Balance Risk, Reward, And The Board With Analytics

Risk doesn't have to be a four-letter word. With data-driven solutions, it can spell opportunity, profitability, and growth.

Throughout the Great Recession, the continued growth of credit unions was an economic success story that made national and international headlines. From June 2007 to June 2011, credit union assets grew by nearly $200 billion, according to Callahan & Associates'. With numbers like that, it's clear that credit unions have made smart decisions in recent years. But could these decisions have been smarter? Have there been overlooked opportunities? As a whole, credit unions have very low default rates, but that isn't necessarily a plus on all fronts. After all, where there are low delinquency rates, often there are also missed opportunities. In order to seize these opportunities and increase market share, credit unions have to be willing to take on more risk. Before you begin to panic at that suggestion, keep in mind that being willing to take on more risk opens up your credit union to new growth. It doesn't have to mean skyrocketing default rates or running afoul of NCUA requirements. To balance risk with the reward of profitability and still address the safety concerns of the board, utilize analytics.

An analytics solution allows you to transform data into actionable intelligence that can support decisions to change and accept risk, and provide the evidence required to get board approval. Relying solely on peer market comparisons or discussions of trends with other credit unions may lead you down a path of unwanted outcomes due to their anecdotal nature. On the other hand, analytics are empirically derived and produced from your population and feature the impacts of your specific policies and procedures. While there are a number of ways a credit union could accept more risk in order to achieve greater growth, here are three specific areas where analytics can establish a framework to confidently and intelligently embrace new opportunities.

1. Automating Underwriting Decisions

Utilizing automated decisioning doesn't mean that every credit-granting decision has to be an automated one. Use automation to make the easy decisions and allow underwriters to focus on borderline applications. Backed by analytics, more sophisticated techniques like scoring can help arm your staff with information to make better decisions on gray area applicants. A what-if analysis can also help you understand the potential results of implementing a new underwriting policy to take on more risk. Going a step further, a champion-challenger approach allows you to ease into a policy change by only processing a percentage of applications through the challenger approach and then tracking the results against your existing method. Analytics can even help you select the right D-paper to buy. Paired with the right pricing model, this can be a very profitable segment for credit unions.

2. Enhancing Customer Relationships

Consumers are increasingly turning to cooperative options as a replacement for big banks. Get the most out of these new relationships – and your existing member relationships – with more assertive cross-selling and up-selling. Analytics can help you segment members by characteristics so you can understand them better and match the best offers to their profile, lifestyle, usage, or payment behavior. Utilizing analytics, you can monitor score and behavior trends for early warnings of attrition or default, and develop automated decisioning strategies based on these trends and segmentation. You may also want to consider custom analytics including statistical segmentation and empirically-derived predictive models to add greater precision to member treatment strategies.

3. Mitigating Portfolio Losses

Credit unions can realize gains in the area of losses by focusing more assertive collections and loss mitigation resources on members who are most likely not to cure, avoiding conflict with members who will pay you anyway, and considering revenue from late payers. Use analytics to understand the total risk profile of your members including probability of default, exposure at default, and losses given default, including the dollars recovered by your institution.

Having weathered the storm of the recent economic crisis, now is a great time to accept more risk within an analytic framework that positions your credit union for future success. Learn how one institution seized new opportunities with the help of analytics. Download the case study now.

With over 35 years of combined experience in decision analytics, both domestically and abroad, Kathy Kieffer and Kristina Corts use their analytics expertise to serve the clients of CRIF Achieve, the decision management division of CRIF Lending Solutions. To learn more about CRIF Lending Solutions' automated lending solutions, visit www.criflendingsolutions.com. If you are interested in contributing an article on CreditUnions.com, please contact our Callahan Media team at ads@creditunions.com or 1-800-446-7453 1-800-446-7453 . This sponsored content article is provided to the credit union community for shared insights and knowledge from a recognized solutions provider in the industry. Please note that the views and opinions offered here do not reflect those of Callahan & Associates, and Callahan does not endorse vendors or the solutions they offer.