



## Innovations for Meeting The Challenge of Financial Inclusion

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- The Challenge of Financial Inclusion
- Three Trends in Innovation:
  - Leveraging Unconventional Data Sources
  - Consumer Education & Empowerment
  - Technology: Distribution and Rapid Decisions

## The Challenge of Financial Inclusion

**Problem:** Lenders are seeking opportunities to extend credit to more borrowers, including traditionally underserved and underbanked consumers, but

Millions of consumers have difficulty obtaining credit from mainstream financial institutions

Why?

- The absence of conventional information prevents effective risk assessment by financial institutions
- Consumers may not be well informed on the steps that they need to take to access credit
- For these reasons, and some others, many consumers seek alternatives to the traditional financial system to meet their credit needs



## FICO's Data Selection Guidelines

Regulatory Compliance	The data source must comply with all regulations governing consumer credit evaluation.
Depth of Information	Data sources that are deeper and contain greater detail are often of greater value.
Scope & Consistency of Coverage	A stable database covering a broad percentage of consumers can be favorable.
Accuracy	How reliable is the data? How is it reported? Is it self-reported? Are there verification processes in place?
Predictiveness	The data should predict future consumer repayment behavior.
Orthogonality	Useful data sources should be supplemental or complementary to what is captured by other data sources.

## Telco and Utility Data

- Payment information has similar characteristics to traditional credit file data

## Rental Data

- Apartment and property rental data also has similar characteristics to traditional credit file data

## Public Record and Property Data

- Most inclusive of datasets studied with high coverage rates
- Includes sources from tax and government bodies, e.g., address history
- Stable address histories and evidence of property ownership represent less risk

## Relationship Data

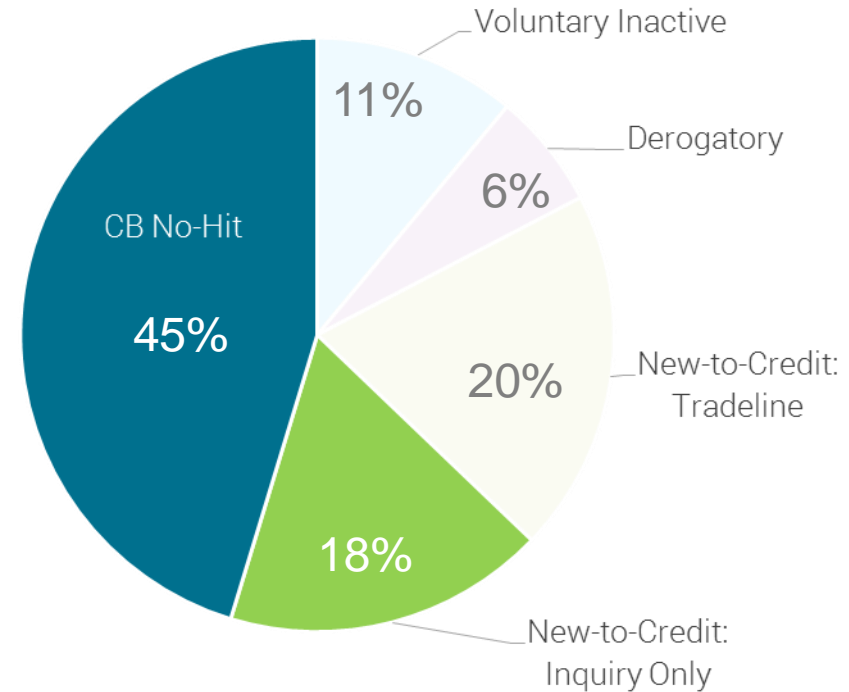
- The credit history or data of other household members

## Micro-aggregated Data

- The aggregate credit performance of a neighborhood or micro-geography

# Case Study: US Unscorable Population

- Over 60% of declined applicants are credit worthy consumers with no credit file or files
- These applicants include many new credit seekers; the median age was 24-25
- These consumers continued to exhibit responsible behavior after being granted credit
- Traditional credit data alone was insufficient to assess risk on these sparse/no file applicants



- Consumers want empowerment
- Informed disclosure lays the foundation
- Financial institutions can play a direct role in informing and empowering consumers
- Establishing the dialogue with consumers benefits the financial institutions
- Financial literacy promotes demand in consumers for services:
  - Identity protection
  - Fraud controls
  - Credit monitoring
  - Opt-in solicitations
- Prominent placement in online environment drives digital customer acquisition

- Consumers are looking to the digital environment for convenience
- Mobile access to credit is on the rise
- Speed is an important factor
- Automated decision technology becomes a necessity
- Speed and volume of decisions requires empirically-derived tools



Thank You

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