



Asia-Pacific Credit Coalition

# Policy & Economic Research Council

## The Promise of Alternative Data: Financial Inclusion and Its Challenges

Expanding Financial Access Through Regional  
Public-private Cooperation

Tokyo, Japan

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*The Policy and Economic Research Council*

# What is PERC?

- PERC is a non-profit 501(c)3 organization dedicated to **information solutions for development challenges**
  - Information sharing policy reform
  - Moving markets--education and outreach
  - Development of applications
- **Not just a think tank** – we work with policy makers at all levels to bring about the change we seek
  - Foundations
  - Private sector actors
  - Central Banks, banking commissions, development agencies
- Committed to **market-based economic development**
- Established in **April 2002**



# 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
  - Mortgages
  - Automobiles
  - Revolving credit
  - Installment loans
  - Personal loans
- Retail credit



# The Limits of Financial Data

## Limitations of traditional approach

- Works for borrowers already in the system
- Creates a credit catch-22
- Problem of:
  - How to extend credit to those without collateral (or valued collateral)?
  - How to provide access to those in the informal sector (often large share of the population)

In USA, this population is high as 30% of adult population (70 million)

In emerging markets, this population is a larger share of population





# Alternative Data: A Solution

**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

**What is Alternative Data Being Used to Predict?**

- The probability of a serious delinquency on a loan (above 60 or above 90 days beyond term)
- Creditworthiness, credit capacity, and credit risk (e.g., income stability)



# Methodology for Identification

Our qualitative study was designed to assess usefulness along 3 key dimensions

- “Cash-like” vs. “Credit-like” (incentive to furnish)
- Coverage (reach of data in population)
- Concentration (resources needed to reach furnishers)

● Traditional “credit-like” data

■ Non-traditional “cash-like” data

Service Providers / Data Furnisher

Few

Many

<ul style="list-style-type: none"> <li>■ Rental Payments</li> </ul>	<ul style="list-style-type: none"> <li>● Energy</li> <li>● Water</li> <li>● Cable</li> <li>■ Auto liability insurance</li> </ul>
<ul style="list-style-type: none"> <li>■ Child care</li> <li>● Payment cards</li> <li>● Payday loans</li> </ul>	<ul style="list-style-type: none"> <li>■ Tuition</li> </ul>

Many  
Consumers Utilizing Services  
Few



# Hurdles to Reporting

## Technological barriers to reporting:

- Complex billing cycles (footprint dependent)
- Legacy IT systems

## Economic barriers:

- Compliance costs—FCRA data furnisher obligations
- Customer service costs from lenders scaring customers substantial

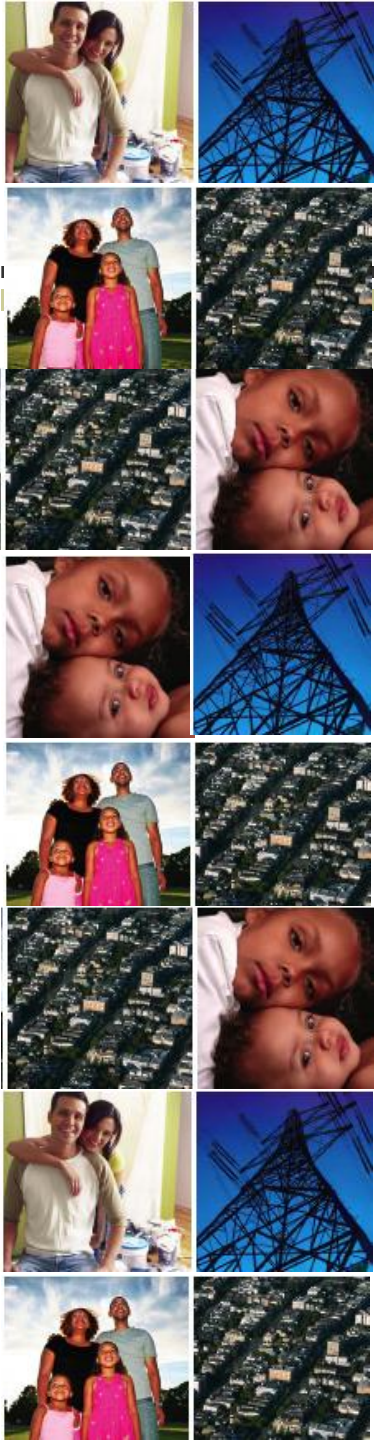
## Regulatory barriers:

- Some states have statutory prohibitions (CA, NJ, OH)
- Federal prohibitions: Section 22 of the 1996 Telecommunications Act
- Regulatory uncertainty at the state level



# Testing Alternative Data

# Alternative Data Initiative





# The Roadmap USA: ADI Phase 1

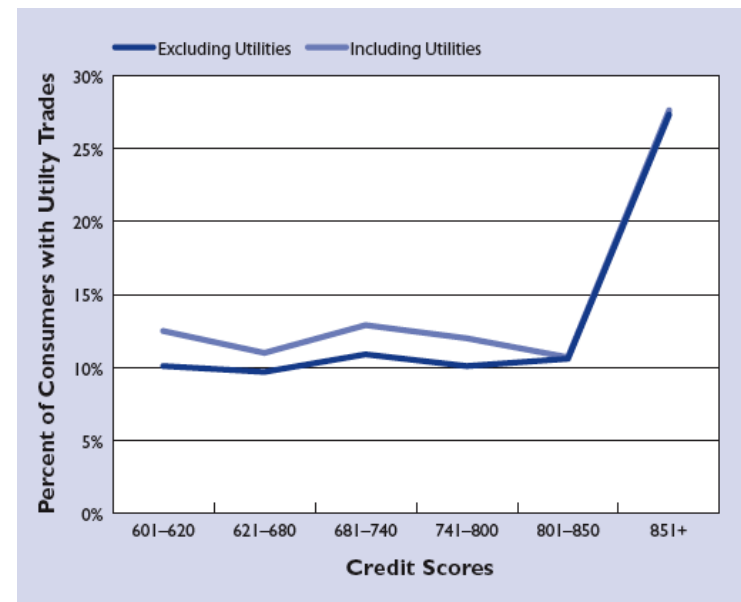
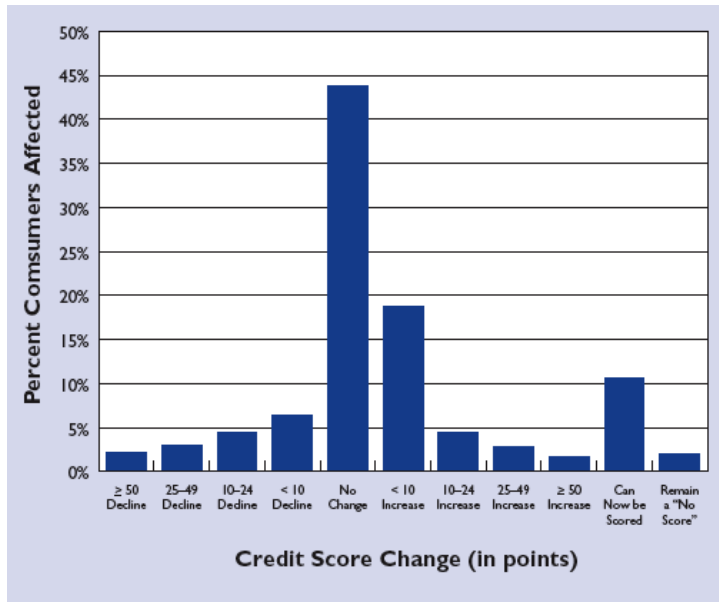
## Phase 1 Key Findings and Results

- Reporting of utility and telecom payments hold most near term promise
- Technological and economic barriers are surmountable
- Legislative barriers and “regulatory uncertainty” need to be addressed



# Addition of Utility Data Has Small Impact on Score Distribution

Total sample 7.5M



# Key Findings-- Greater Access for All

Considerable increases in acceptance rates for a given performance level. For utilities, an increase of 6 percentage points for a 6% delinquency level.

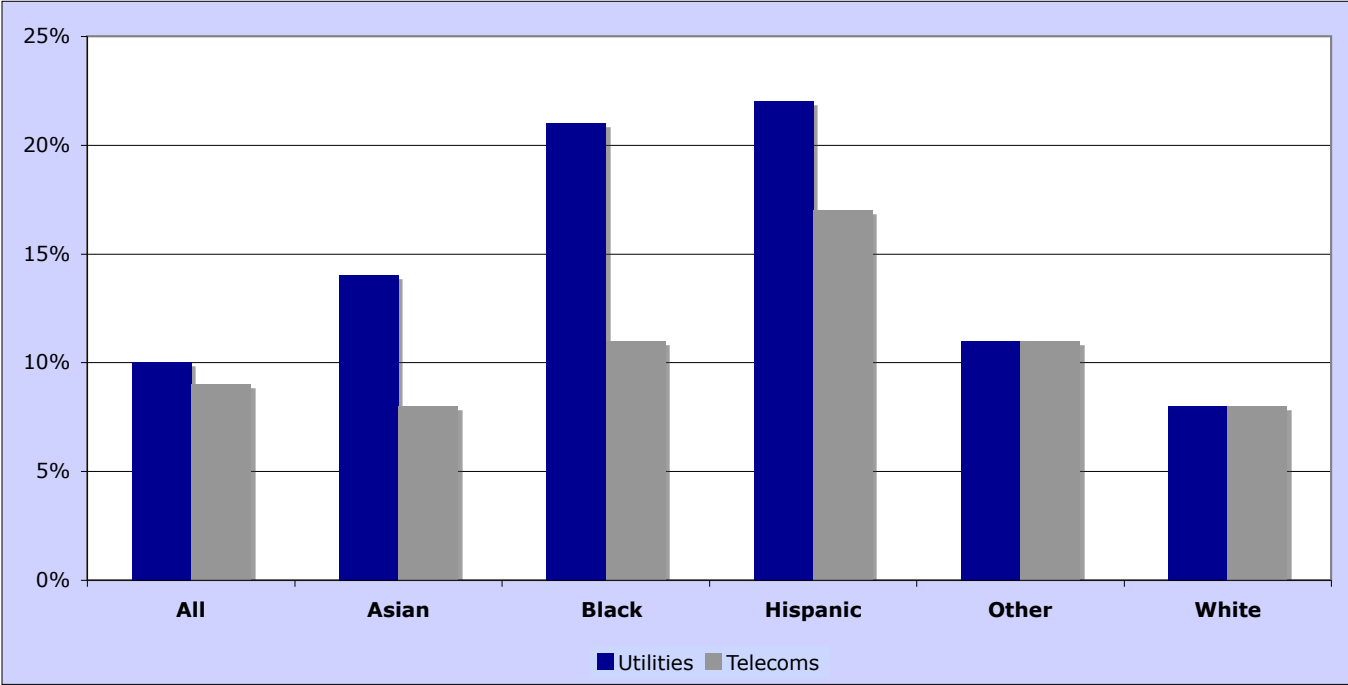
## Acceptance Rates by Targeted Delinquency Rates

Delinquency Rate %	Consumers with Utility Trades	
	Including Utilities (#1)	Excluding Utilities (#2)
2	52.4	47.2
3	60.4	54.9
4	65.4	59.6
5	69.1	63.1
6	72.0	65.7



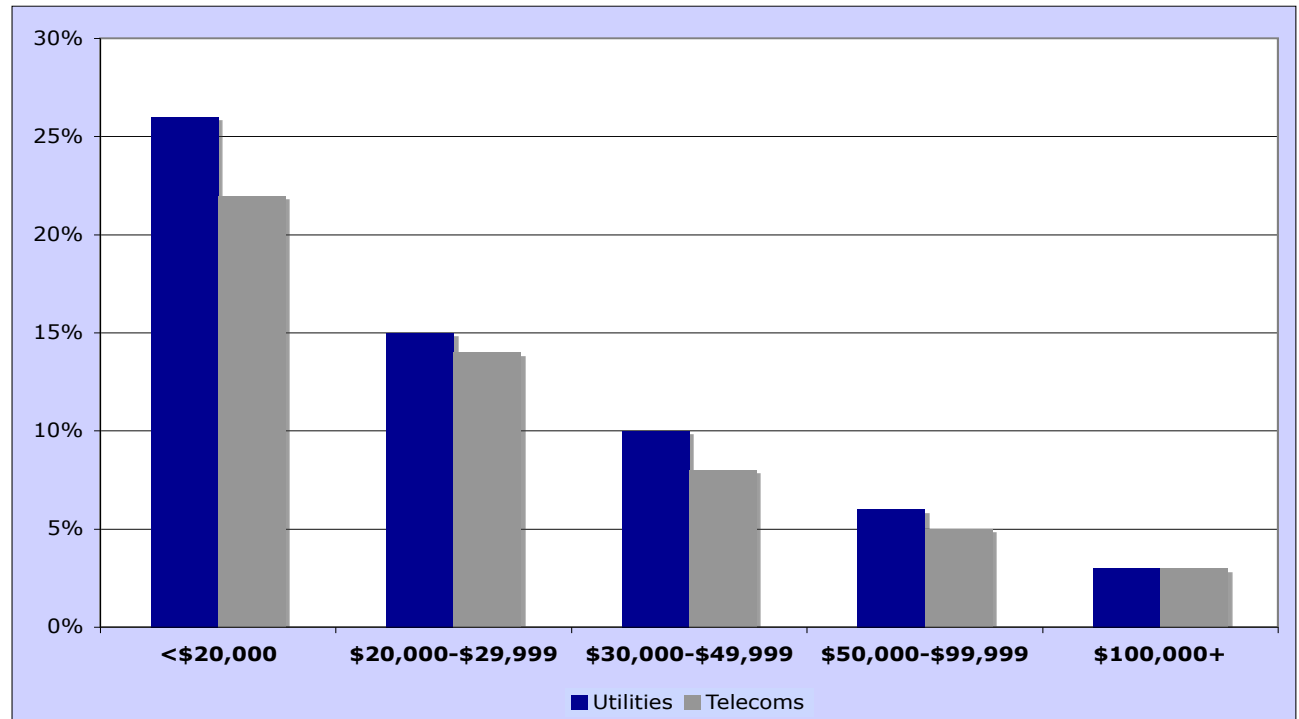
# Phase 2 Key Findings

Change in Acceptance Rates by Race/Ethnicity at 3% Delinquency Target



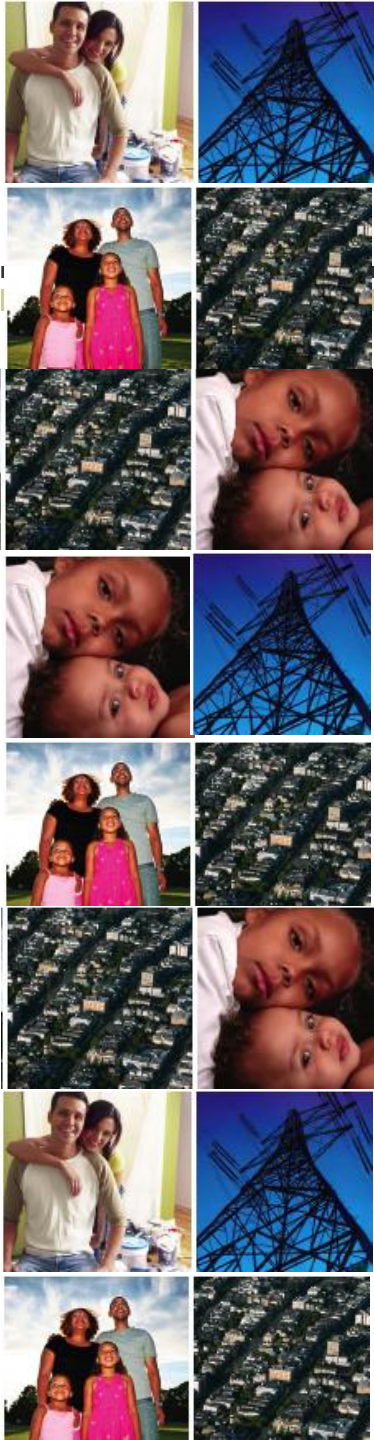
# Phase 2 Key Findings

## Change in Acceptance Rates by Race/Ethnicity at 3% Delinquency Target



# Alternative Data in Emerging Markets

# Alternative Data Initiative



# Why ADI Globally?

Problem of lending to lower income segments, informal economy?

- Lenders express concern about problem of identifying risk
- Lenders are uncertain if lower income segments have incomes too volatile for structured lending products

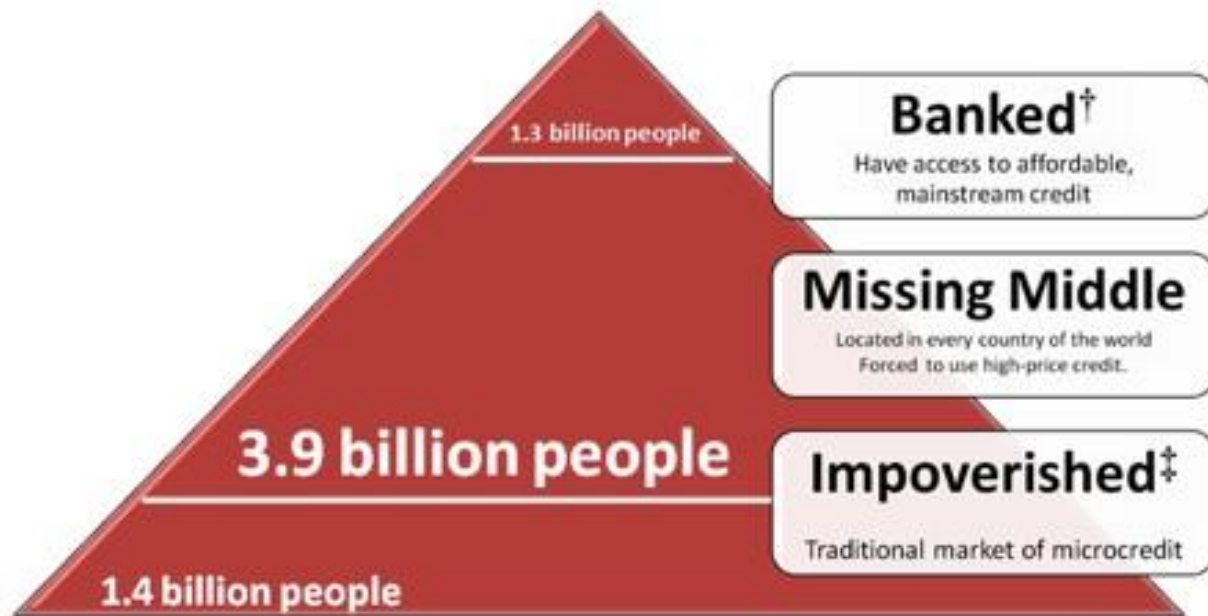
Is there a data based solution to the problem of loan monitoring?

Can automated scoring systems help reduce origination costs, and lower costs of micro- and other small value loans?

Can large lenders enter underserved markets while working mostly within their existing business models?



# Why ADI Globally?



# The Roadmap: ADI Phase 1

- Define universe of alternative data
- Assess which are most promising and useful
- Frame the issue, identify the problem and the way forward



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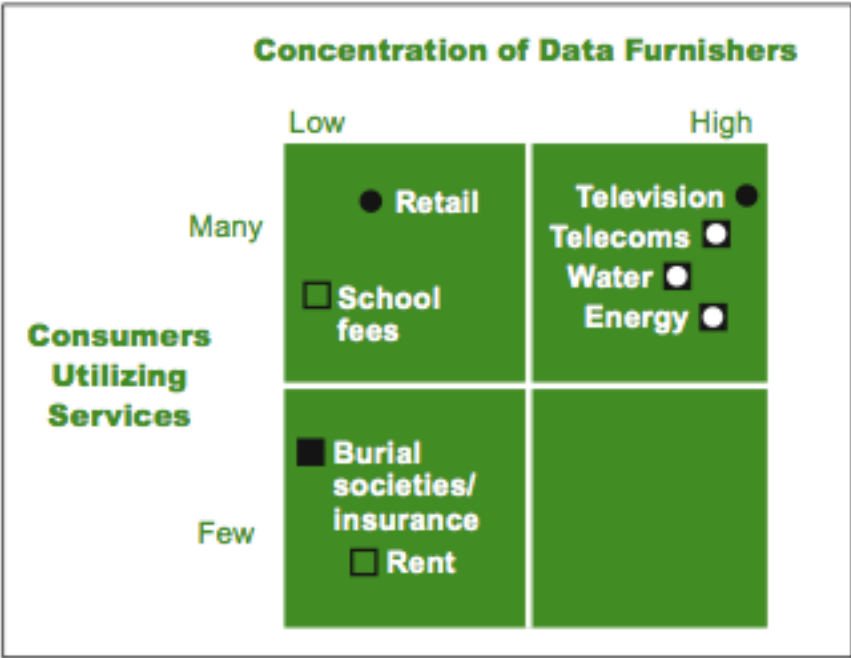
Many

		Many
		Few

Consumers Utilizing Services

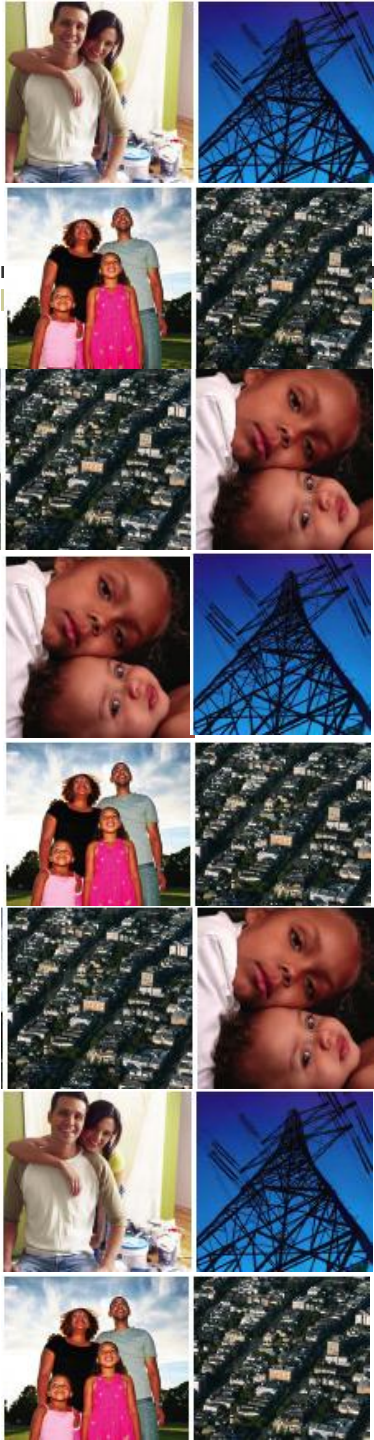


# Identifying Alternate Data in South Africa



**Figure 3: Select Alternative Data Sources Along Dimensions of Evaluation**

- Credit like
- Both pre and post pay
- Prepay
- Prepay but services not immediately severed upon delinquency



# Pending ADI Projects II— ADI South Africa

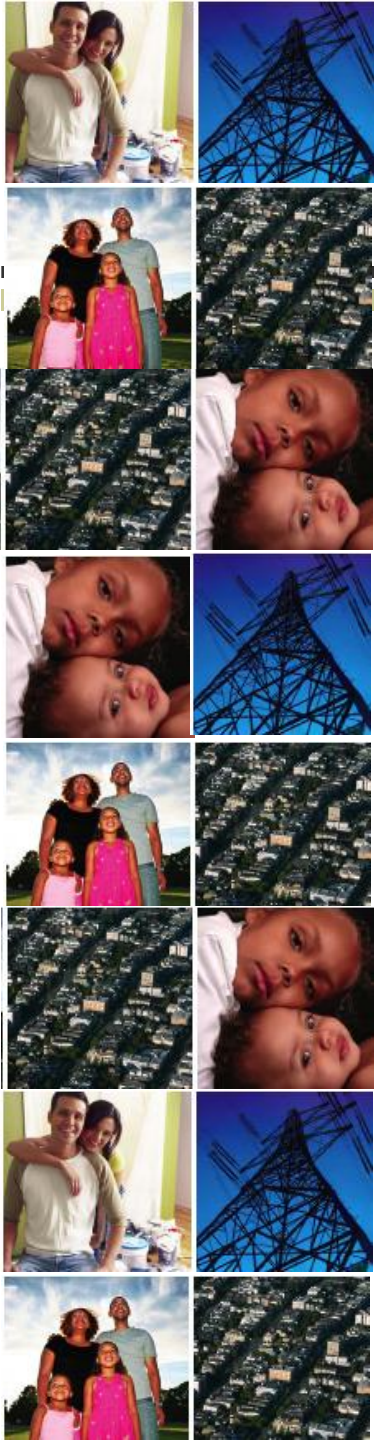
## Alternative data approach: test data identified in ADI report

- Reorient mainstream finance to urban and rural poor
- Two sources indicate willingness to participate in tests
  - Municipal services data on payment and prepayment patterns
  - Rental information
- Next steps:
  - collect data,
  - build models,
  - and test,
- Phase III would involve a lending pilot to see the effects of lending on the basis of this information



# What Can Policymakers Do?

## Alternative Data Initiative



# Considering Alternative Data

Service Providers / Data Furnisher

Few

Many


Many  
Consumers Utilizing Services  
Few

● Traditional  
“credit-like” data

■ Non-traditional  
“cash-like” data



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# Identifying Policy Challenges

FOR EACH OF THE SECTORS IDENTIFIED AS PROMISING

Useful exercise when developing regulatory framework:  
consider *all* of the hurdles in your economy

Technological barriers to reporting:

Economic barriers to reporting:

Regulatory barriers to reporting:





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