


ACCEPTING CREDIT INVISIBLES

Find how financial institutions can use alternative data to tailor towards individuals with no credit history



MAXIRON
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"We're all
working
together; that's
the secret. "


- Sam Walton



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**"1 in every 10 adults
does not have a
credit history with
one of the three
nationwide credit
reporting
companies."**

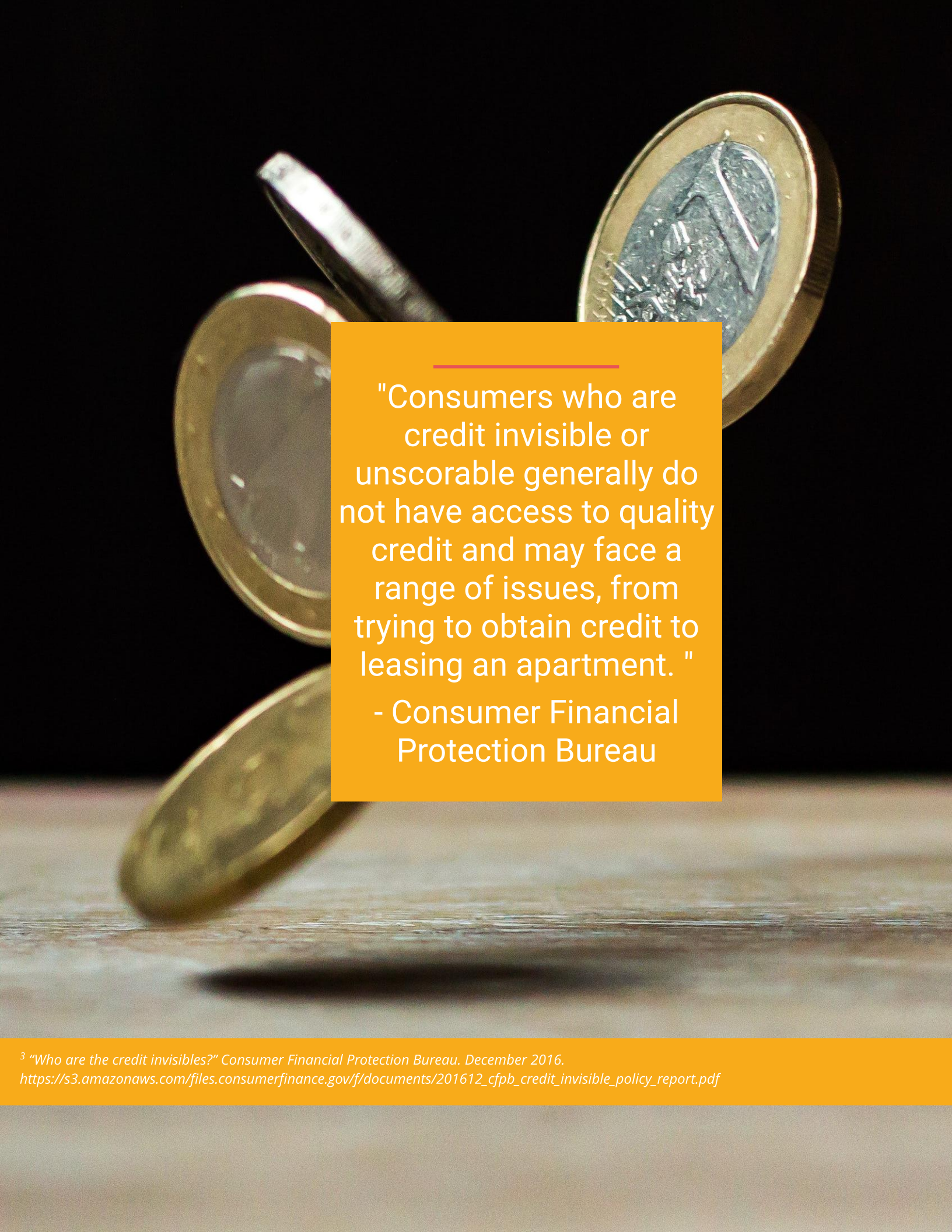
¹ Wilson, Eric and Wolkowitz, Eva. "2017 Financially Underserved Market Size Study." December 2017. Center for Financial Services Innovation.
https://s3.amazonaws.com/cfsi-innovation-files/wp-content/uploads/2017/12/06193020/2017-Market-Size-Report_FINAL_4.pdf

² Scarbrough, Michele, "Who are the Credit Invisibles?" December 2016. Consumer Financial Protection Bureau.
<https://www.consumerfinance.gov/about-us/blog/who-are-credit-invisible/>

INTRODUCTION

Credit invisible consumers refer to those who do not have an existing credit score with one of the three credit reporting companies. The Center for Financial Services Innovation (CSFI), is a financial consultancy agency that specialises in serving un-banked consumers. They revealed that as a collective, these 'credit invisible consumers' spent \$173 billion in fees and interest - to borrow, spend, save and manage their financial lives. However, traditional financial institutions often neglect their credit and loan applications. They are often harsher on these applications because of the inexistent credit scores of these Credit Invisibles.

Technology allows financial institutions to meet the needs of the credit invisible better. The eBook will explore how technology allows for access to alternative data. In turn, this allows financial institutions to open to a new customer base. Society benefits as the lives of these credit deserving individuals are also improved.

A background image showing four coins in motion against a dark background. One coin is in the foreground, slightly out of focus, while three others are in the background, appearing to be falling or spinning. The coins are gold-colored with a silver-colored center.

"Consumers who are credit invisible or unscorable generally do not have access to quality credit and may face a range of issues, from trying to obtain credit to leasing an apartment. "

- Consumer Financial Protection Bureau

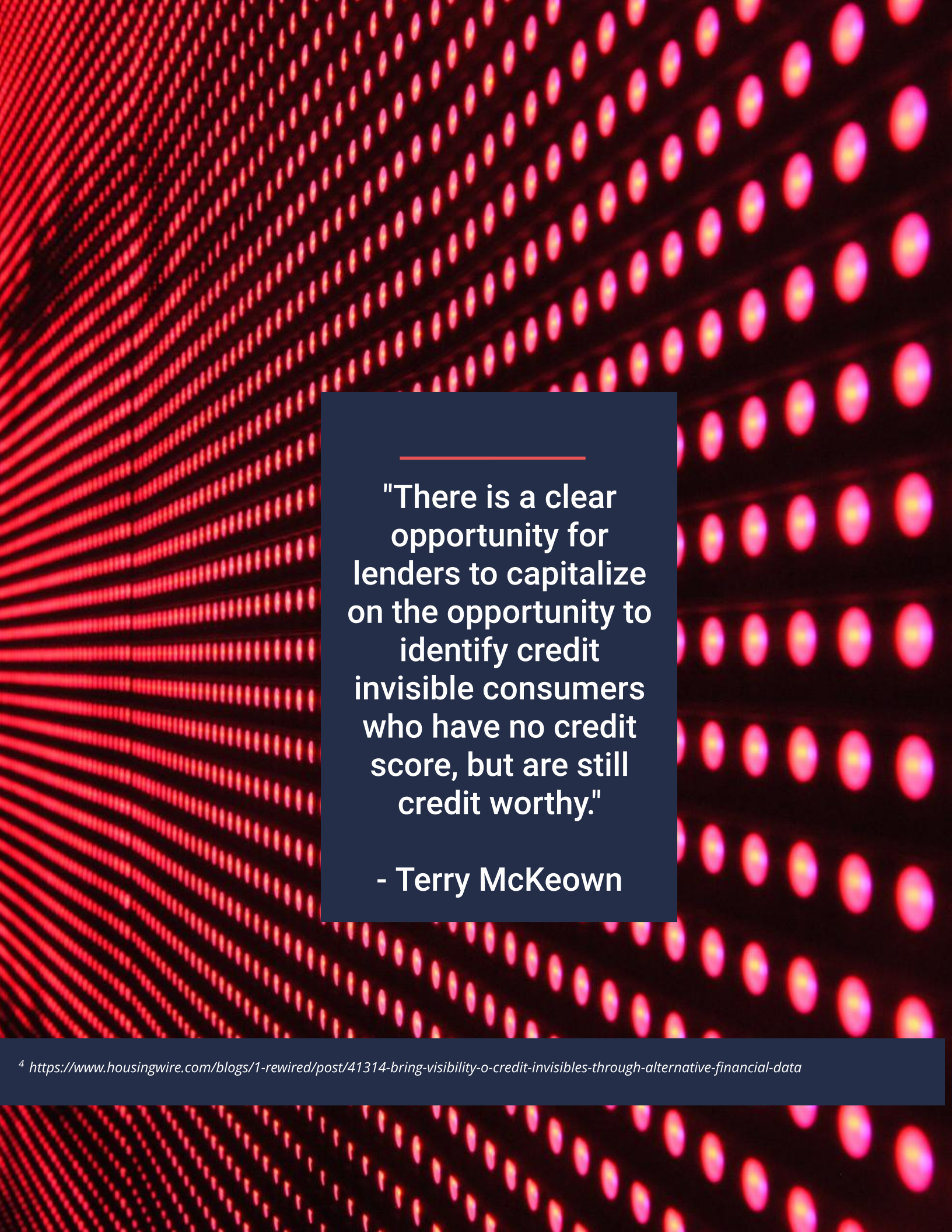
³ "Who are the credit invisibles?" Consumer Financial Protection Bureau. December 2016.
https://s3.amazonaws.com/files.consumerfinance.gov/f/documents/201612_cfpb_credit_invisible_policy_report.pdf

CATEGORIZING CREDIT INVISIBLE CONSUMERS

‘Credit Invisible’ consumers, mainly fall under four main consumer group segments. These include:

- ▶ **Recent immigrants:** Those that have recently migrated to their new country. They have not yet been given an opportunity to establish a credit history with their new country.
- ▶ **Millennials:** Those that are still young in age. They are just beginning to start their finances. They have not yet been exposed to borrowing money.
- ▶ **Mass-affluent:** Those that have placed privacy as their priority, and prefer to pay with cash instead of credit. These group of people earn high incomes.
- ▶ **Low-income:** Those that lack sufficient money inflow to be granted credit. Traditional banks are reluctant to deal with this category primarily due to risk precautions.

Many of these Credit Invisible consumers are involved in financial activities. However, the credit record does not include many of these activities. Lenders are thus often reluctant into providing these group of individuals with loans. Fortunately, technological advancements in society allow financial institutions to cater to 'Credit Invisibles'. It enables them to create a more realistic risk assessment profile of their clients, opening up a new market for them.



**"There is a clear
opportunity for
lenders to capitalize
on the opportunity to
identify credit
invisible consumers
who have no credit
score, but are still
credit worthy."**


- Terry McKeown

⁴ <https://www.housingwire.com/blogs/1-rewired/post/41314-bring-visibility-o-credit-invisibles-through-alternative-financial-data>

ALTERNATIVES TO TRADITIONAL CREDIT REPORTING

Credit reports help financial institutions make decisions. It provides insight into a consumer's past credit behaviour. However, the contents of the report are limiting. Credit reports contain information that only describes one's liabilities. It neglects any assets owned by these consumers. It thus fails to offer a more holistic standing of an individual's record of liabilities and assets. Minor incidents that may have occurred in the past can deflate the score, and provide an inaccurate picture of true credit position.

The rise of Big Data within society has granted financial institutions access to alternative data sources. Unlike traditional credit scores, it is used to reflect the real risk with each consumer. Financial institutions can use it in conjunction with the traditional credit reports to give lenders a better overview of the associated risks.



**"Revolving payments
such as rent, utilities and
cellphone can be used to
determine
creditworthiness. In
addition, the CFPB
suggests using electronic
deposits, withdrawals and
transfers to better
understand a consumer's
financial situation."**

- Evan Weinberger

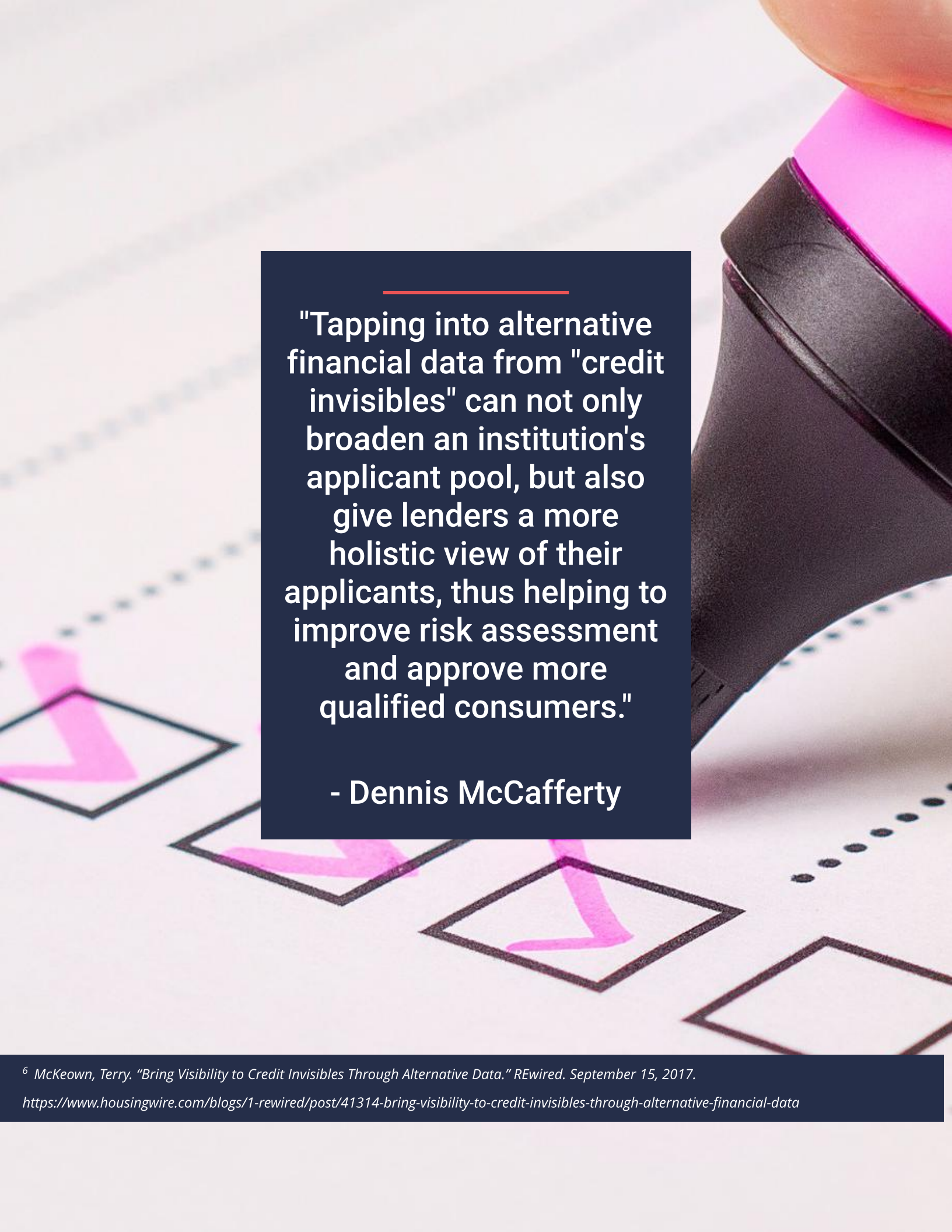
⁵ Weinberger, Evan, "CFPB Contemplates Using Alternative Data in Credit Scores." Law360.com. February 2017.

<https://www.law360.com/articles/892617/cfpb-contemplates-using-alternative-data-in-credit-scores>

HOW BETTER TECHNOLOGY HELPS CREDIT INVISIBLES

Alternative data sources allow financial institutions to understand all their clients better. In particular, the invisible credit consumers have gained more attention. These alternative data sources used to understand credit invisible consumers include:

- ▶ Assets - cash , other investments, home ownership
- ▶ Verification of employment, and income generation
- ▶ Historical payments - billing of non-expenses and non-credit items such as rent, utilities and phone bills



"Tapping into alternative financial data from "credit invisibles" can not only broaden an institution's applicant pool, but also give lenders a more holistic view of their applicants, thus helping to improve risk assessment and approve more qualified consumers."

- Dennis McCafferty

⁶ McKeown, Terry. "Bring Visibility to Credit Invisibles Through Alternative Data." REwired. September 15, 2017.

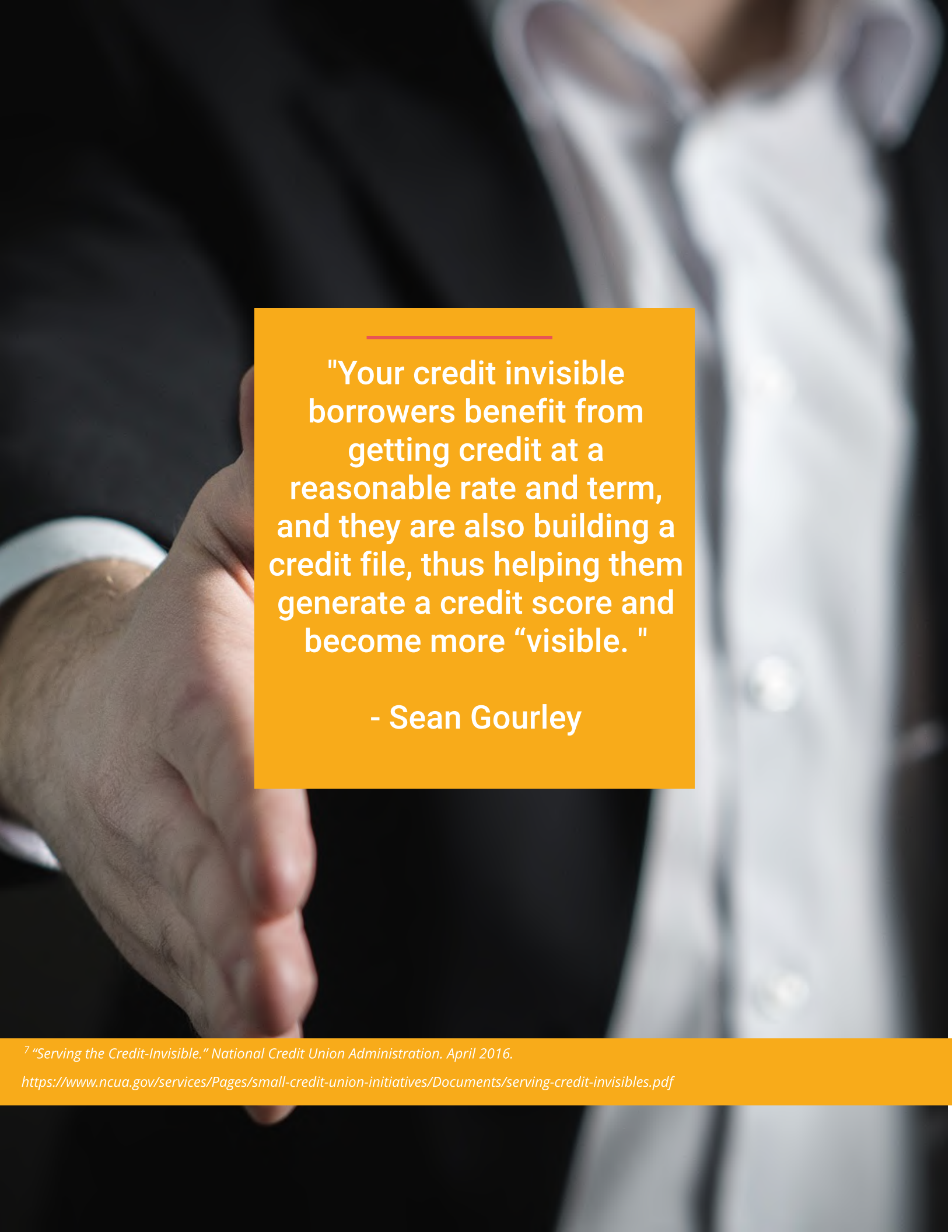
<https://www.housingwire.com/blogs/1-rewired/post/41314-bring-visibility-to-credit-invisibles-through-alternative-financial-data>

CREDIT INVISIBLE PROGRAM RISK MANAGEMENT

An effective program for Credit Invisible consumers is necessary. For it to be effective, it requires strategic planning, implementation and tight risk controls.

Advised by the national credit union association, for strategic planning, identify the following objectives:

- ▶ The number of loans handed to credit invisible
- ▶ The rate of loan loss
- ▶ The yield of net borrowing
- ▶ The percentage of loan growth
- ▶ Increases in memberships
- ▶ Profitability improvements
- ▶ Risk exposure to net worth



**"Your credit invisible
borrowers benefit from
getting credit at a
reasonable rate and term,
and they are also building a
credit file, thus helping them
generate a credit score and
become more "visible. "**

- Sean Gourley


⁷ "Serving the Credit-Invisible." National Credit Union Administration. April 2016.

<https://www.ncua.gov/services/Pages/small-credit-union-initiatives/Documents/serving-credit-invisibles.pdf>

FORGING RELATIONSHIPS WITH CREDIT INVISIBLES

By attending current credit invisible consumers, it can serve to be of value in future. As credit invisible customers begin to prove that they are capable of maintaining a good credit record, they may choose to obtain more complicated financial products. Establishing a good relationship will likely result in the consumers to stay loyal to the financial institution that helped them grow, as their needs evolve.

Catering to those that are 'credit invisible' can act as a point of differentiation for financial institutions. It can also open new markets for these institutions. As they have placed effort to extend credit to more risk exposed consumers, there is a possibility that they will receive grants that can benefit them. For example, credit unions can be eligible for regulatory relief, for extending their credit to high-risk individuals.



"This is about expanding the market by bringing affordable credit to segments of the population who have never had the opportunity to participate in the mainstream credit marketplace. A win-win-win situation for the borrower, the lender and society "

- John McWilliams

⁸ <http://insights.lexisnexis.com/creditrisk/2016/06/06/who-are-the-credit-invisibles-why-are-they-invisible-and-how-can-they-be-best-served/>

UNDERSTANDING PATTERNS FOR A SUCCESSFUL PROGRAM

It is essential to examine all factors when evaluating a credit loan application from a Credit Invisible consumer. Technology eases this process for financial institutions. It grants them access to the required data sources. These data sources are necessary to make an adequate risk evaluation of its Credit Invisible clients. Technology allows lenders to gain better insight into the consumer's assets, income and transaction history. A better idea to these finances will enable these financial institutions to understand the financial habits of the borrowers better. They, therefore, make better decisions, as the associated risks involved can be better assessed.

In the dataset, applying machine learning algorithms categorises and clarifies transactional data. A rules engine can also be used to calculate values. The rules engine allows for a review process which highlights any areas needed for further evaluation.



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