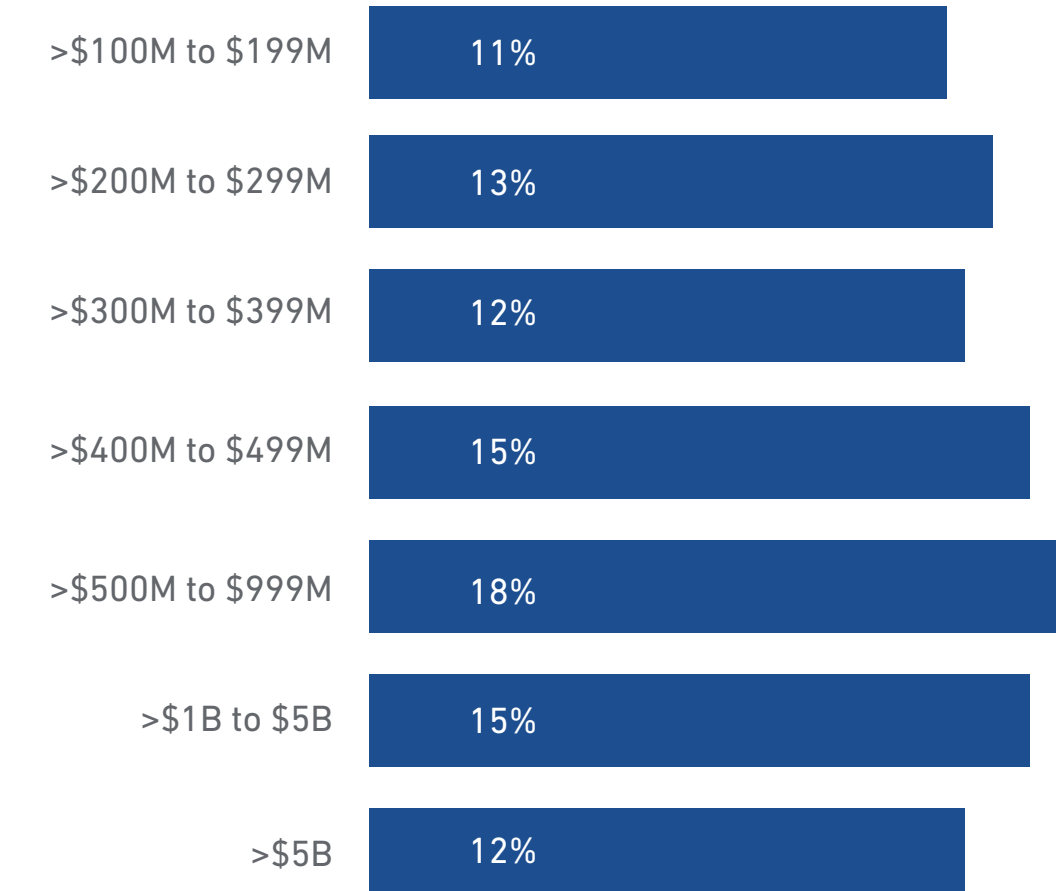
### Job position



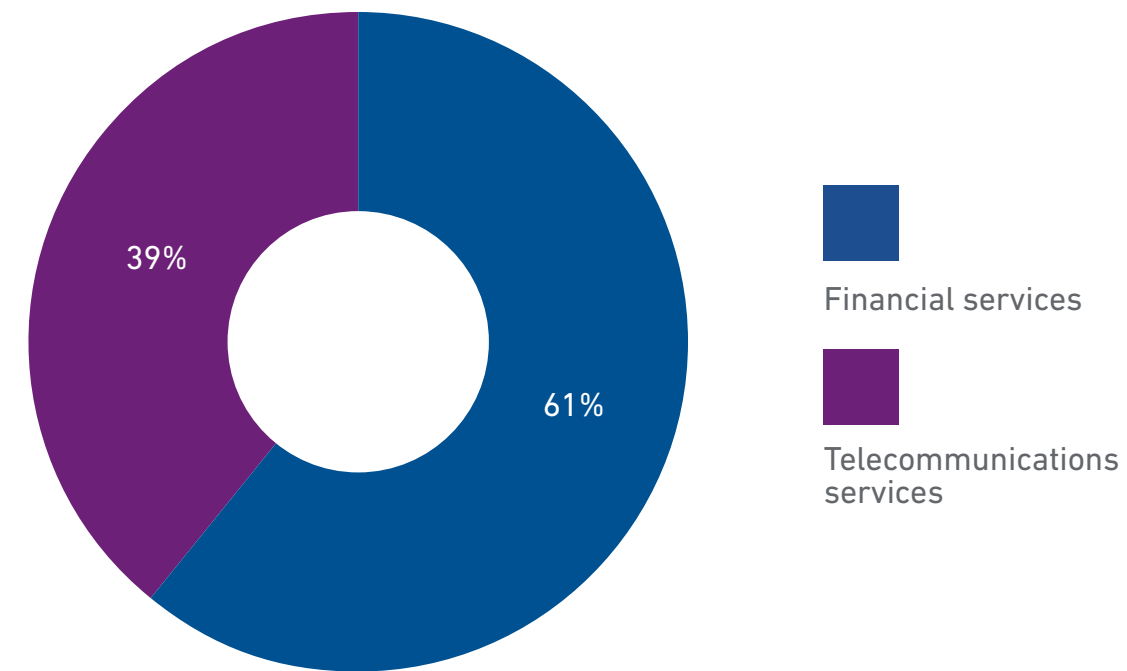
### Company size



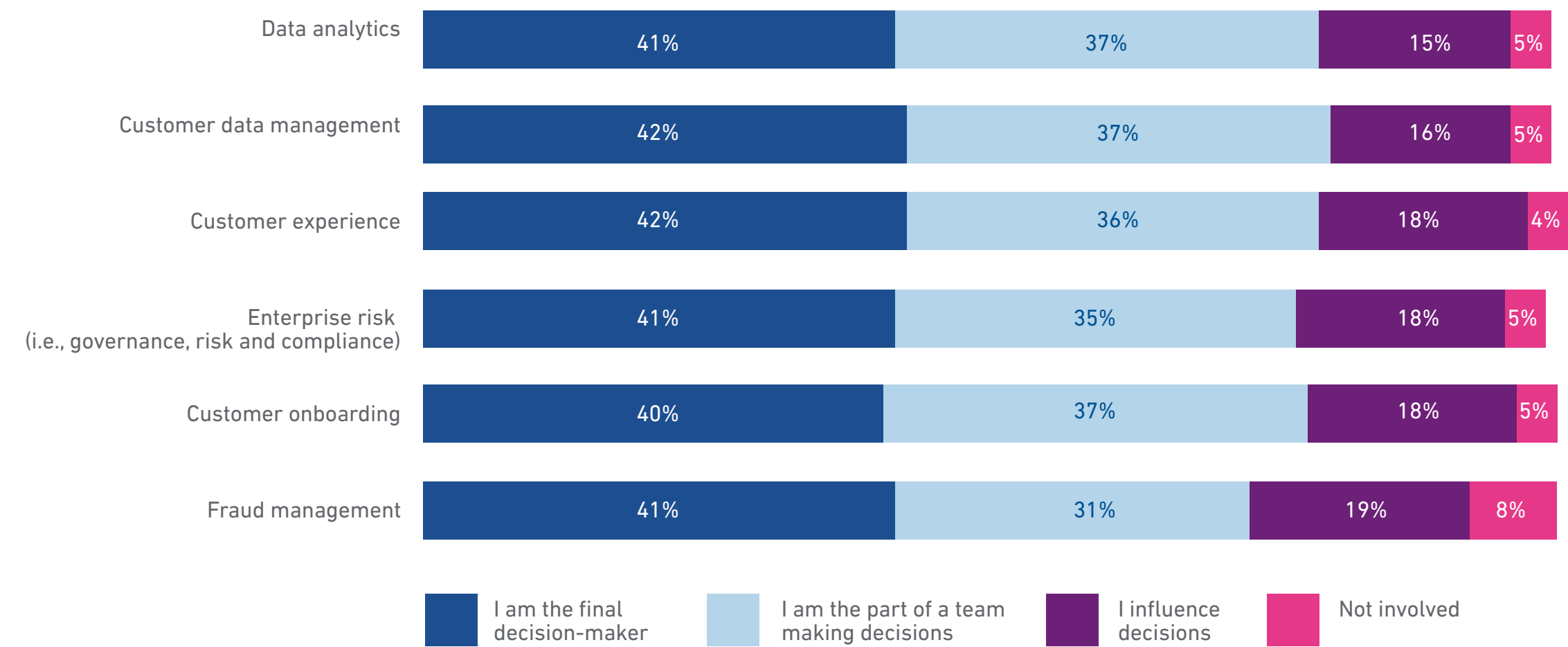
### Revenue



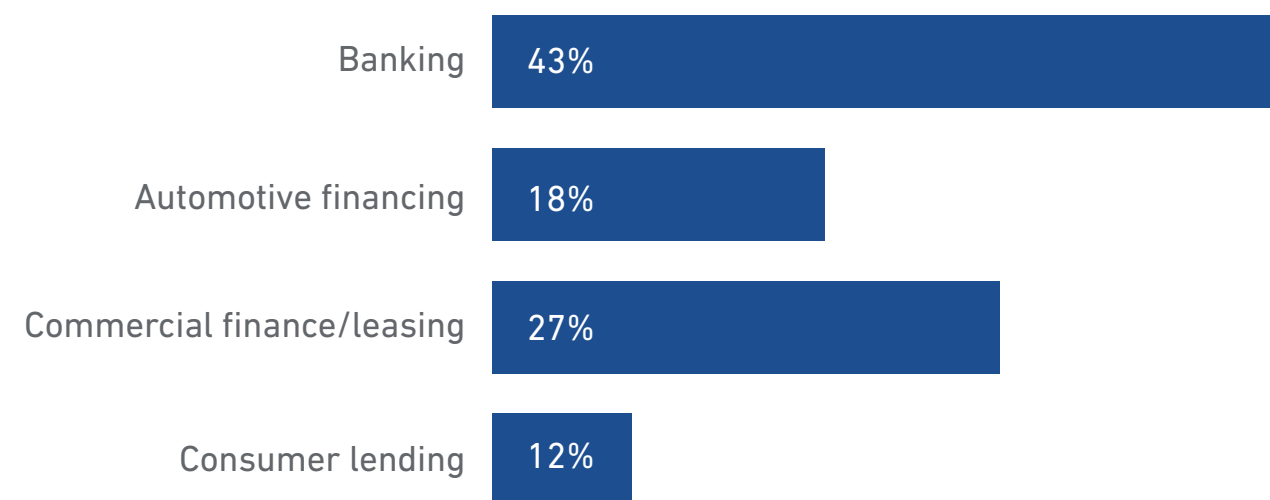
## Industry



## Responsibility



## Financial Services Sector (n=538)



# ABOUT EXPERIAN

Experian is the world's leading global information services company.

During life's big moments — from buying a home or a car to sending a child to college to growing a business by connecting with new customers — we empower consumers and our clients to manage their data with confidence. We help individuals to take financial control and access financial services, businesses to make smarter decisions and thrive, lenders to lend more responsibly, and organisations to prevent identity fraud and crime.

 **22,000**

We have **22,000 people** operating across **32 countries**, and every day we're investing in new technologies, talented people and innovation to help all our clients maximise every opportunity. We are listed on the London Stock Exchange (EXPN) and are a constituent of the FTSE 100 Index.

Learn more at the Experian Academy or visit [www.experianplc.com](http://www.experianplc.com) for the latest news and insights from the Group.

[VISIT OUR RESEARCH HUB →](#)

