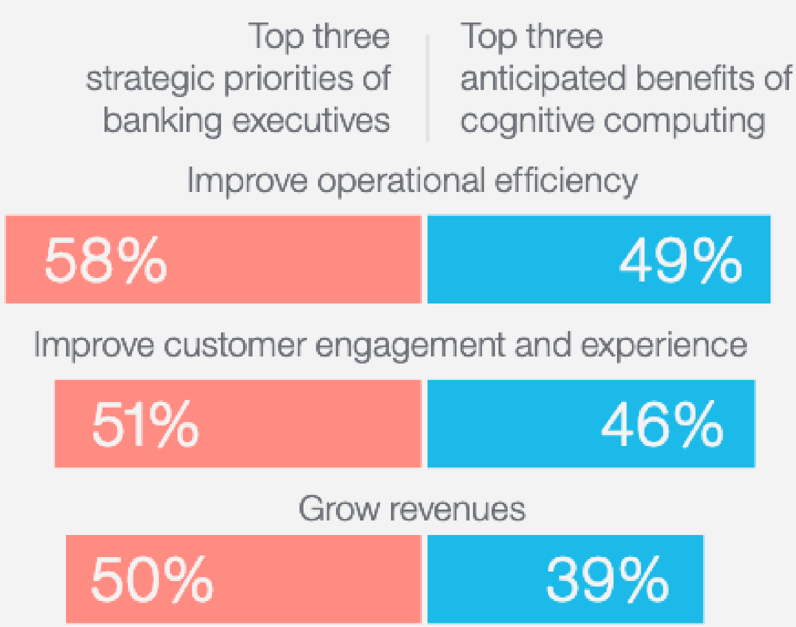
5 WAYS TO LEVERAGE AI and ML in LENDING

Traditionally, financial institutions have prioritized **automating credit decision-making via underwriting.** However, the integration of machine learning (ML) and artificial intelligence (AI) transcends the goal of improving credit availability.

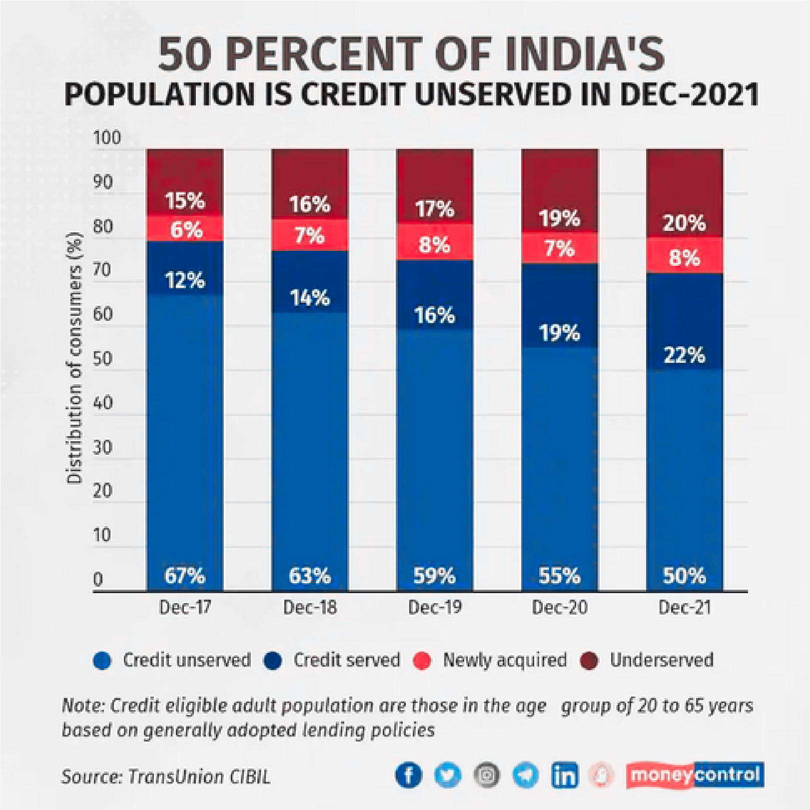
Needs and outcomes: The expected benefits from cognitive computing align strongly with banks' strategic priorities



Source: 2016 IBM Institute for Business Value Cognitive Bank Survey, (sample size n = 2009).

58% of bank executives say **improving operational efficiency** is their most important strategic priority

AI can speed up the application process, detect fraud, and personalize offers. It can also assist customer service representatives, predict answers to frequently asked questions, and analyze data patterns. This way, **proactive customer support** can provide extra time for agents to help applicants access needed services or repay on time and in full.



AI could be the game changer in **attracting subprime and near-prime borrowers** who face many challenges accessing credit

The Result

1

Augmented intelligence = **Increased Lending**

4

Reduced friction at borrowing touchpoints → Positive user experience

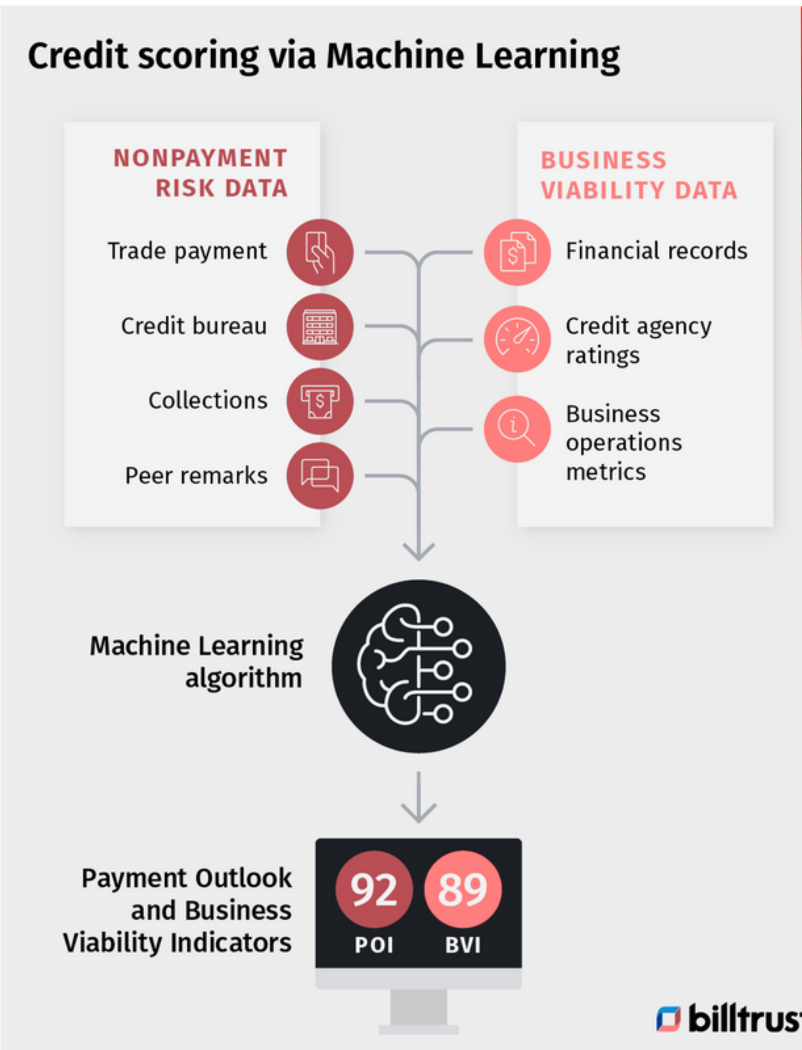
2

3

Optimizing lending using AI and ML

1. Credit Score

ML algorithms assess a person's creditworthiness for loans by analyzing their digital footprint, including data from social networks, mobile devices, payment systems, and web activity. The generated credit score helps lenders determine the loan value, resulting in quick decision-making and reduced turnaround time for loan processing.



This approach may lead to bias and discrimination, as algorithms can perpetuate existing social inequalities and systemic biases. Therefore, it is important to **ensure transparent, accountable, and fair AI**

2. Lower Costs

The value of a loan is determined by the creditworthiness of the borrower or the lender's company. Advanced algorithms, powered by machine learning , analyze extensive data from social media platforms, mobile devices, payment systems, and online behavior to assess one's creditworthiness.

Lenders rely on a credit score, analyzing the entire digital footprint of a prospective borrower to assess the loan value. As a result of timely decision-making, loan processing occurs at a much faster pace, and lower cost

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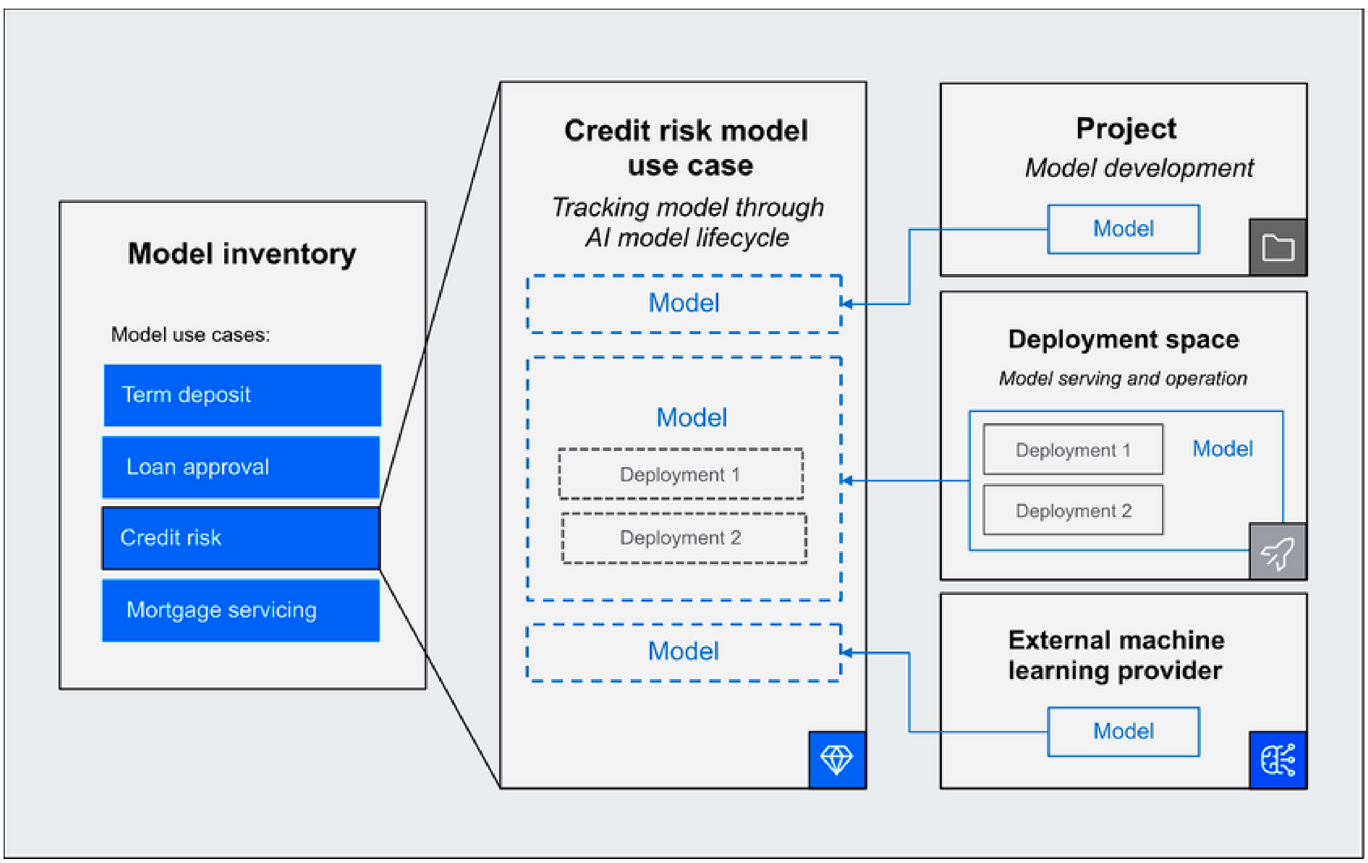
3. Risk Management

Loan stacking, a common practice in the lending industry where borrowers obtain multiple loans from various lenders, poses a significant risk to the bank. The use of AI and ML capabilities in lending apps can help profile customer behavior and identify suspicious patterns that may lead to fraudulent activities, leveraging large volumes of user data and transactional information.

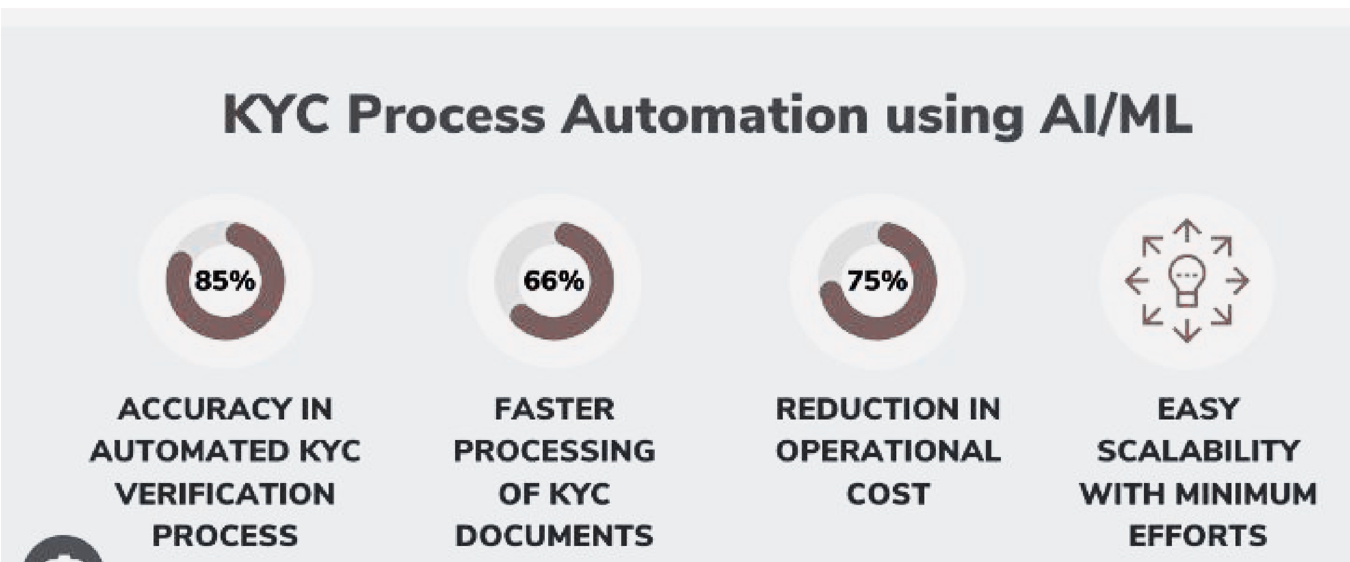
BFSI organizations can leverage the insights provided to make informed decisions. Also, lenders can identify high-risk clients who may default on their loans and collaborate with them to modify the loan terms, minimizing the risk of default.



4. Faster KYC

The conventional KYC process can be labor-intensive and time-consuming. However, AI has the potential to simplify the process by studying customer data to identify behavioral trends and customize loans to meet individual needs.

This allows lenders to access a broader market and Moreover, AI-powered chatbots have drastically improved customer service by guiding numerous customers simultaneously to the desired products and providing prompt assistance.



Automated systems can **process and analyze data faster than humans**, leading to faster customer onboarding.

5. Eliminates Biases

Initially, loan origination entirely depended on manual processes and was time-consuming. The human-centric approach led to suboptimal outcomes and often resulted in underwriting bias, which often led to loan rejections or unfavorable interest rates, generating dissatisfaction or financial loss for the lender.

However, Machine Learning (ML) has revolutionized the loan origination process, as algorithms are used to identify patterns and provide insights that eliminate bias. This has significantly decreased error rates and resulted in more profitable loans for lenders.

Interested in exploring AI but don't know where to start?

We got you covered

Artificial Intelligence (AI) is becoming a critical business advantage, with 35% of companies adopting it by 2022,.Before implementing AI however, IT heads, CTOs, and CDOs should refer to a comprehensive checklist.

BONUS:

Ensuring AI success depends on 3 factors:

The data that is fed, which model is used and how it is trained

Banks' personal data repositories are valuable for refining AI models, leading to more precise risk assessment and personalized financial services.

These data-driven AI models continuously feed innovation, efficiency, and customer-centricity, thus rendering them indispensable.

SBA drastically simplifies your IT operations by building modern hybrid environments that are purpose fit for ever growing data and AI workloads. This way you can the make the most of your data without the burden of managing your infrastructure end to end.