

POLICY & ECONOMIC RESEARCH COUNCIL

Non-Financial Data for Financial Inclusion *Lessons from the United States & Elsewhere*

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Introduction

Credit Reporting

- Works on the premise that reputation (based on behavior and other information) can substitute for collateral.
- Helps overcome basic asymmetries of lending.

What is “Traditional” Data?:

- Bank loans
- Retail credit

Creates catch-22



Getting Around the Catch-22: Alternative Data

Include alternative data in credit reports

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

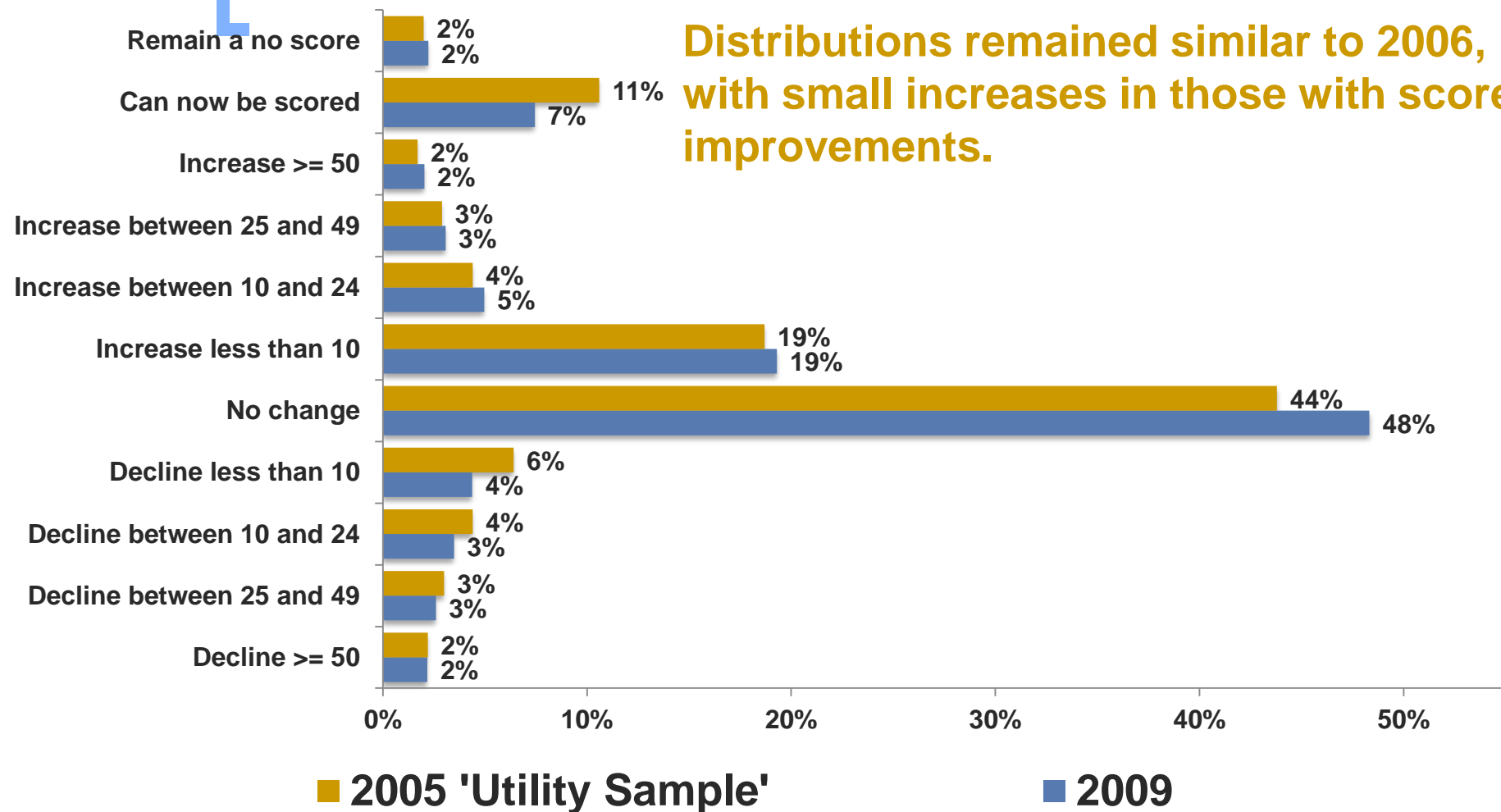
What data is Alternative Data?

What is “Alternative” or “Non-Traditional” Data?: non-financial information that also helps assess reputation

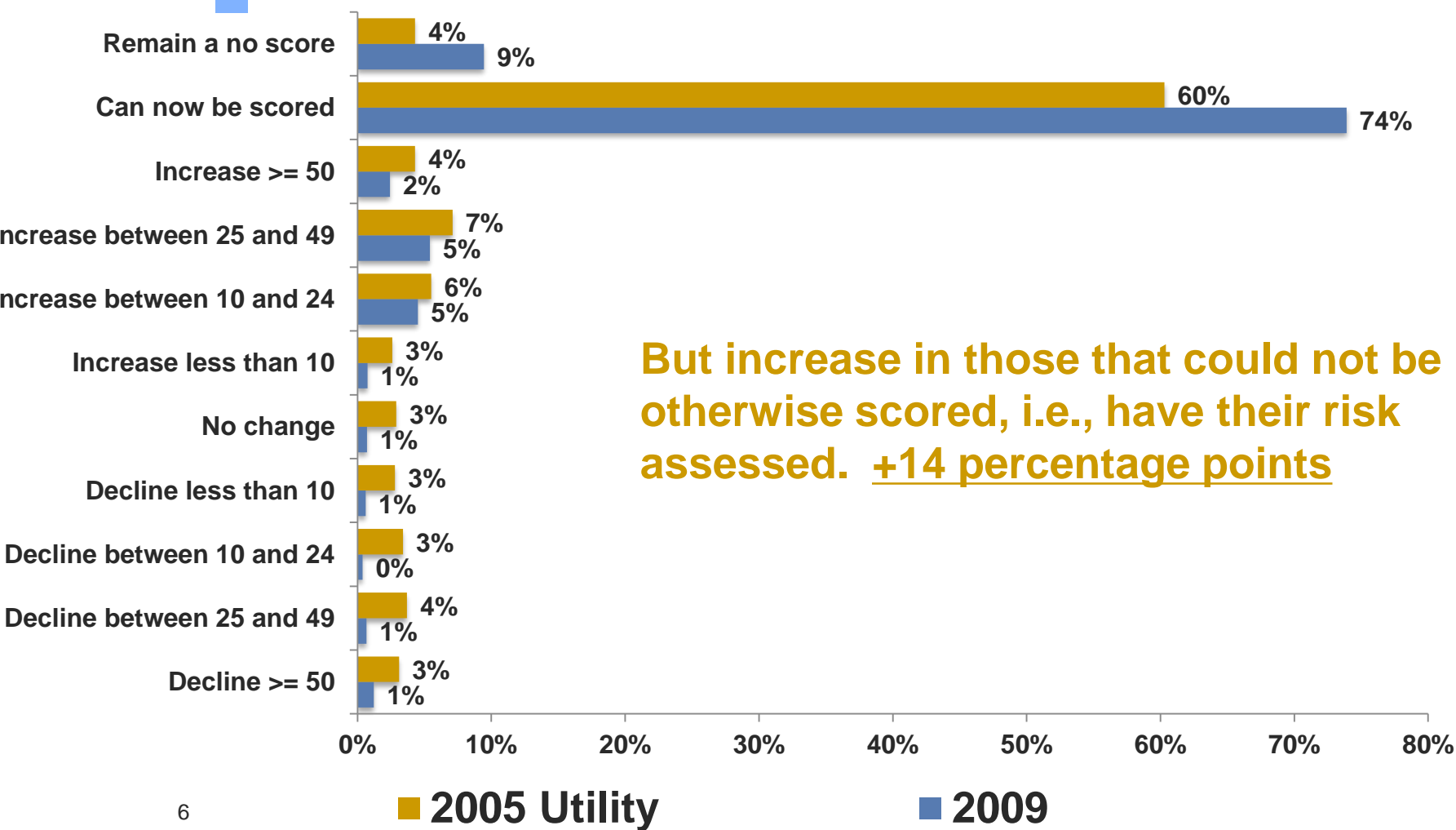
- **Many forms of post payment**
 - Energy and Water Utility Payments
 - Landline and wireless phone bills
 - Auto liability insurance payments
 - Rental payments (especially apartments)
- **But also**
 - Remittance payments and stored value cards
 - Prepayment
 - Cell phones
 - Education expenses

Impacts for the whole population did not change much, change is for better

Distributions remained similar to 2006, with small increases in those with score improvements.



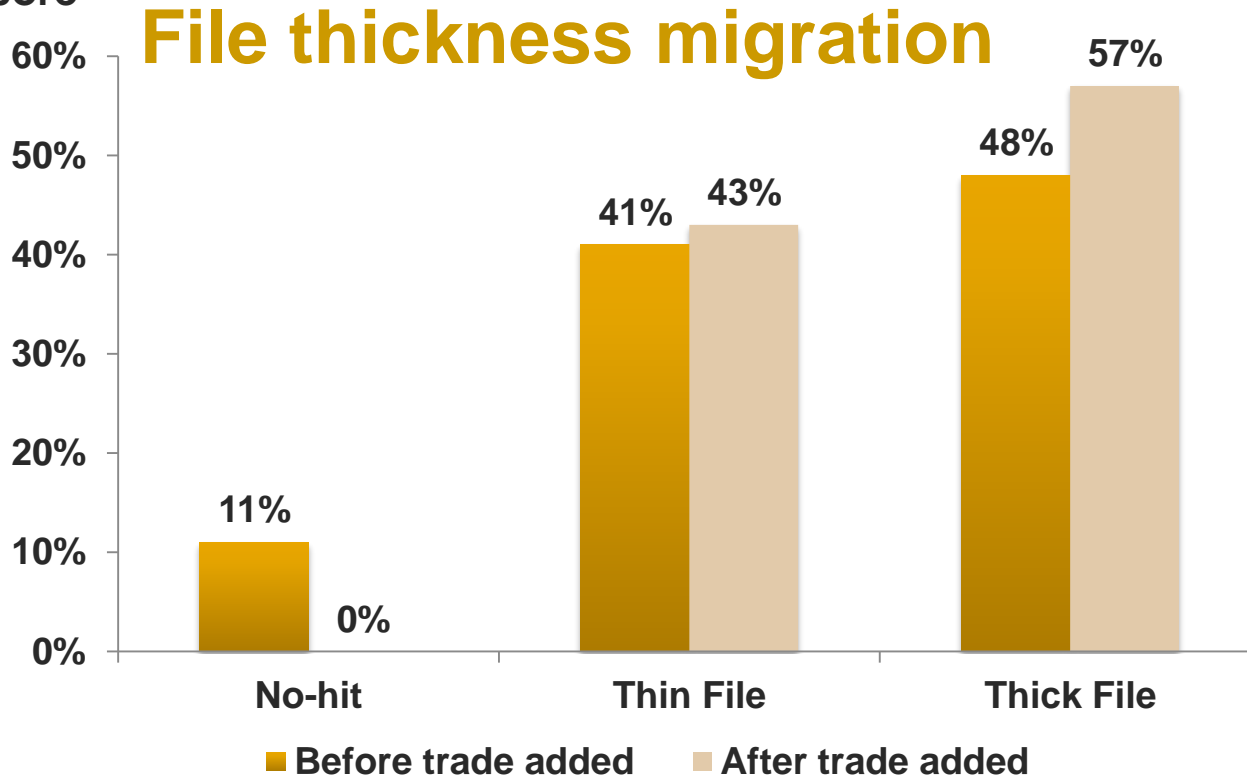
The thin-file saw much more scorability the second time, otherwise similar



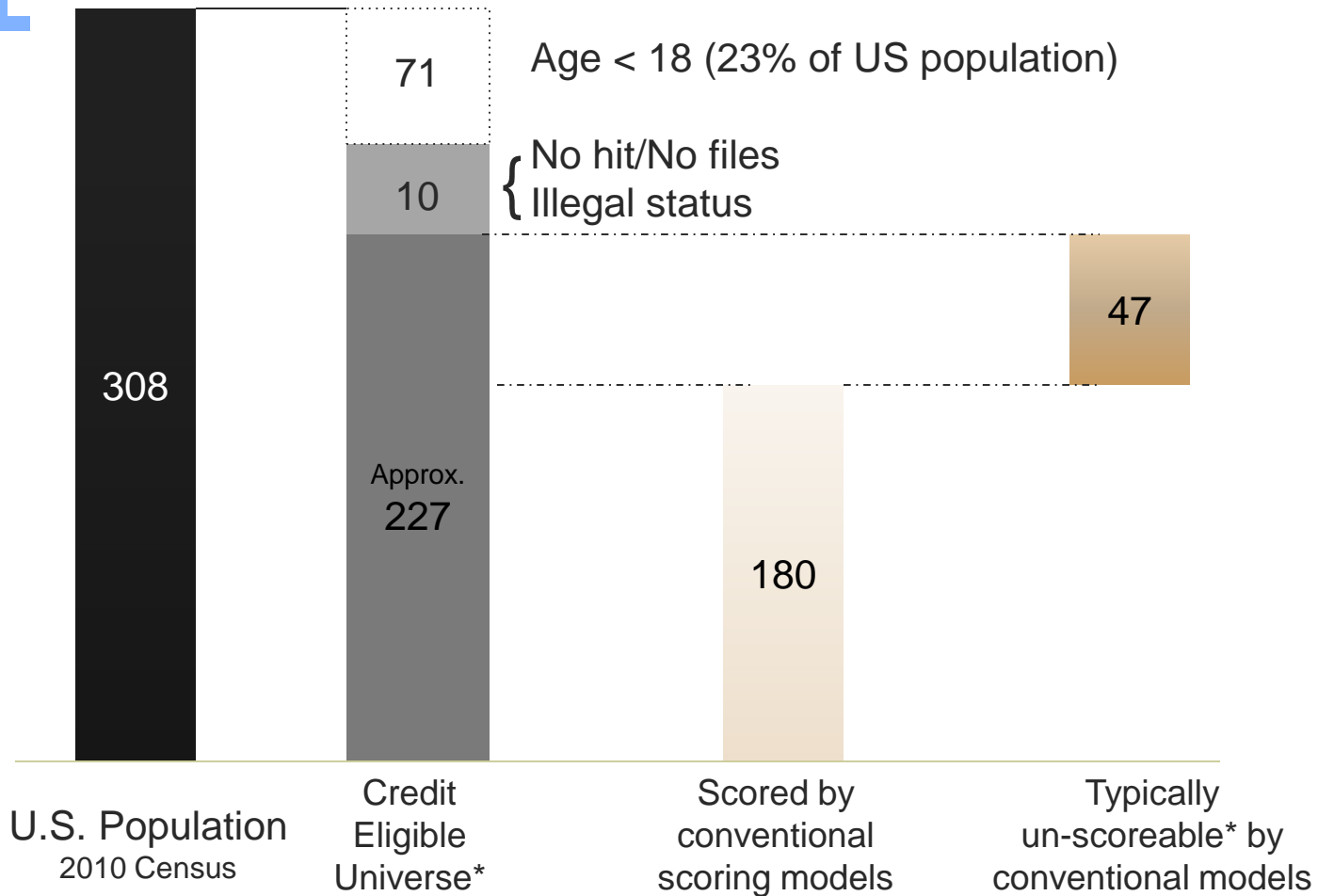
But increase in those that could not be otherwise scored, i.e., have their risk assessed. +14 percentage points

Rental payment histories also increases the number of people who become included

- Experian RentBureau study demonstrates the value of incorporating paid-as-agreed rent payment trades
- Simulated impact of 20,000 leases on credit file thickness and credit scores using Vantagescore



The conventionally scorable universe, and those scorable with alt data



Source—VantageScore 2015

All estimates – millions

* May vary by Credit Bureau

Experiments with other forms of alternative data are proliferating

Social media data, email in the US and elsewhere (Lendo, Zestfinance, FICO)

Prepaid phone cards for top offs (Philippines, Kenya)

Supply chain data (not credit) for FMCG, agriculture (Cape Town, Vietnam, China, Tanzania, Kenya)

Some fit into credit bureau model, others do not.

Bureaus can and are moving to accommodate new models of data sharing under their umbrella, such as CreditInfo in Tanzania, which has a pilot to collect agricultural supply chain data.

The cost benefit calculation for pre-paid services & transactions very different

Post paid services are easy. But coverage means going beyond

How to incentivize others?

- ⦿ **No better cash flow benefit**
- ⦿ **Possibility of reducing churn (customer loyalty), as best customers realize that data can also help get credit**
 - ⦿ **M-Shwari**
 - ⦿ **Square**
- ⦿ **Use data to provide value for provider**
 - ⦿ **For telcos, id who can be moved to post-paid, better handsets, provide handsets on monthly payments, i.e., credit**
- ⦿ **Direct revenue: bureaus may pay for some data**
- ⦿ **Increased economic activity of clients**

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