



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

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

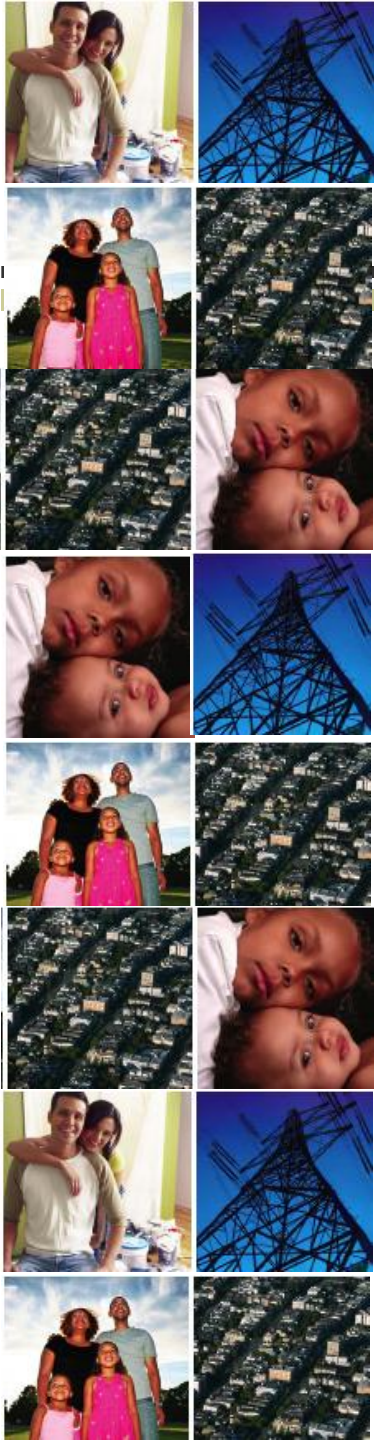
Regulatory barriers:

- 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

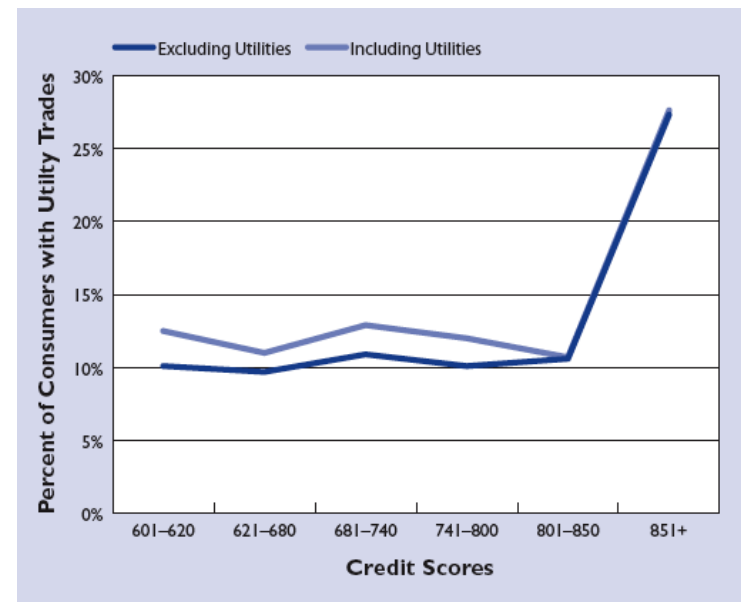
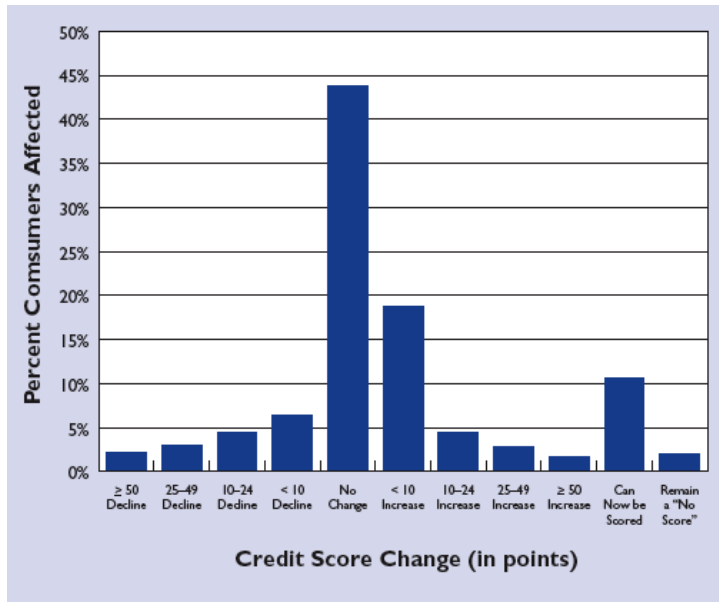
Phase 1 Key Findings and Results

- 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.

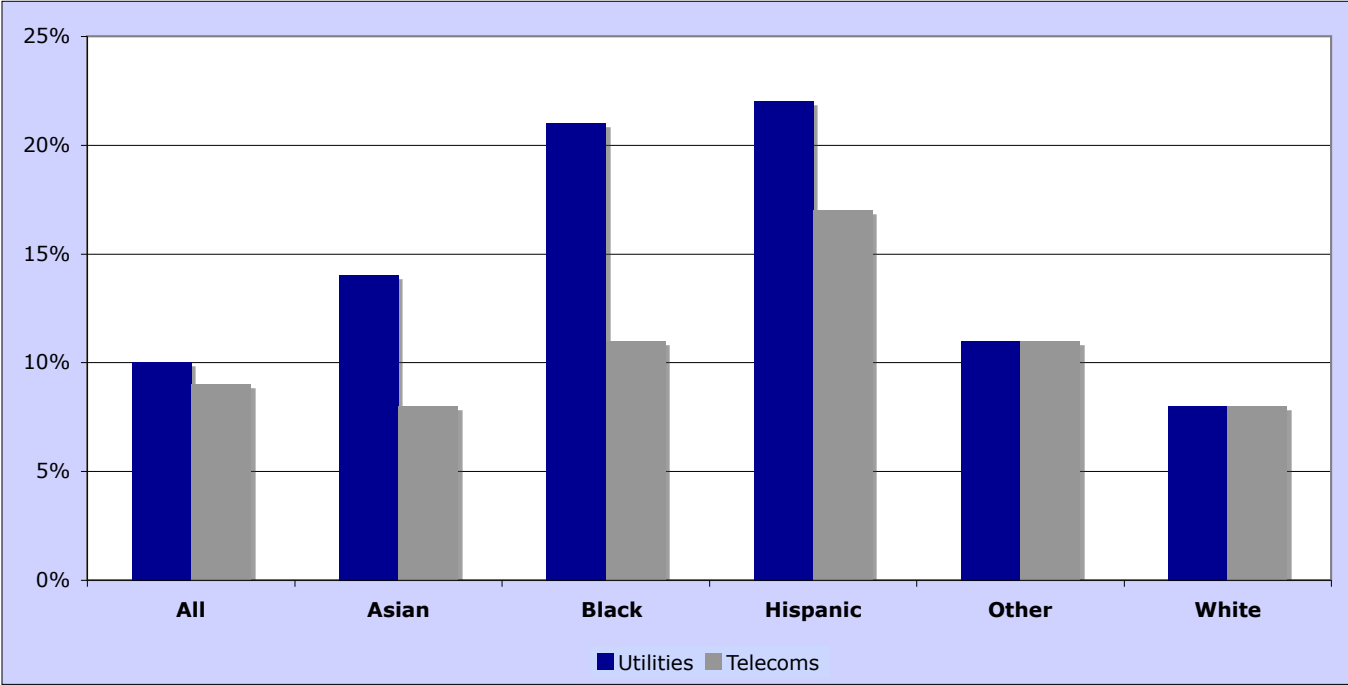
Acceptance Rates by Targeted Delinquency Rates

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



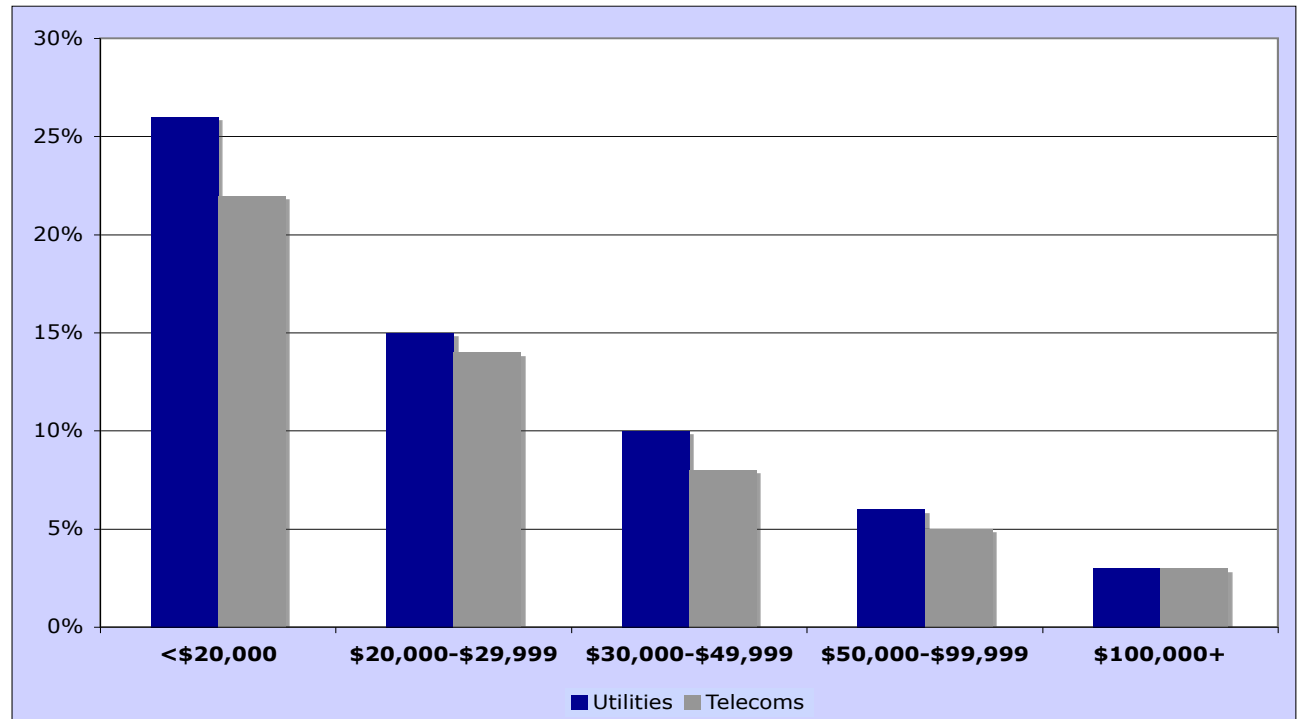
Phase 2 Key Findings

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



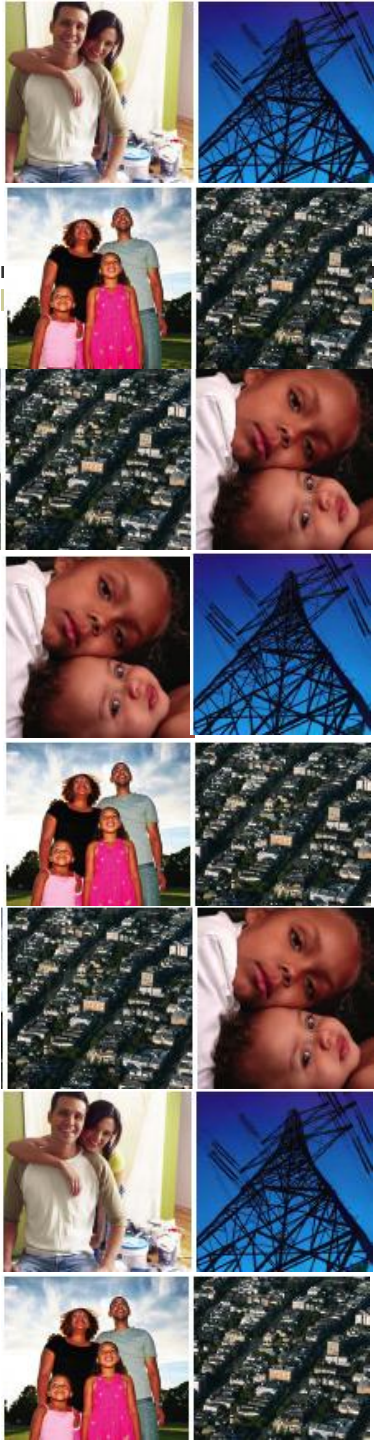
Phase 2 Key Findings

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

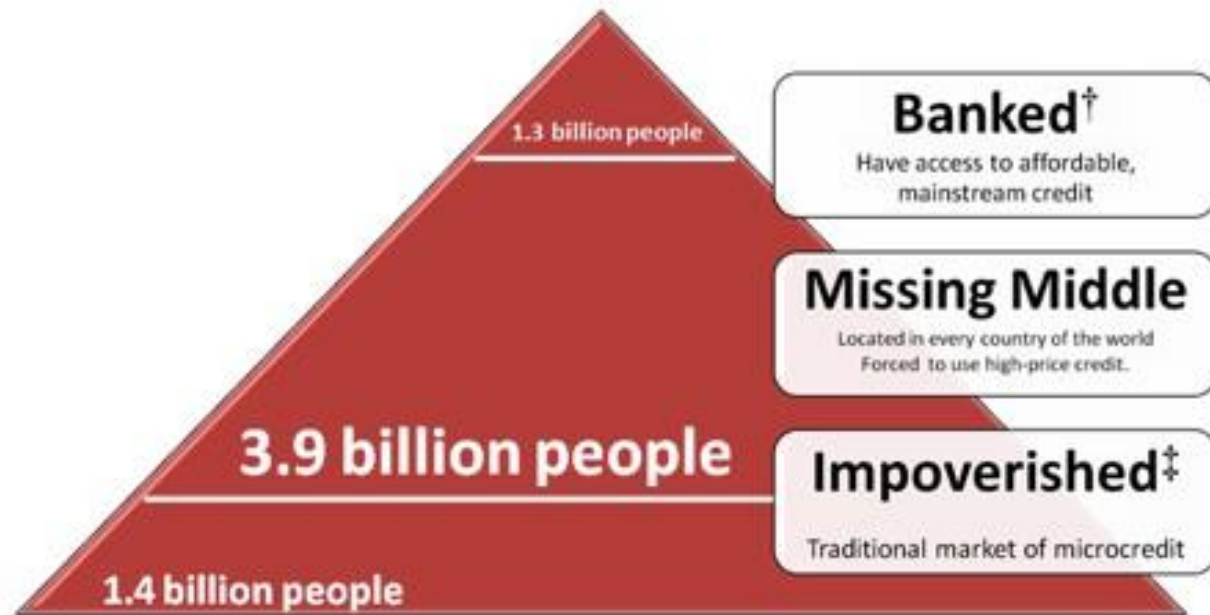
Is there a data based solution to the problem of loan monitoring?

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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		Few

Consumers Utilizing Services



Identifying Alternate Data in South Africa

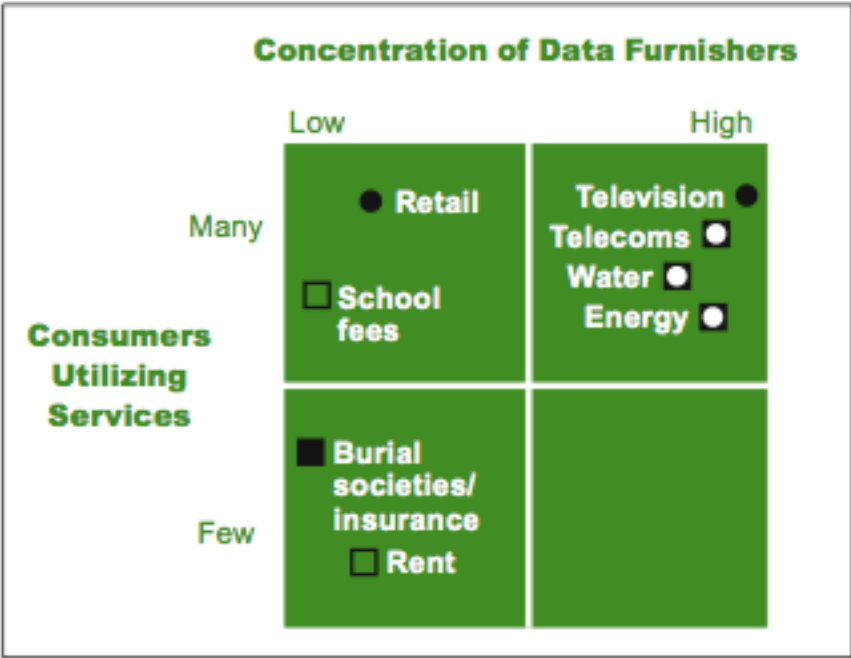
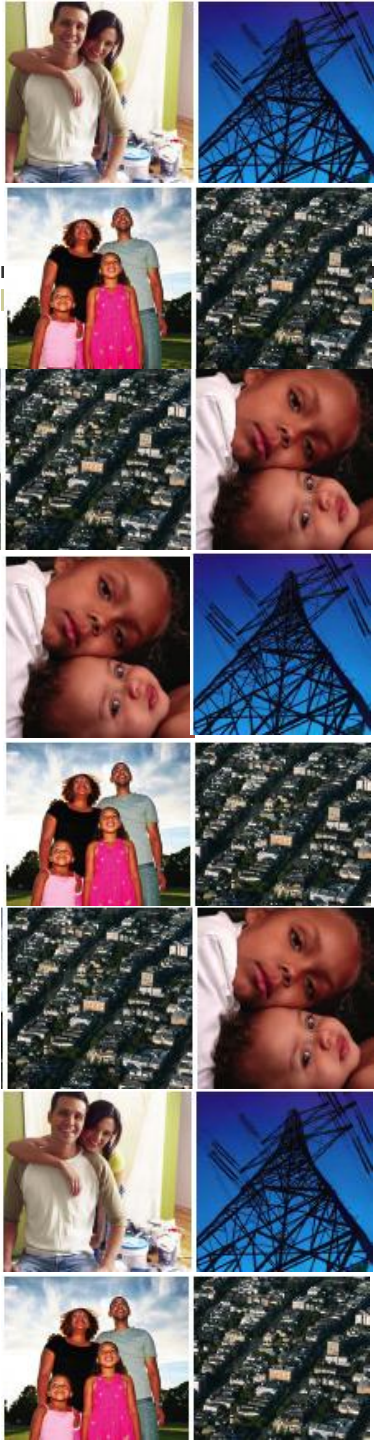


Figure 3: Select Alternative Data Sources Along Dimensions of Evaluation

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



Pending ADI Projects II— ADI South Africa

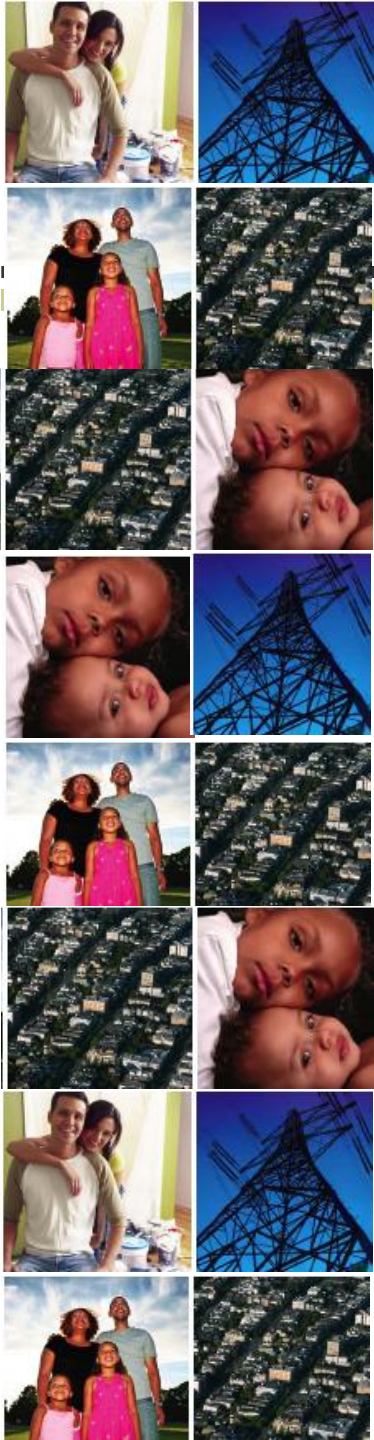
Alternative data approach: test data identified in ADI report

- 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?

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Considering Alternative Data

Service Providers / Data Furnisher

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“credit-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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