

# CUES 120 Lending in a Two-Lane Economy

By Harry Singh

**Lisa Hochgraf** 00:04

You're listening to the CUES Podcast, Episode 120.

Thank you, CUES podcast nation, for tuning in to our latest show. Whether you're listening from your office, your home or your car, we are grateful to you for joining us. As you know, this show is where you can hear credit union industry experts and cross-industry leaders give a wide range of perspectives on trends and topics relevant to you.

My name is Lisa Hochgraf, senior editor for CUES and our *Credit Union Management* magazine.

The pandemic has affected people's financial situations very differently. While a third of consumers report being concerned about their finances, some individuals currently have more cash than they had when the pandemic started—and they're ready to spend it. How can lenders best navigate such a dichotomy?

Our guest today will offer insights into both what credit unions can do to make smarter, more efficient decisions now and also what might be coming next.

Harry Singh is a senior vice president with Experian, a CUESolutions silver provider.

So let's get started.

Welcome to the show, Harry.

**Harry Singh** 01:24

Hey, Lisa. Thanks for, thanks for the invitation. Really glad to be here.

**Lisa Hochgraf** 01:28

To help our listeners get to know each guest on the show, we often ask if there's a professional mantra or a quote that our guests live by that they'd be willing to share? Do you have such a mantra or quote? And why is it significant to you?

**Harry Singh** 01:44

So great question, Lisa. So, I do actually I use it both professionally and personally, to different effects. So "less is better." For those of you who may be familiar with Dieter Rams, you know, he was a German industrialist web designer. But, but the principle essentially resonated with me because what it focuses on is the less design when you're creating a service or product, wherever it's going to be the

better. Because essentially, you're focusing on the job to be done for the end user. So, so less, but better.

**Lisa Hochgraf 02:21**

Kind of a contrast to the old, less is more, right?

**Harry Singh 02:25**

Absolutely. I mean, I think you can over engineer things. I think some of the, some of the products and services and, and some of our greatest achievements in technology have always been with the simplest products. You know, things have evolved, if you think about our first, our first Mac, you know, back in the day, and what what it can do now, our first iPhone, our first iPod and how they've evolved over time, but the initial was always less, you know, start with something simple that resonates, that works, that answers a job to be done. And, you know, starting from there, you can always build an industry, but you really focus on the end user and the job to be done.

**Lisa Hochgraf 03:03**

And how do you apply this idea in your work for Experian?

**Harry Singh 03:08**

Regularly. So, you know, as a, as a business that supports both consumers and end organizations of varying size, we are always thinking about the end, the end product, the end user, and you know, 99% of the time, that's consumers, and we're thinking about their financial health, the fiscal ability to obtain credit, how do we protect them? You know, those are, those are key principles of our strategy. So you know, when we think about less is better, all the products that we develop, and the services and solutions that we take to market are always really driven from that end user applicability, and why it resonates and is important and meaningful to consumers, or the organizations that serve?

**Lisa Hochgraf 03:55**

Well, that's a wonderful quote and a fantastic application. So today, we're going to talk about your new ebook, "Navigating a New Era of Credit Risk Decisioning. And it takes a look at consumer spending behaviors and how lenders are navigating today's complex landscape. What were some of your most interesting consumer findings?

**Harry Singh 04:16**

Good question, Lisa. So I think I mean, we find a range of things, actually. Largely, I think you could predicate it around changing consumer behavior. And what do I mean by that? Well, you know, when we looked at the data, we looked at the findings from our report, some really, really interesting and meaningful insights became apparent, one of which is that there's potentially an underlying two-lane economy developing, which potentially was there pre-pandemic, but it's really being accelerated and exacerbated that, you know, because of the pandemic in the in the, in the, the nature of the fiscal and macroeconomic implications of it. When we looked at the sort of data points underneath and some of the findings, we found, actually one of three consumers that we talked to are still quite concerned about their fiscal health, their finances, both today and going forward. Yet, conversely, at the same time we spoke, we saw a lot of individuals who have substantially more cash and savings than they had

before the pandemic actually began. And neither at this point where they're thinking what to do with it, do they spend it or they continue to save it.

We also discovered that consumers are, you know, not reducing their discretionary spend as much as they were six months ago. So that's starting to materialize now into the economy. 7% are spending more than they were a year ago. And you know, really interestingly, high income households, which we define as earning more than about \$100,000 a year, they're spending the most. So as you can see, there's a there's a range of findings, but it really does support the principle that consumer behavior is changed. And the question is, is it going to maintain and sustain as a change in behavior but underlying that there's probably different segments of society that are impacted very, very differently by the pandemic.

**Lisa Hochgraf 06:10**

That's all very interesting. Why does this environment make it more difficult for lenders to be able to offer the right loans and products to the right consumers?

**Harry Singh 06:20**

Yeah, so it's probably one of the main questions that the industry is trying to trying to navigate and deal with right now. I think there's a couple of areas that, you know, you'd have to you know.

Organizations really do need to understand the needs of their, their customers. And that has to be a deep understanding, you know, leveraging a range of different data sets. And that can cover any, any any end of the spectrum within society. We've had, you know, we talked about a macroeconomic impact of the pandemic. This is one of those that have been legislated. So the great deferral, or forbearance, in a lot of organizations and lenders have offered their customers payment holidays. Some of those have deferred payments. So, you know, if you've got a mortgage, you might be able to pay that at the end of your mortgage. A lot of them haven't. A lot of them have said for a period of time, you know, you can have a payment holiday. But you still accrue, you know, you still have an outstanding balance at the end of it. So there's material changes in in society, that there weren't there pre-pandemic.

I think it wouldn't be when we start to look beyond some of those significant changes, and then trying to understand those changes, and what they mean for our, for our society, we need to go way beyond our traditional data sources. And think about utilizing, you know, not just traditional data, but alternative data, and new types of data that we haven't really thought of, of utilizing within this space, such as synthetic data. And, you know, we can, we can talk about that in a little bit more detail. And now, there's a lot more in the way of tools that weren't there, you know, in the last in the last downturn, you know, which was several years ago, 10 years ago, maybe a bit more now, the use of advanced analytics, the use of machine learning, you know, that just didn't exist in the same way and availability as it does today. So the environment is difficult. people have changed that behavior. Some of the historic data that we we would have used or lenders would have used is no longer relevant. You know, yesterday's data is probably the most predictive, you know, rather than the last two or three years because the world has materially changed. Yet at the same time, I think we have the opportunity to utilize technology,

advanced analytics and you know, both traditional nontraditional data in a way that's never been used before.

**Lisa Hochgraf 08:40**

That sounds kind of exciting, although also kind of challenging. What would you say lenders can do to make smarter and more efficient decisions as they navigate this landscape?

**Harry Singh 08:51**

Yeah, it's a great question that some it's a constant conversation, we have Lisa, with our, with our clients. You know, we partner with a lot of clients in this space. And they're, and they asked that question regularly. I think, you know, if we if we just reflect on the decision and report that we published, I think we identified probably three areas that you know, lenders need to think about, that helps them to navigate the complexity of the current landscape.

I think probably the first area that spend a minute or two on you know, it's how do you leverage data and advanced analytics? I think I touched on it a minute ago. How do you create a comprehensive understanding, not just a risk, but also the opportunity within their portfolio and and, you know, the visibility and the transparency into how the behavior of the profile of the consumers in their in their portfolio is changing. Now, those those are important those important areas. What are what are consumers doing differently? What are they adopting differently, such as in a digital channels for for lending. You know, are they are they shopping in different ways? We've seen that in our report as well that you know an acceleration and an adoption of online, as you know, just been exponentially seen across the globe, not just in North America. So leveraging data, the use of advanced analytics, you know, such as machine learning, I think is important.

And the secondary we sort of identified with, and we spend a lot of time to clients talking about is, how do you know, proactively engage your customers, the people that you serve? And how do you tailor and personalize offers, solutions, products to their needs? Right, so and that's not just, you know, we I think historically, we talk about personalization and offers, people always think it's about buying something new or, you know, obtaining credit to do something. When we talk about personalized solutions and outcomes, and outcomes as a really important, really important term for us as a business. We're thinking about the needs of that consumer at point in time. And it may be, you know, they're getting married, and maybe they need to buy a car, but it may be they're in financial difficulty, and they need a different type of offer or treatment that helps them through a difficult period, such as the pandemic, but as they come out the back end of it, you know, they become a very, they become a very profitable customer for the lender. So we're really, you know, encouraging our clients to proactively engage their customers. And in going back to my first point, leveraging data to truly understand their customer base, and utilizing analytics to really come up with outcomes and treatments that that reflected with their needs.

And I think finally, and this is something that I think people are aware of, but I think it's somewhat masked in the current in the current climate, there is going to be a potential wave of delinquency. Like I say, you know, a lot of consumers that they have taken payment holidays right now. But if you if you look at their trajectory, and their trended affordability, pre-pandemic, you know, either their affordability

has not improved, or potentially it's got even worse. You know, as they come out of payment holidays in some countries around the world, you know, fair, low payments, where the government is picking up, it's picking up salary checks, once that comes to an end, affordability changes, and you know, how people can in a service, their credit commitments, materially changes as well. So payment, holidays are coming to an end. I think it's going to become apparent that that two speed economies is more visible. And what lenders are really doing, and they're working with us on this, and you know, we're partnering with them today is how do we make it easy for consumers that are really struggling to find the right outcome, the right treatment for them. And that's been done, you know, in a very different way than it was, you know, 10-12 years ago. Digitally now, a lot more of its online. How do we how do we allow people to self-serve and really, you know, understand their fiscal position and the implications of it. How did they find the right treatments and information that they need?

So, like I said, the three areas that are really important too, is leveraging data analytics, how do you proactively engage your customers and consumers, and I think the industry has to prepare for a, you know, a significant wave of delinquency.

**Lisa Hochgraf** 13:07

Very interesting Harry. At the beginning of the pandemic CUES did a lot of coverage about how credit unions were working with their members on both ends--on making loans, things like mortgages at the drive-thru and also on the payment holiday that you've been talking about and working out loans and making plans so that they could continue to stay solvent. I think it's very interesting that you're saying that now as things come to the end, in terms of the supports that were put in place by governments and other organizations to help everybody get through that credit unions are again, going to need to be creative and working with their customers. It's very revealing to me, and you mentioned at the end of your answer to the last question that digital and being online and self-service will be very important to this moving forward after the pandemic. Your research found that consumers continue to prefer digital banking too. Do you expect that trend to continue upwards?

**Harry Singh** 14:05

Yes, I mean, I think it you know, essentially, the simplest answer I'll give you today, Lisa is yes.

If you look at the, you know, any sort of data, any sort of insight report, pre- pandemic, that trend was already there. It's just accelerated. I think there's been a range of things that have done so. I think, to your point, that pandemic forced, you know, a lot of people to bank online. And I think people have discovered it's actually quite convenient to do so.

You know, we worked with a client, you know, not getting into too much detail, that had all of their operational centers closed, their bank branches closed. And they, you know, they're quite they're their customers, their consumers couldn't access anybody to speak to, to actually get a payment holiday. Now that has an implication on their credit file, has an implication, you know, a number of ways on you know, obtaining credit going forward. You know, we worked with them and we help them develop, you know, we developed for them, actually self-service capability that consumers could access and just ask for a payment holiday or a different make a payment, for example. And in what we've seen as a result

of that is that that's just persisted. You know that and that change in the the portfolio, the dynamic of the portfolio for that particular bank, has just persisted and continues to grow.

And what was interesting is, when you look at the demographic of the people that we surveyed, a really interesting one for me is we generally hear a lot, and I don't think this is fair, a fair reflection that certain members of society, especially older members of society, you know, don't like being digital. Actually 40% of the consumers that we surveyed that were between the ages of sort of 60 to 69, all applied for a new card or loan online during that period. And that's particularly different to some of the data points that we've seen in the industry before then. And I think the expectations are such on the rise, you start there and then what else can I do? What else is convenient from and I think more than half I think it was 55% of our consumers that we we reviewed, they all have substantially higher expectations of the experience that digital experience that they would, they would expect with any any organization though, since the pandemic began. So I think you're starting to see a real fundamental change in society. It was already there. I think it's just been accelerated now.

**Lisa Hochgraf 16:20**

I have to confess, I'm a credit union industry editor, and it wasn't until the pandemic that I fully embraced mobile deposit. So, I think there's all kinds of people that were on the fence and then got pushed into digital and then said, like me with mobile deposit, "This is awesome. Why did I do this sooner? This is great." So, there are some new payment options coming along, like subscription models and buy now, pay later. Tell me a little bit more about how that fits into this picture.

**Harry Singh 16:51**

Yeah, happy to. I mean, you know, I think I think we're starting to see the adoption, I think, probably more the adoption of buying IP later, globally. You know, not just in North America. I think we're seeing that being fairly pervasive everywhere we are.

You know, and I think I think that's really looking at a couple of things. One is affordability of a consumer, you know, I might not have the funds today, and therefore, you know, can I, can I future-date my payment? That requires a very different model around how you assess customers for risk, requires a very different model about how you continually assess customers for risk, and make sure that it's affordable, and make sure it's a sustainable payment that they're going to get. I think utilizing both traditional, nontraditional data helps you get to a better and healthier level of propensity around, you know, how those consumers are going to behave. So I think, I think that model is here to stay. I think it will be regulated, is an opinion that I have personally, quite, you know, quite quite substantially, depending on what region you're in, you know, globally, but I think buy now, pay later is here to stay. I think it will manifest itself.

But what's really interesting about it is most of the organizations that we work with the you know, they use our data, they use our analytics, then they use our software to make those decisions because they really want to leverage the power of advanced analytics and nontraditional data. I think we look at subscription models. You know, one area that we're seeing a lot of interest in is in vehicle and auto. The world is changing. The, you know, the world is evolving. We're seeing electric vehicle purchases go up. We're seeing auto leases go up over time. And now the natural transition, you know, depending

on if you believe some of the industry leaders or not in this space will be that as you start to evolve, you know, individuals and households will probably subscribe to cars. If you live in a village, depending on the climate that you live in, you might have quite severe winters and quite dry summers. Do you need a very different vehicle, for example, in the summer than you do in the winter? Probably. And therefore subscription models you know across industries will be quite interesting for us.

That requires constant evaluation of data, constant evaluation of affordability and consumer need. You know, there's there's a component that says is that risky is that a risky one but but essentially the product that you're building and creating needs to understand the needs of the consumer. And I think subscription models, you know, really do bring that to life and you know, the use of advanced analytics, real-time decisioning is important in that space. If we look at some of the data points that support that, I think just under a third of consumers that we, we spoke, I think it's about 27% reported that they have purchased products using buy now, pay later. That's, that's huge. That's material. You go to most online retailers, you know, there's always one if not multiple, buy now, pay later programs that you can, you can access. I think businesses need to and will have to adopt this type of a payment capability. I think that's, that's becoming apparent.

And just having purely self-serve digital strategy probably isn't enough anymore. It needs to be the experience. Do you understand the consumer? Do you understand their needs? Are you, you know, are you lending them money? Or are you providing an outcome for example? Those are two very different things. And actually, more and more consumers want to be understood, their needs. And the, you know, they they expect a fair value exchange of their, for their data, for example, for an outcome, and a service that really helps them with a job to be done or an outcome that they wish to achieve.

**Lisa Hochgraf 20:24**

So, a couple of times during the show, we've talked about traditional and nontraditional metrics and data to help credit unions with decisions. Would you talk a little bit more about what you're thinking about when you refer to the nontraditional data?

**Harry Singh 20:38**

Yeah. I think I mean, depending on where you are globally, and depending on regulation and legislation, we're seeing, you know, traditional data sources, such as credit bureau, you know, we that, you know, that's our, that's what we do as an organization, as a business. But we, you know, growing, growing analytical models, or utilizing alternative data, such as social media data in certain markets around the world.

They're using location data for personalized offers. And, you know, as that starts to evolve, and especially now with the pandemic, some of the analytical models that, that were there before aren't really reflective of the behavior of, of society. An example being, you know, how do I know the affordability of my portfolio. You know, is today as reflective as it was 12 months ago? It isn't. Everybody's been in a position where they've either taken a payment holiday or they pay down their credit. Now, that's good. You're right. That's, that's fantastic for certain segments of society. At the same time, that two-lane economy that we've been talking about, the people who are, you know, fiscally disadvantaged, what, how do you understand their profile, their affordability, how they're going

to behave going forward? How do I know how to reserve against that, if I'm a lender? You know, what might have what was my balance sheet implications of it?

Now, this is where you can utilize potentially things like synthetic data that allow you to generate artificial data, machine-generated data that you can put into your models. And then as your as your portfolio starts to evolve, the number of models that you're assessing, you start to align those models against the behavior of your portfolio. You start to get to a predictive level of understanding of consumers, their behavior, their affordability, you know, what they're likely to do, what they're likely to need. And, and that really changes the dynamic. I think, with machine learning, the ability to use large data environments and, and really utilize those models in a real-time manner, you know, if you think about the convergence of data, software and analytics, data, we understand that various types of data analytics, the ability to, to make sense of all of that various data, but then what do you do with it? And that's where, you know, software, decisioning software, for example, having that ability to real-time execute those models, test them understand them, means that you will have a better understanding, and a real-time way of your customers and their needs. And therefore, you can go product, services, outcomes that really resonate and service the needs of your portfolio, rather than just thinking about it purely from a prudential perspective.

**Lisa Hochgraf 23:13**

Excellent perspective. And forward thinking, my next question is about forward-thinking. But I feel like you're already leading up to that. So you've been doing research, and you've been looking at the payments landscape and the current landscape. What is the next question on the horizon? What's the next thing that you think you'll be researching? And what's your prediction for how the answer might impact credit unions?

**Harry Singh 23:37**

Yeah, it's a good, it's a good question. We could, we could, we could spend all day on this, Lisa, to be honest. I think, you know, there's a couple there's a couple of there's a couple of areas there.

You know, if I think about, you know, the the landscape that we certainly that we certainly support our clients and, and consumers, then, you know, we're actively thinking about that buy now, pay later piece, but then what are the transition in payment behavior? We're seeing crypto on the increase. What does that mean? We're seeing greater adoption of crypto as well as a payment model. Now, you know, legislation and regulation may hinder and slow down the progress of, of such payment technology. But we're seeing, you know, countries now recognize it as an underlying digital currency. What does that mean? How will people pay? You know, how do you how do you assess the authentication of that currency? There's a there's going to be a whole bunch of jobs to be done, questions to be answered. And that has a material impact on society because the type of people who currently today utilize cryptocurrency aren't representative of society more generically. So, you know, how do you understand who those people are, how they're going to behave?

I think the subscription piece that we talked about is fundamental. I think, you know, we talked a little bit about auto. I think as we evolve and go forwards, the need to constantly understand consumers, to have a fair exchange of data, you know, consumers have shown and and regularly shown that they're



happy to exchange data for a fair exchange. To understand their needs, for example, and then give them personalized offers, I think it will become an area of exploration. I think subscription, not just in auto but in everyday life. You know, you're already seeing it, we're already seeing, do I subscribe to certain services from my house for a period of time? Do I subscribe to where I live? Do I subscribe to different types of energy providers? These are all going to be things that I think as you go forward will require real-time, large-scale analytics, advanced analytical capability, and real-time decisioning and execution of those models and understanding of consumer behavior.

So like I say, subscriptions, absolutely there. Cryptocurrency and payments technology and how that's going to evolve. And I do think there's going to be a change in behavior more broadly about lending. I think, I think, I think, you know, we're gonna see different types of organizations enter into, you know, what would be traditionally classified as credit lending, not just banks and fintechs. But you might start seeing, you know, larger software businesses entering. You know, some of the big organizations globally are thinking about how do they how do they play in this part, how do they play in this space. So there's a there's a lot of areas we're gonna explore but I think the payments cryptocurrency, script subscription, and the changing and the changing behavior of, of payments are probably going to be the three areas.

**Lisa Hochgraf 26:25**

That's fascinating. This has been so informative Harry. Thank you so much for being on the show.

**Harry Singh 26:30**

Thanks for having me, Lisa. It's been it's been really informative for me. Hopefully, it's been informative and thought-provoking for the listeners. And, you know, I've hopefully intrigued some people to think differently about the practices that they've got and and what they have to think through as they go forward.

**Lisa Hochgraf 26:50**

Thank you so much for taking time out of your day to listen to the CUES Podcast. And thanks to Harry for being our guest. I hope you got lots of good ideas you can use. You can check out the Experian website at [experian.com](http://experian.com).

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