

ARTIFICIAL INTELLIGENCE IN ASSET FINANCE

Look beyond the hype and embrace the opportunities

Artificial intelligence (AI) is a hot topic for today's businesses. But with so many organizations looking to adopt AI, there is a lot of hype about the benefits.

If you're not sure where to start with AI and how it can help your asset finance firm, you've come to the right place. There's much more to AI than being the latest buzzword, so let's get down to the hard and fast facts.



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Tell your AI tools apart

Like most technological innovations, AI comes with a lot of terminology that can confuse the lay person. What's the difference, for example, between AI, robotic process automation (RPA) and machine learning (ML)? Or are they all the same thing?

Well, yes and no. The easiest way to think about an AI is as an umbrella term for many different types of tools. The trick is to identify which are the right tools for your business.

RPA is great for automating tedious repeatable tasks like data input. It's especially helpful when you're inputting data from a structured format, like an invoice – and means the information doesn't need to be keyed in manually by users.

If you are looking for pure automation, optical character recognition (OCR) tools automatically convert hard copy or digitally printed text into machine-encoded formats for, say, direct entry of an invoice into a system. But OCR tools still need to know where to put the data, and need their accuracy validated. That's where AI comes in, as it helps further automate the task and guide exactly which fields to map and where to map them.

Over time, however, the introduction of new, "unmapped" fields could confuse the AI model. Here, an ML algorithm can help by picking up any differences in the invoices and performing mapping tasks without explicit instruction. The more invoices the algorithm processes, the more it can learn.

FIS' co-pilot invoice management solution is an example of how these different AI technologies can work together to solve a business challenge – in this case for accounts payable processing.

It is currently estimated that 70% of all global invoices are processed manually, while 5% of all business cash flow is locked in by back-end inefficiencies.¹ Using AI tools in combination can help businesses digitize and modernize their back office and automate receivables handling to remove friction from their systems.

Using AI in credit scorecards

A commonly used tool in underwriting for both commercial and consumer lending, is credit scorecarding a good candidate for AI-powered automation?

Many lenders have used business rules-based scorecards to conditionally approve, refer and reject applications in seconds, doing a lot of the heavy lifting. Given the same inputs, the credit decision outcome will always be the same.

Scorecards form part of strict credit policies. So, while there is some interest in implementing AI into the credit scoring process, there's also concern that an ML algorithm could in theory change the risk model. With ML tools, given the same inputs, the credit decision outcome could change at any point depending on what the machine has learned, which could be an issue. Some AI tools also suffer from a lack of "explainability" and so may find it difficult to explain why the outcome has changed – which is another risk.

¹ Source: [Death to Paper Invoices...Are We Serious?](https://www.basware.com/en/insights/death-to-paper-invoices-are-we-serious/) (basware.com)

This raises the question of whether AI is truly applicable for scorecarding today. Do you want the credit model to learn and adapt and change the scoring mechanism, or just intelligently automate decisions for efficiencies?

If it's the latter, you need "intelligent automation," which makes it possible to use more lowbrow tools.

Use cases and risks for asset finance

There are a number of ways that asset finance firms can use AI to improve their services and performance. You could, for example, help attract new customers with tools that mine customer data to tell the best prices and products to offer.

Or you could help retain existing customers via tools that analyze payment history and other factors to identify mid-life upselling (e.g., insurance or maintenance) or refinancing (trade-in) opportunities.

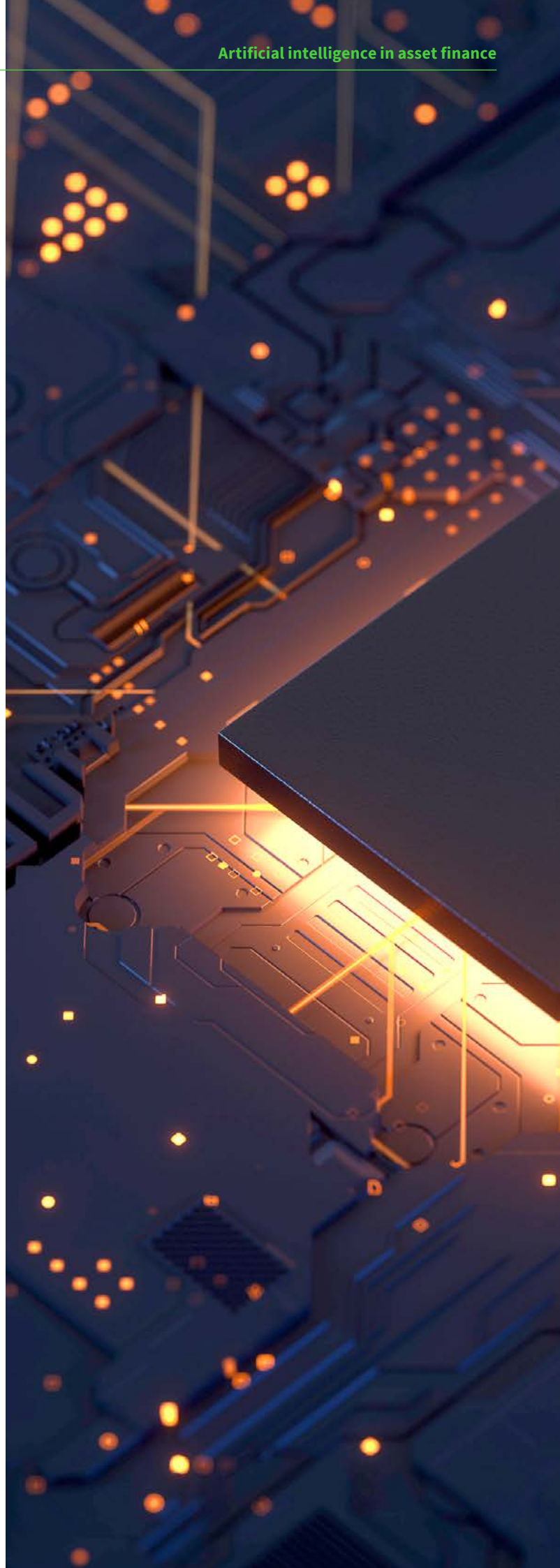
Another use case for AI is predicting and identifying climate issues that could increase insurance claims, especially where lending losses are concentrated in specific regional areas and assets.

Next-generation credit decisioning models can also harness the power of AI to significantly increase revenue, reduce credit losses and enhance operational efficiencies. These models tap into a broader array of data sources, incorporating both traditional and non-traditional data, to improve credit assessments and decision-making processes.

But using AI can also introduce risks. AI models are currently developed outside of regulatory frameworks or may be untested. So, the onus should be on the asset finance firm as the data controller to be aware of what's at stake, employ the right people and work with experienced vendors and data processors.

There are ethical concerns, too. Biases in data, based on preconceptions about social background or other personal identifiers, can misidentify trends and potential outcomes from customer data. The best way to mitigate these issues is to make sure tools only access anonymized data and to train models appropriately.

Then there's the environment to think about, as businesses focus increasingly on environmental, social, and governance (ESG) frameworks. New technologies can have a negative environmental impact, with concerns, for example, that the widespread adoption of blockchain causes increased carbon emissions. Although AI tools could also contribute to this rise, they are expected to offset it by helping businesses analyze climate patterns and prepare for climate disasters.



Meanwhile, opportunities for AI abound. Customer demands are shifting and the lenders that make best use of tech to meet them will gain the biggest competitive advantage.

Plus, as all businesses struggle to do more with less, AI tools can provide simple and cost-effective ways to free up time for value-added tasks.

AI in credit underwriting for auto and asset finance

To automate credit decisioning most effectively, it helps to think carefully about how the end-to-end process works, from identity resolution, verification and application to credit analysis and approval. Although you can improve each of these stages with AI-based digital technologies, you'll need to take into account the complex range of data sources and data uses that make up the origination and underwriting process. There will be major differences to consider between asset finance and auto finance, too.

Auto finance underwriting may originate through the dealer, broker, direct online channels or even a combination of channels. Your systems, meanwhile, will consume data for KYC and AML, personal or company information and credit scoring from known sources, such as Experian or Equifax. There will also be a lot of asset metadata and valuation data to collect.

RPA technologies can automate the capture of the bulk of this data, with exceptions falling broadly into three categories:

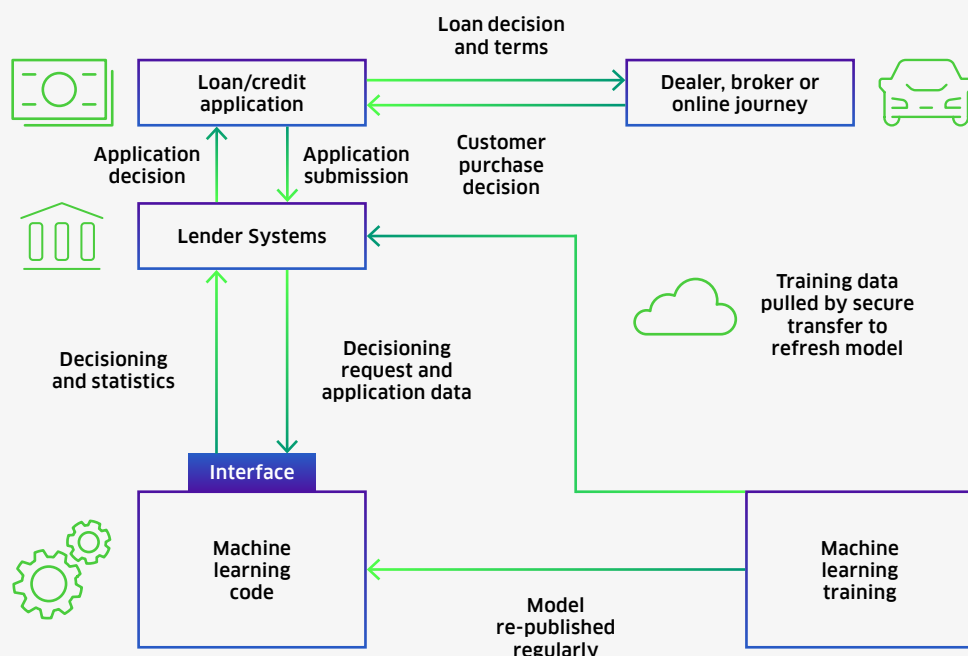
- **Credit** – Flags on the customer's credit history that indicate risk
- **Fraud** – Fraud markers for immediate investigation, detected in the customer profile
- **Admin** – Discrepancies in customer details during online car loan applications

So, for auto finance, you can automate decisioning using data inputs that are readily available. With the decisioning model based on ML, algorithms or rules, the outcome outputs will be a decision, likelihood of default and loss estimates. These can be used to train the ML model and be republished daily to improve results.

Asset finance typically funds big-ticket items for small to medium-sized businesses, whose business needs are less homogenous than those of auto finance customers. Typically, the relationship is originated through a broker or relationship manager.

As the assets you're underwriting are usually specialized, there won't be much metadata and asset valuation available. So, you'll be heavily reliant on the human expertise of your firm's subject matter experts (SMEs), whether it's on wind turbines, forklift trucks or high-value cars.

Your focus should therefore be on automating segments that are easy to automate and bringing in SMEs when it matters. Ultimately, you should be looking to build scalability and improve operational efficiency – making the best use you can of data and technology to create as much automation as possible.



Best practices for asset finance automation



Loan application:

- Online, context-sensitive data capture forms with flexible validation rules
- RPA engine for extracting structured and unstructured data



Credit analysis:

- Automated, AI-driven spreading of financial statements
- ML-enabled analysis of non-traditional data sources



Approval:

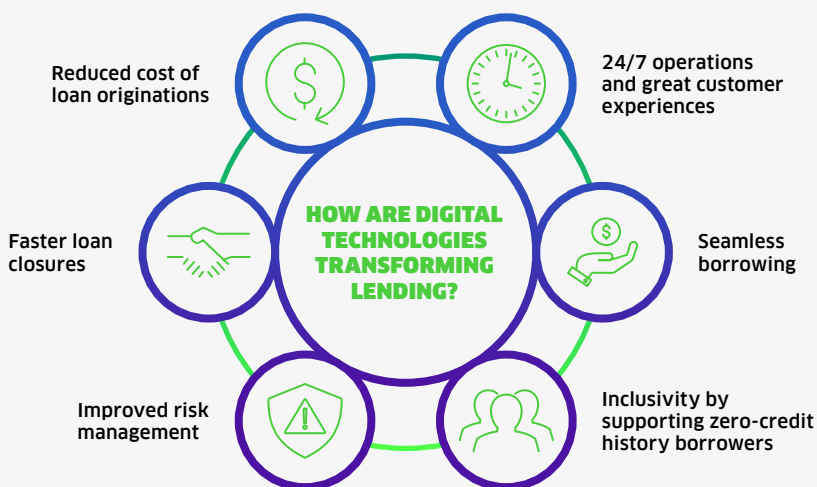
- AI-powered decision support across segments where possible – or rules-based decisioning engine to support underwriters
- Digital document automation, with modular, standardized templates and clauses



Monitoring:

- ML-based early warning signals to flag any abnormalities or mitigation actions
- Inclusion of non-traditional data to reduce false positives

Benefits of lending transformation using digital technologies



Source: McKinsey

Up to

15%

increase in revenue through higher acceptance rates

40%

reduction in credit-loss rates

40%

efficiency gains

£200M

profit on £50B assets



Are you ready to embrace AI?

Available as a componentized model, an end-to-end platform, an out-of-the-box solution or a fully managed service, FIS® Asset Finance harnesses the power of AI tools to help you automate your processes more effectively. Let's discuss how to supercharge your business with AI.



Want to continue the conversation?

Contact your FIS Account Manager to learn more about artificial intelligence in asset finance.



About FIS

FIS is a leading provider of technology solutions for financial institutions and businesses of all sizes and across any industry globally. We enable the movement of commerce by unlocking the financial technology that powers the world's economy. Our employees are dedicated to advancing the way the world pays, banks and invests through our trusted innovation, absolute performance and flexible architecture. We help our clients use technology in innovative ways to solve business-critical challenges and deliver superior experiences for their customers. Headquartered in Jacksonville, Florida, FIS ranks #241 on the 2021 Fortune 500 and is a member of Standard & Poor's 500® Index. To learn more, visit www.fisglobal.com. Follow FIS on Facebook, LinkedIn and Twitter (@FISGlobal).



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