TransUnion

Data Fusion

The Rise of Alternative and Trended Credit Data

As economic markets and lending regulations change, many banks and finance companies are realizing emerging segments of the population, such as Millennials, minorities, immigrants and rural dwellers, require a more holistic approach to risk assessment. In fact, these cohorts are heavily underserved yet could greatly benefit from access to quality financial services. Secondly, there may be a significant increase in potential customer universe when these consumers can be scored.

Incorporating more expenditures and payment information when assessing risk may help new-to-credit and underserved customers reach their financial goals and lenders are increasingly exploring new ways to extend credit to these groups. **In fact, survey revealed lenders are increasingly exploring new ways to extend credit to underserved consumers. According to survey results, a majority of institutions turn away potential borrowers who do not meet risk guidelines when assessed with only traditional credit bureau information.[1]**

A more holistic approach provides the accuracy and precision necessary to gain a robust picture of consumer risk, helping significantly improve business decisions and build healthier portfolios. With additional and different types of data, you can consider more potential customers across all credit risk tiers, offer the right pricing, minimize institutional risk and capture greater wallet share. Consider your own strategy: Do you have efforts in place to gain a more robust view of customers? Are you using additional datapoints to drive better business decisions and sustain growth?

A lack of critical information can have a negative impact on the bottom line for any business. Likewise, the right information can open the door to credit offerings for many consumers. To provide these offerings, fully understanding how applicants have managed financial commitments outside of traditional tradeline data is imperative. Greater depth and breadth of data across multiple sources provides the ability to serve more customers at the right price.

2021 strategic initiatives

- ☑ Improve acquisitions without increasing risk
- ☑ Score more people with greater precision
- ☑ Identify leading risk indicators

[1] The State of Alternative Data Report, TransUnion and Versta Research, 2015

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Serving communities

The 2019 Bangko Sentral ng Pilipinas (BSP) Financial Inclusion survey found that **51 million Filipinos were unbanked, unscorable or "credit invisible."[2]** Many current customers and applicants of financial institutions may be assessed as lower credit risk, receive more beneficial pricing, or possibly switch from a decline to loan approval when additional data assets are leveraged in risk assessment.[3]

When a lender is able to offer consumers with limited credit history a line of credit, there's an opportunity to build lifetime loyalty. Your institution can offer the first credit account in a consumer's wallet and begin to build a long-term relationship, but doing this requires reinforcement data to show management of various past financial commitments.

With customer acquisition growing via online channel, **a more robust picture of consumer risk can prove to be a competitive advantage**. For example, using a risk model that incorporates whether a consumer is building or decreasing balances, increasing telco and utilities expenditures and payment amounts over time, or has a solid payment history with alternative lending arrangements.

[2] 2019 Financial Inclusion Survey, Bangko Sentral ng Pilipinas
[3] Based on multiple customer validation results using CreditVision™ Link

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The powerful combination of a hybrid waterfall approach

Whether you're basing growth on expanding current customer relationships, better scoring your prime audience or lending to the subprime, inquiry only and new-to-credit populations, you need to have the right information.

Assessing creditworthiness with additional data assets provides the missing pieces of the puzzle. Until now, we've relied on credit bureau data to reveal the liabilities within a consumer's financial record but this can only cover about one-third of the population. As almost all Filipino adults own a mobile phone, leveraging prepaid and postpaid telco data expenditure and usage will enable high score coverage. Combining alternative and trended credit data sources creates a more robust picture of consumer risk and provides more powerful predictive insights on the total addressable unbanked, new-to-credit market.

The combination of telco and other expenditure, payment information - used in tandem with credit bureau trade line data - allows lenders to score ALL with far more precision which is competitively important in a time of rapidly evolving consumer behaviors.

Through validation and testing, the retrieval of a traditional bureau score or alternative score based on telco data is capable of scoring 100% of the applicants who would otherwise be returned as no-hits or thin-files by traditional models.[4] Based on TransUnion's back-testing, retrieval of a traditional score for those with existing credit or history is optimal, while retrieval of an alternative telco score provides higher performance over the usual demographic and inquiry look-alike modeling approach to score new to credit and thin files. Individuals who are unable to reach their financial goals due to lack of traditional credit can now be scored using alternative data – which provides more information to help determine true creditworthiness of those consumers.

79%
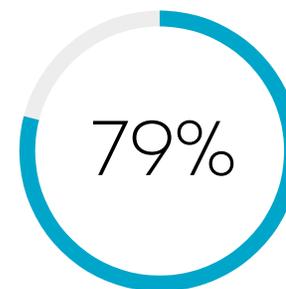
79% of lenders said they have mid-high level appetite to book new-to-credit consumers

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Alternative Data

Alternative data on device, telco payments, usage and loading patterns provide additional insight on an applicant's credit willingness and ability to pay. This is proven in multiple back-testing and retro-validation results correlating scores on alternative telco and device data with credit bureau delinquency performance. As well, the frequency, recency, consistency and magnitude of telco balances and usage have proven to provide insight on an applicant's likely behavior in handling credit.

Trended credit data

In addition to alternative data scores, the other half of the hybrid waterfall approach is trended credit data which is optimal for thick file, as it leverages an expanded view of credit behavior data with historical information on each loan account. This includes over two years of payment history, amount paid versus minimum due, and spending behaviors over time. Incorporating payment history information provides the basis for critical intelligence, like the trajectory of a consumer's debt balances.

Historical consumer credit behavior is powerful information that can give a clearer indication of how a prospective borrower might pay off their financial debts in the future. Adding trended credit data to your risk assessment provides insight into a consumer's ability to pay over time and helps differentiate similar situations.

Improve customer acquisition

- ⊘ Score entire marketable universe
- ⊘ Combine data assets for more accurate risk predictions
- ⊘ Expand consumer access to services

Enhance your scoring strategy by incorporating a more holistic view of credit and payment behavior

Point-in-time credit risk

- ✓ Unsecured loan outstanding balance of P15,000
- ✓ One late payment in last three months

The complete view with alternative and trended credit data

- ✓ Unsecured loan outstanding balance of P30,000
- ✓ One late payment in last three months
- ✓ Customer used to pay more than the minimum repayment, but just paying minimum in last three months
- ✓ Customer is a prepaid telco user
- ✓ Customer has decreased telco spend and internet usage

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Optimized scoring

Based on TransUnion's backtesting and validation for every credit segment, the trended traditional score performs the best in discriminating a good vs. bad customer, whereas alternative scores perform better for inquiry only and thin-file segments.

SEGMENT	KS			GINI		
	Traditional Trended Score	Alternative Score	CV Link Optimal Score	Traditional Trended Score	Alternative Score	CV Link Optimal Score
Thick	51	20	Traditional Trended Score	68	28	Traditional Trended Score
Inquiry Only	19	35	Alternative Scores	26	47	Alternative Score
NTC	22	47	Alternative Scores	32	59	Alternative Score

Result: Reduce score rejects while managing risk

By using the CreditVisionTM Link Score, lenders are able to lift score pass/approvable base to 61% while keeping bad rates manageable at 5%.

Combining trended credit and alternative data can lift the scoring coverage and accuracy by **at least 2x**, enabling lenders to predict creditworthiness of new-to-credit customers.

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One data source can mean better customer experience

One of the most important aspects of combining data sets is consistent and strong consumer relations.

Having a single provider of alternative and trended credit data sets can be more efficient internally and less confusing for customers.

Next generation algorithms that utilize trended credit data and alternative datasets together are revolutionary. Look for a single source that utilizes both trended credit and alternative data in order to accurately evaluate the risk associated with more consumers.

Profitable growth is a balancing act that requires a true partnership

Facilitate automated decisioning

Expand marketable universe

Raise approval rates

Approve more with fewer stipulations

Provide more consistent experience across channels

Lower CPA

Model governance support

More clearly understand risk exposure

The future of lending

When multisourced information is utilized for credit assessment, many current and potential customers may be assessed as lower credit risks and thereby afforded preferred lending terms, such as lower interest rates or higher credit lines.

TransUnion is the first information services company to combine multifaceted alternative data into core operations. Over the years, we've seen first hand the insights and techniques needed to engage, acquire and affect financial inclusion of a broader range of consumers. The hybrid approach to risk assessment can be the key to improving profitability in a competitive environment by scoring more consumers and making risk-appropriate lending decisions. To adapt to the future of lending, it's time to complement or enhance existing scoring strategies with the historical insights of trended credit data and alternative datasets.

Starting now, you can more precisely score emerging credit populations and potential customers across all credit risk tiers with greater insight. The innovation of a credit score that combines both trended credit bureau data and alternative data sources ultimately leads to better outcomes for you and your customers alike.

Visit: **transunion.ph/product/creditvision-link**

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