GDS LiNK
RISK MANAGEMENT SOLUTIONS

ARTICLE

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**Payday Lending and Data Analytics**

The payday lending market has seen an increase in consumer demand as conditions in the economy have continued to worsen and banking regulations have reduced access to capital to those that need it most. With more consumers and lenders entering the payday industry there has been a growing need to make more informed lending decisions.

Payday lenders need to apply similar lending practices employed by traditional banks to ensure that they are mitigating risk and maximizing their return on investment. This is especially true for lenders that provide their services over the internet where the customer is not present.

With the increase in consumer demand and the growth of payday lending over the internet, there has been a corresponding increase in the number of services providers that offer risk solutions to the industry. Not too long ago there were only two data providers that focused on the payday industry in support of their risk management requirements. Today the industry is serviced by a large number of data providers who actively compete for their share of the market. The amount of available information that is used to help validate the identity of an applicant and assess their credit worthiness has helped fuel the growth of the industry. At the same time evaluating the various products and services that are available in the market today can be a daunting task. Understanding which products will deliver the best value can take time, especially for a startup business that has no consumer history to benchmark.

Lenders can be well served by evaluating multiple sources of data. This can be facilitated through a retrospective analysis for lenders that have a decent amount of historic data to evaluate or by accessing multiple data sources on real time transactions and storing off the data for future evaluation. The ability to implement champion/challenger strategies to test new data sources is also a good way to enhance your decisioning process. In this process the lender applies a new strategy set to a small percent of all new applications. Once the accounts have had a chance to perform the two groups, the champion and challenger, can be compared to see which has performed better. If is it the challenger group then all future applications would leverage the new strategy, which then becomes the champion.

Without a powerful and flexible risk technology platform in place meeting your risk management objectives can be a difficult task. The good news is that there are systems available today that are specifically designed to meet these needs which already have access to most of the data providers lenders may want to leverage. These systems are designed to put control into the hands of the business user reducing reliance on IT departments. These tools support the ability to easily implement risk strategies and to test new policies required to react to changing market conditions and a change in a lender's risk tolerance.

The ability to continual evolve your risk management strategies is critical to your success. The tools are out there to support your model. The key is to test, test, test.