

# Financial Inclusion Through Alternative Data





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A non-partisan, non-profit  
policy research and development institute  
devoted to increasing financial inclusion using  
information solutions.

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# Where do we stand now?

*Nearly all countries have a credit bureau or credit registry*

- **86%** of countries surveyed had a credit bureau / credit registry with some coverage (accounts for countries with over 95% of world's population).

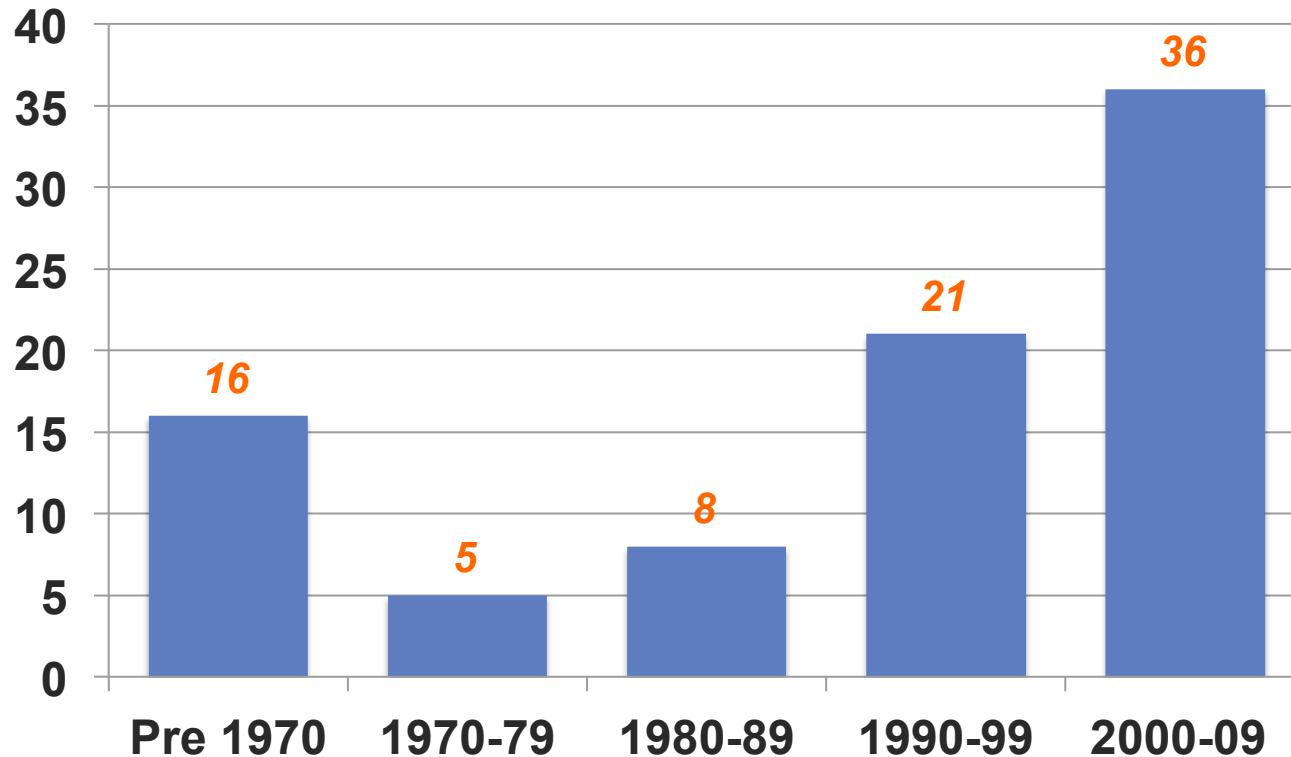
*Most countries have a private credit bureau*

- **55%** of countries surveyed had a private credit bureau with some coverage

(Doing Business)

# Private Credit Bureau Establishment

## Establishment of First Private Credit Bureau in a Nation



Distinct Trend Toward Greater Information Sharing over Past Decades

# Where do we stand now?

Coverage of the global adult population by credit bureaus or credit registries...

*A little over half for the first time*

**55%** (Doing Business, UNPD)

This is up from  $\approx$  **15%** based on Doing Business 2005

# Where do we stand now?

Coverage of the global adult population by private credit bureaus ...

*A little under a third*

**31%** (Doing Business, UNPD)

This is up from  $\approx$  **13%** based on Doing Business 2005

# Where do we stand now?

Details beyond coverage are important:

- Quality of data
- What type of accounts
  - Across financial sectors
  - Non-financial
- What type and depth of data
  - Full-file
  - Particular fields collected
  - Historic depth
  - Share of (potential) data furnishers participating

# Stages of Bureau Development

Stage	Examples of Services
<b>Stage 1</b>	Database, Provision of Basic Data
<b>Stage 2</b>	Credit Reports, Alerts and Some Add-On services
<b>Stage 3</b>	Initial Score and Decision Tools, Initial Custom Analytics
<b>Stage 4</b>	Fraud & Identity Management, Marketing Services & Collections Management, Commercial Credit Report
<b>Stage 5</b>	Consumer Reports, Consumer Scores Credit Monitoring Consumer Education
<b>Stage 6</b>	Auto, Utility, Telco Solutions, Rental Screening, Employment Screening Healthcare, Small Business Insurance, Government Solutions Very mature scoring, Decision Tools, and Custom Analytics
<b>Stage 7</b>	Big Data Solutions, Peer to peer lending, Equity Financing Equity valuation, Secondary Market, and Macro Factors Based Models

Source: Adapted from the presentation “Going Beyond Financial Services” delivered by TransUnion at the IFC Credit Bureau Conference in Malaysia, May 2010.

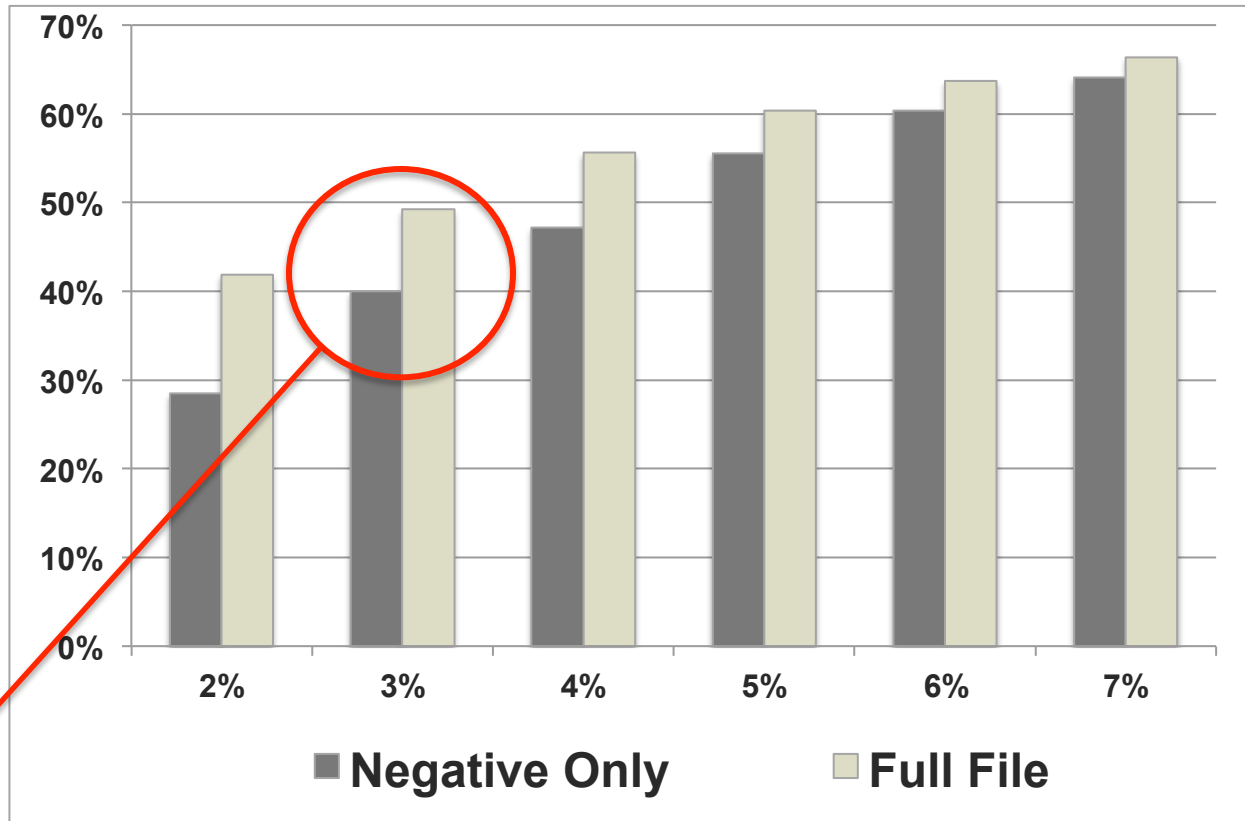


# Ownership and Stages of Bureau Development

Phase	Description
Early / Initial Build Phase	Bank/Data furnisher ownership or partnerships can be used to develop data sharing, as well as revenues
Middle / Scale Phase	CRA begins to focus more on new data sources and value added services
Mature / Optimal Phase	CRA has data furnishers and customers across many segments, most revenue comes from value added services

# Evidence: Full-file Vs. Negative-only

## Total Portfolio Accepted at Different Default Rates (US)



Source: Michael Turner et al., *The Fair Credit Reporting Act: Access, Efficiency, and Opportunity*, June 2003.

For a 3% Default Rate, lending can rise 23% with Full File Data

# Evidence: Full-file Vs. Negative-only

## Effects on Acceptance Rates for a 3 Percent Default Rate between Full-file Reporting and Negative-only Reporting (US Data)

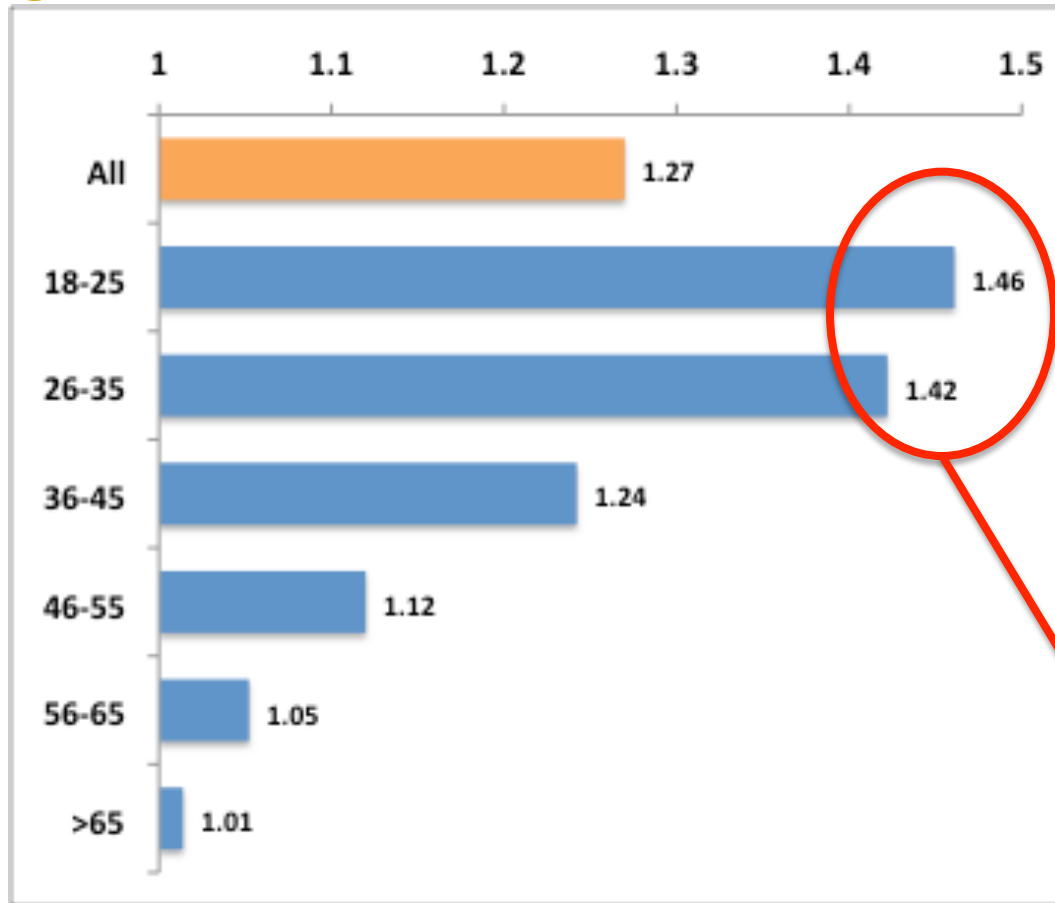
	Negative-only (index = 100)	Full-file
<b>Race-Ethnicity</b>		
Caucasian, Non-Hispanic	100	121.8
African American	100	127.9
Latinos	100	136.8
All Minority	100	135.5
<b>Age</b>		
<36	100	147.1
36-45	100	121.8
46-55	100	121.2
56-65	100	119.8
66-75	100	117.9
76+	100	119.9
<b>Household Income (US\$)</b>		
< 15,000	100	135.9
15,000-29,000	100	129.7
30,000-49,000	100	124.2
50,000-99,000	100	120.6
>100,000	100	117.8

Source: Michael Turner et al., *The Fair Credit Reporting Act: Access, Efficiency, and Opportunity* (Washington, DC: The National Chamber Foundation, June 2003).

Credit Inclusion Impacts from more comprehensive data

# D&B/PERC Project (Australia)

**Change in Acceptance Rates with Addition of Full File Data  
by Age at 4% Default Rate (Base=1, Known Goods and Bads)**



While Borrowers of all Ages Benefit...

Younger Borrowers Benefit Disproportionately from the Full File Data

# D&B/PERC Project (Australia)

## Equity and Fairness Impacts of Fair-file Data

**Acceptance Rates for those with one or more previous derogatories, by Target Default Rates**

	With Prior Derogatories	
Target Default Rate	Base (Neg-Only)	Full-File
<b>2%</b>	0%	0.5%
<b>3%</b>	0%	1%
<b>4%</b>	0%	6%
<b>5%</b>	0%	19%
<b>6%</b>	0.3%	50%

**Full-file data is much more forgiving for those with past derogatories**

# Beyond Traditional Financial Data:

## The Value of Sharing Non-Financial, Non-Traditional Data

**Problem:** Credit bureaus/registries with only financial accounts reported limit coverage and inclusion to those with past formal credit access

**Solution:** Include non-financial accounts to cover most of the market active population

**Non-financial data can include** regular bill payment data from telecoms, energy utilities, rental payments and other such non-financial services that are valuable inputs for credit decisions

*Gas*

*Internet*

*Mortgage*  
*Credit Cards*

*Electricity*

*Mobile Phone*

# Alternative Credit Bureau Data

# Traditional Credit Bureau Data

*Car Loan*

*Cable/Satellite Service*  
*Income*

*Installment Loans*

*Expanded Public Records*

*Basic Public Records*

*Rent*

*Collection Accounts*

# Excluding Alternative Data

Can exclude half the  
payment picture of  
a borrower

And exclude many  
people...leaving them

Credit Invisible



Traditional  
Credit Bureau  
Data

*Mortgage*

*Credit Cards*

*Car Loan*

*Installment Loans*

*Public Records*

*Collection Accounts*

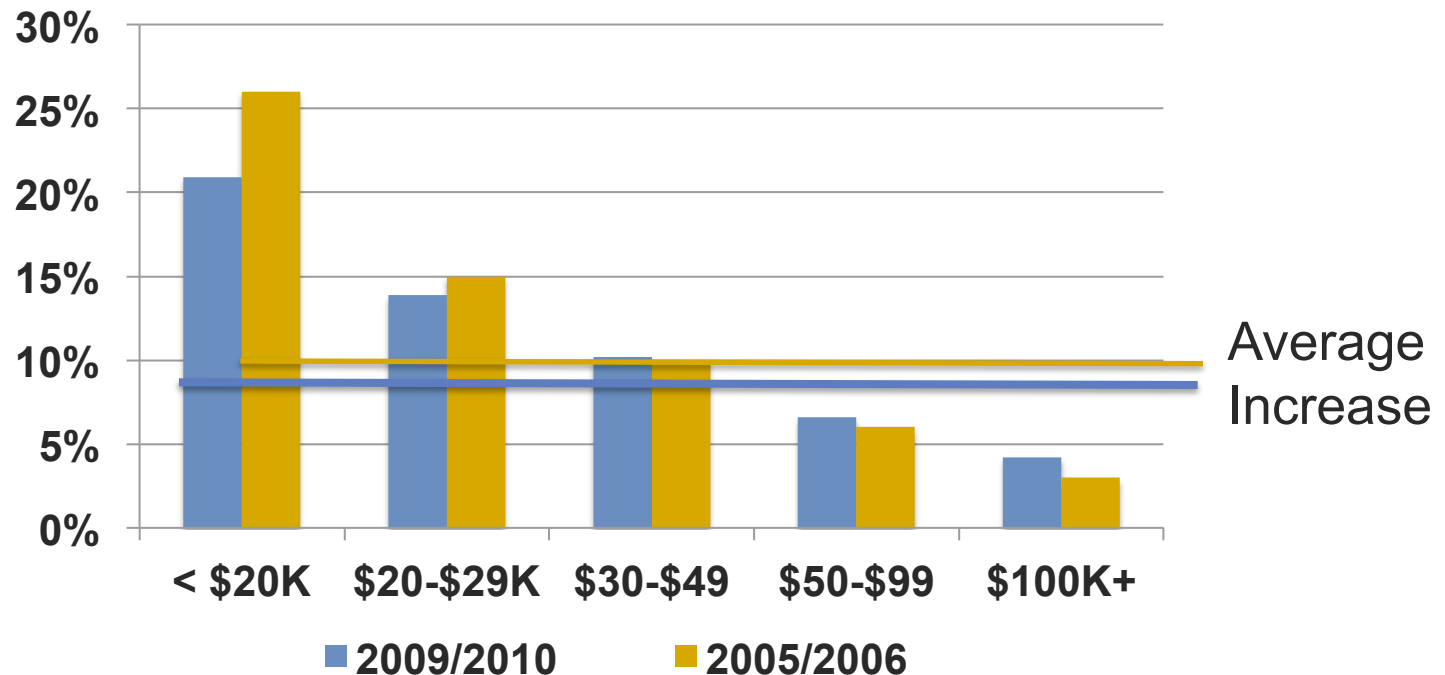


# What has PERC found?

Research has shown that using alternative data for credit granting results in:

Increased, Safer, Sounder,  
Fairer and Broader  
Lending

## *Increase in Acceptance with Alternative Data by Household Income (US, 3% portfolio default rate)*

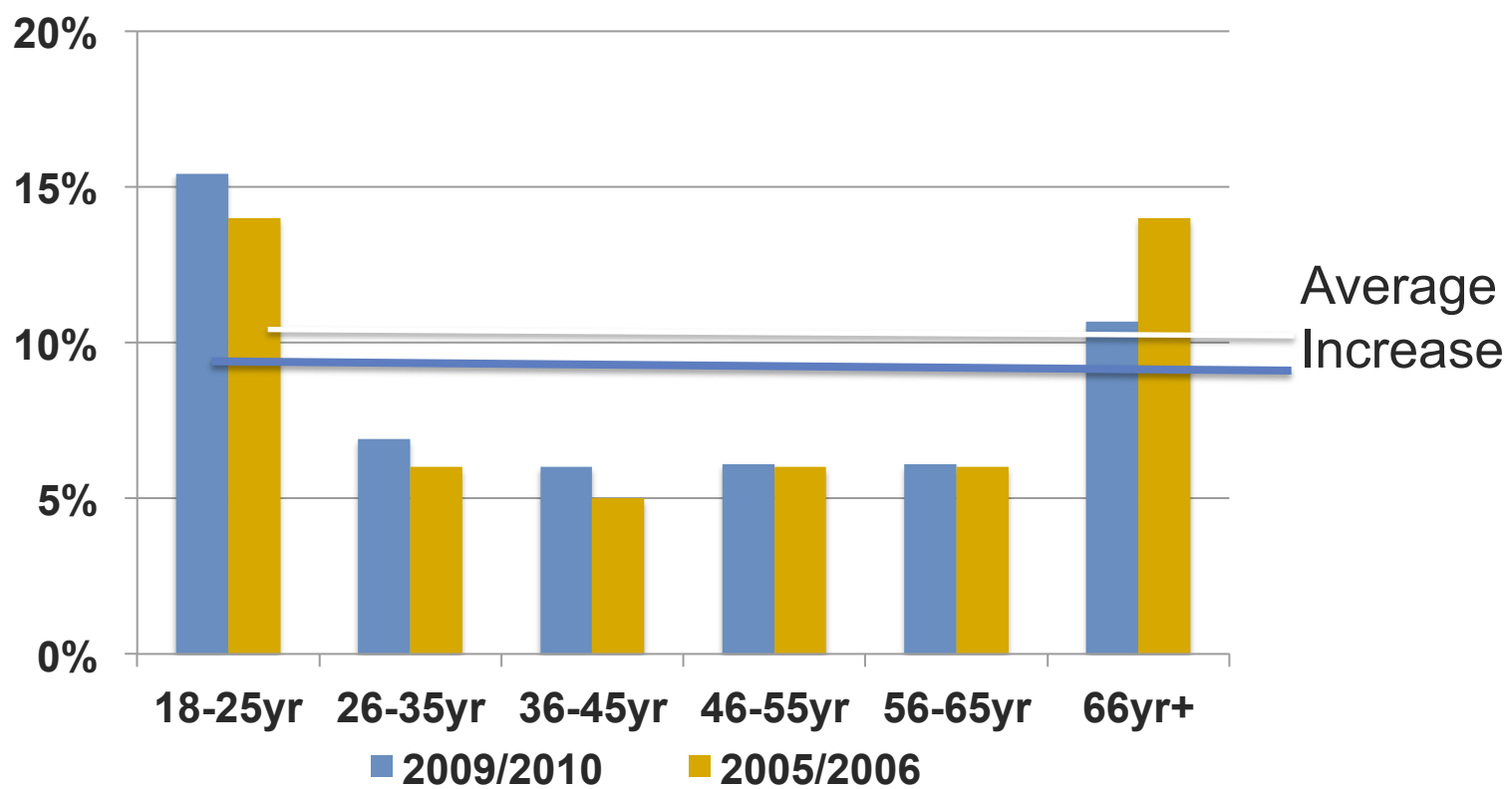


**All Benefit, Low-income group outperforms**

Driven by: (1) better risk assessment with alt data added and (2) bringing in unscorable population

# Change in Acceptance by Age

(at 3% portfolio target default rate)



# *Alt Data Reporting...*

- **Voluntary reporting means needing to demonstrate value to energy utility, telecom, water utility, landlord, etc. from reporting.**
  - Increased incentive to pay on time (cash flow)
  - Bureau can provide services to data provider
  - Experiment with business models to recruit non-financial data furnishers
- **Rent**
  - Fragmented
  - But larger landlords/property managers may use similar software
  - Tenants pay rent via on online interface that captures payment
  - Questions sometimes around data ownership
- **Utilities**
  - Could be in name of owner not actual renter/user...potential solution could be to report utilities in renters name (as a user/cosigner) not the home owner/guarantor's name.

# Challenges: Data Fragmentation, Data Fiefdoms, and Big Data

## ■ Data Fragmentation

- Across (financial) sectors
- Within (financial) sectors
- Across types of data

## ■ Data Fiefdoms


- Ebay, Alibaba using their own transaction data
- Mobile operators
- Can result from lender market power, bad regulations, desire to leverage own data



## ■ Big Data

- Developments and opportunities
- Regulatory challenges / consumer protection challenges

# Expand Credit Access and Inclusion

## Beyond Basic Negative-only Credit Reporting

- 
- + Full-File (positive + negative data)
  - + Comprehensive across segments/firms
  - + Non-financial accounts

- Better lending decisions
- Safer/sounder lending
- Increased Credit Access/Inclusion

**Bottom Line: More Information = More Inclusive Lending**



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