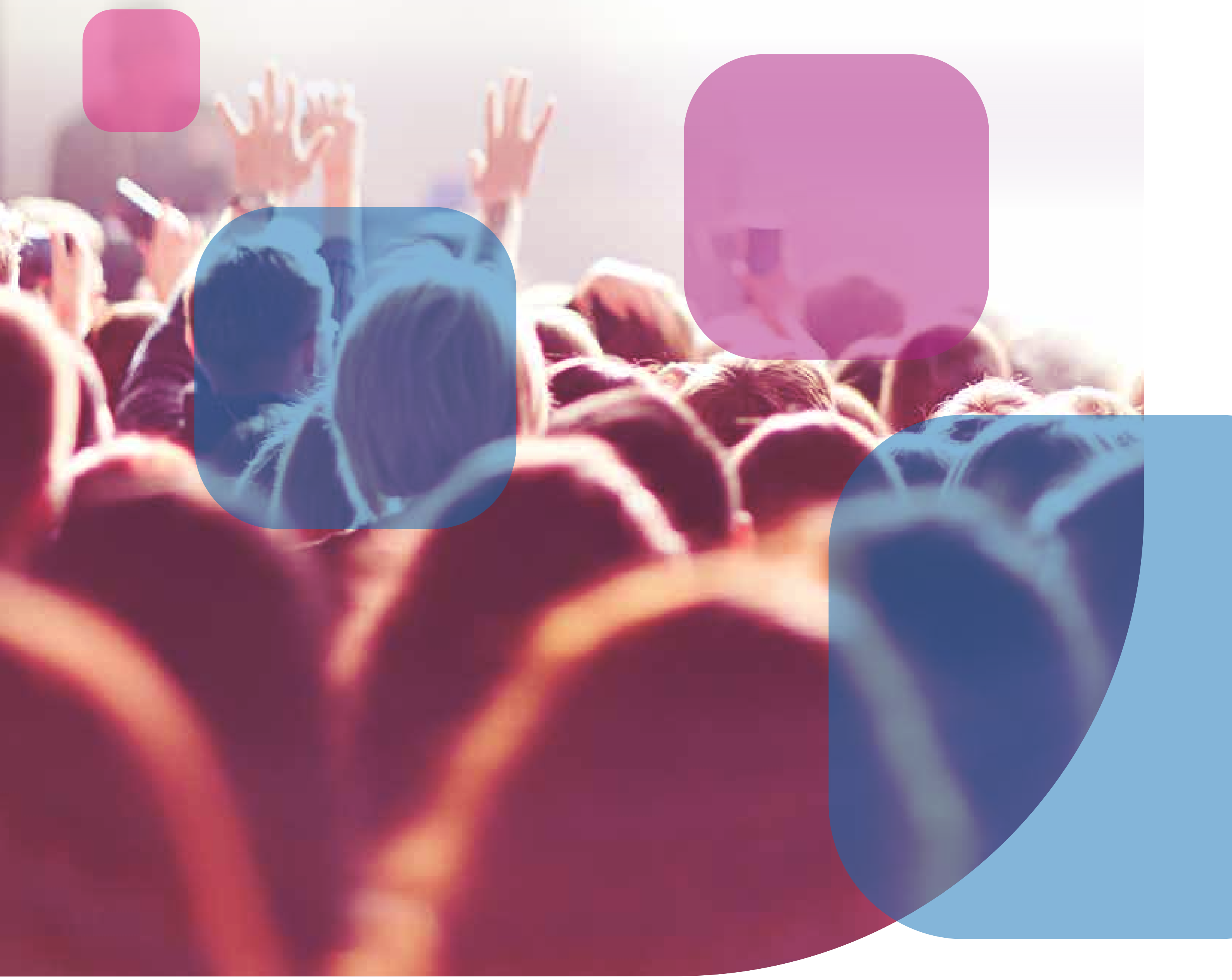
MAKING THE INVISIBLE VISIBLE

Exploring the power of new data sources



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Foreword:

The World Bank defines financial inclusion as having access to 'useful and affordable financial products and services, delivered in a responsible and sustainable way'.

In the UK, financial exclusion is a significant issue. According to the Financial Inclusion Commission, more than 1.5 million adults are unbanked, unsecured consumer credit has tripled since 1993, and half the households in the bottom half of income distribution have no savings to fall back on.

The consequences of exclusion can be severe and far-reaching – affecting people's education, health and housing.

Often, financial exclusion can be a consequence of having little or no credit history or identity information available. These people are termed as having 'thin' or 'non-existent' credit files. We estimate that there are currently 5.8 million adults in the UK in this position, meaning they will have limited or no access to formal credit options. They are 'Invisible' to the mainstream credit economy.

With little or no information available to make an informed decision, lenders consider the 'Invisibles' to be high risk and so can only offer them financial products at higher rates, if at all. More than a million thin-file customers live in households where total incomes are expected to decrease, making them particularly vulnerable to higher borrowing costs when they may need credit the most.

Financial inclusion and the accurate assessment of affordability, so people can reasonably make repayments now and in the future, are issues we care passionately about at Experian. It is our mission to reduce the thin-file population, and we believe introducing new and more appropriate data sources is the key. Our objective is to work with industry to unlock these, allowing mainstream lenders to better understand a new group of potential customers who, up until now, they have struggled to serve.

Jonathan Westley
UK&I and EMEA Chief Data Officer, Experian

FINANCIAL EXCLUSION IN THE UK

13 million

13 million people lack any savings to fall back on should they suffer a 25% cut in income

Source: www.financialinclusioncommission.org.uk/facts

5.8 million

5.8 million people in the UK are virtually invisible to the financial system. The cost of being invisible is significant and can lead to financial exclusion

Source: Experian

3 million

3 million consumers in the UK use high cost credit

Source: Financial Conduct Authority

1.5 million

1.5 million adults have no bank account

Source: www.financialinclusioncommission.org.uk/facts

½

Half of households in the bottom half of income distribution have no home contents insurance

Source: www.financialinclusioncommission.org.uk/facts

9th

The UK is ranked ninth in the world in terms of banking inclusion by the World Bank

Source: www.financialinclusioncommission.org.uk/facts

The business case for new data sources

The pace at which data is being produced is astonishing – 2.5 quintillion bytes of data are created each day. Questions of how to gather and manage data have turned to how to extract the greatest value from it. It's vital to get this right to secure the best outcomes for both consumers and businesses.

There are already examples of how analysis is being used to extract value from data. The arrival of trended data means businesses no longer rely on a snapshot of a consumer's financial situation at any point: instead they can see how it has developed over time.

Innovation has also led to new data sources coming to the fore. Our work with The Big Issue Invest on the Rental Exchange recognises rent payments on credit reports for the first time. More than 1.2 million tenants now have rental information on their Experian credit reports and we expect 79% to see a noticeable improvement to their credit histories as a result of this new data.

Recording data responsibly and with consent

Using data, innovation and technology to combat big societal challenges is fundamentally a good thing. However, the full potential of this data-driven insight can only be realised if it is gathered responsibly and ethically, in compliance with all the boundaries that are set through regulations and laws.

Previous Experian research revealed conflicting attitudes to data sharing in the UK. While 41% of the population accept the need to share data to access products and services, 28% are cautious about doing so. A further 22% are often unaware about how companies use their data, while 9% go to great lengths to avoid sharing information. Businesses which want to share data need to recognise that not all their customers view it in the same way and they will need to be communicated with accordingly. People are more enthusiastic about sharing data if they see what's in it for them.

Businesses which aspire to bring the under-represented 'Invisibles' into mainstream financial services must embrace the potential of non-traditional data sources.

Meet the 'Invisibles'

For many people, a typical credit report may contain a current account, a couple of utility accounts, a credit card and perhaps a mortgage. But what about those who do not have a bank account, pay for their energy with a topup meter or live in rented accommodation?

The 'Invisibles' population have thin (where little information is available) or non-existent credit files. They can find it difficult to access mainstream credit products, digital services and credit lines for utilities or telephony. This is frequently because their identity cannot be verified electronically, or the information held about them is insufficient to enable a positive automated credit decision.

The UK's Invisible population is primarily composed of:

- **Young people:** who have not yet established a credit record.
- **Older people:** who may have either paid off their mortgage and have limited use for credit, or who have not previously relied on credit and, therefore, have no file.
- **The 'unbanked':** who are often credit invisible, making it hard or more expensive to obtain finance (estimated at 1.52 million UK adults by the Financial Inclusion Commission).
- **Recent immigrants** (or potentially returning expats): who may have little or no credit footprint, and therefore struggle to open bank accounts and/or rent property (according to a House of Commons report, there were 614,000 new immigrants to the UK in the year ending March 2018).
- **Struggling to make ends meet:** relying primarily on cash-based transactions (estimated at 14 million people by the Social Metrics Commission).

The business cost of invisibility

The social arguments for enhanced financial inclusion are undisputed. This is reflected in the mission of the Financial Conduct Authority (FCA): to ensure that the needs of all consumers, including the most vulnerable, are taken into account when accessing financial products.

Meeting the needs of a larger proportion of the population will allow financial services providers to fulfil their FCA responsibilities.

There are also clear business benefits.

At a time when competition is tougher than ever, financial services firms need access to the **largest possible client base**. Consumers with thin or non-existent files are a valuable opportunity, and 5.8 million people are simply too significant to ignore. In many cases, these are creditworthy individuals who are being passed over due to eligibility requirements rather than their ability to repay the debt.

Getting access to enhanced information about such consumers would, in turn, **reduce the need for marginal declines** - people narrowly rejected for a credit card or personal loan, but who are unlikely to default. We estimate that this group represents a further 2.5 million 'thick-file' customers (88% of whom are unlikely to default).

They contribute towards an even greater total of 8.3 million people suffering from some form of financial exclusion.

Importantly, these individuals are currently paying more than they might for financial products due to their lack of credit history. Access to data on this group's financial behaviour would allow companies to deliver fairer, **more affordable solutions**. It would also lead to a **better customer experience**, with lenders able to make more informed, more appropriate decisions.

Finally, the ability to see and understand more about the true creditworthiness of these individuals would enable companies to generate additional business and loyalty, **without adding risk to their business.**

> "It's important to recognise the true price of being invisible, not only because of the disadvantages it creates for people, but because there is an opportunity for the credit economy to work better for us all."
>
> **Jonathan Westley,**
> UK&I and EMEA Chief Data Officer, Experian

CASE STUDY:

Jack Monroe

Jack Monroe is a British food writer, journalist and campaigner. A single parent, she rose to fame with her blog, 'A Girl Called Jack', sharing cheap recipes to feed a family for under £10 a week. Jack has experienced recurring setbacks in her credit 'journey' - repeatedly being turned down for an overdraft, and often struggling to make ends meet. A long-awaited book deal resulted in her housing benefit being cut off and Monroe came close to being evicted, forcing her and her son to move into cheaper accommodation. She now describes life as having changed beyond recognition, but says they are still affected by their experience of poverty:

'If I hadn't had a thin credit file my whole story may have been different. If that first overdraft had been granted, things wouldn't have spiralled. All I ever needed was a little bit more than what we had, but no-one was willing to lend me as little as £50. I initially thought it was because I was on benefits, but later found out it was due to a lack of credit data.'

'I continue to be a 'thin file' even though I'm a bestselling author. Nobody cares about the book deal, just about the data. Even now I can't get an overdraft. I just need someone to take a risk and lend me that 50 quid. All I really want is to own my own home, live the life other people have, and not be impacted by something that happened years ago.'

JACK'S ADVICE:

'The situation doesn't have to be permanent. The most important thing to do is reframe the way you think about it. For me it was about seizing control – taking advice from charities, researching ways to improve my credit rating and prove who I am, and that I can be financially responsible.'

New data sources: How can they help the 'Invisibles'

There are a number of steps people can take to thicken their own credit files. They can open a new credit account, which is reported to one of the UK's credit reference agencies, and demonstrate a positive history of managing that account. This will broaden the credit options available to them so they can continue building their file. In the future, it's likely consumers will be offered more opportunities to contribute their own data so they can represent themselves in the best light to lenders. Businesses, meanwhile, can help consumers navigate their way through what is often a stressful and confusing situation by explaining how they view and use data on consumer credit reports to make decisions, and how they share data.

It's also incumbent on organisations which hold data on how people are managing their financial commitments to share it to help people build their credit histories. There is huge potential in new data sources to provide the thin and no-file population with a way into mainstream finance.

What is 'alternative credit data'?

In credit terms, data is used to validate identity and demonstrate creditworthiness. 'Traditional' credit data is provided through cards, loans, mortgages and current accounts. 'Alternative' data, meanwhile, refers to information that has not historically been part of a credit report. This data provides additional insight into both thickfile and thin-file consumers, to drive greater visibility and transparency about their identity and payment behaviours. Alternative data sources are growing in importance given the rapid and ongoing evolution in the way consumers manage their money, transactions and credit.

To fall under the Fair Credit Reporting Act (FCRA)–compliant umbrella, alternative credit data must be displayable, disputable and correctable.

What are the benefits?

When we layer on additional sources of data — such as rental and utility payment history and short-term loans —a far more comprehensive picture of the consumer emerges.

For the individual, using alternative data has the potential to help expand responsible access to credit for people who lack the traditional information to strengthen their credit history. Someone without a loan repayment history on their credit report, for example, might pay other bills or recurring charges on a regular basis. These payment histories could demonstrate to lenders that the person will repay a debt as agreed.

CASE STUDY:

LiPing and Mark

LiPing and Mark, both professionals with a young family, had been renting for 12 years without missing any payments. They were confident that this track record and their ability to get by without credit cards would stand in their favour when applying for a mortgage:

As it turns out, that meant nothing at all,' explains LiPing.' We thought we had been clever by avoiding credit - spend less, so you owe less, and then you have a better credit score. But we were rejected for a mortgage because there was too little financial data on my husband. Even worse - it took six months for us to find this out. We were told we needed to go to a broker, which cost us more money. It was a terrible experience, and all because we didn't understand how the system worked.'

CASE STUDY:

Kharis

Kharis moved from Bermuda to study in Bristol seven years ago. Awarded a full scholarship, she always made sure to pay for everything 'up front'. As a result, despite being debt free, she still has no credit history in the UK. This has made even the basics, such as proving her identity, very difficult. She is still living at home at the age of 27:

'I have found plenty of places I can afford, but – despite having rented for 3 years – am never eligible. So, I keep having to circle back to my mum for support. I have learned the hard way that having no credit history is worse than having a bad credit history.'

KHARIS'S ADVICE:

'Since finding out my credit status, I've set up accounts to check my credit score and managed to get a credit card. My advice would be to look for credit information resources earlier. If I'd known, I'd be a lot further along in my journey.'

Will consumers want to share more data?

The transparent, secure and effective use of data has the potential to transform businesses. It can also empower and better serve customers. But people must feel comfortable and in control of how their data is used. There is a clear role for businesses to play in addressing the public's concerns around privacy and security.

Understandably, people are particularly cautious in how they treat the sharing of financial data. When a significant life event - such as getting a mortgage - is touch and go, customers become more accepting of the purpose and need to share their data. People see this as a value-based transaction and are willing to share their data if they can see how it will help them achieve their goal.

> "It is vital that affordable credit be made available to the widest possible population. Lenders need relevant and accurate data at their disposal so they can make the most informed lending decisions."
>
> **Jonathan Westley,**
> UK&I and EMEA Chief Data Officer, Experian

CONSUMERS' ATTITUDES TO DATA [1]

- When asked how they feel about data, 32% of respondents said they were concerned about privacy, whereas almost the same amount (29%) said they didn't feel anything, and only 9% were afraid of fraud.
- Only 30% of respondents said they felt in control of their online data, whist 76% said they didn't know which businesses held information on them and why
- When asked if they were happy for businesses to have access to their data if it's going to benefit their life in some way, only a quarter (25%) said no
- 45% of respondents said they cared a great deal about what their financial data might say about them, whereas the remainder cared only a little or not at all.
- 54% of people felt they could impact their financial data

1 Experian's Data Self research, 2018

CASE STUDY:

Sandra

Sandra is a practice nurse, who divorced after 28 years of marriage. During this time, their mortgage and all bills had been in her husband's name. This left her with no credit history, and unable to take out a mobile phone contract at a time when she was trying to rebuild her life and her independence:

'Getting turned down for a mobile phone was awful,' Sandra recalls. 'It was so embarrassing to be told that, despite having always paid your bills on time, you have no credit history. I felt invisible. Then I needed to apply for a loan. I was petrified I'd get turned down for that too. As it was, I could only apply for a high interest loan. Since then, I've tried to strengthen my credit history by taking on the bills and taking a loan which I make sure is paid off.'

SANDRA'S ADVICE:

'In my experience, the most important thing is to get professional help straight away, and take charge of your own credit history. Of course, in hindsight, I should have done this much earlier. You never know when you are going to need your credit rating.''

CASE STUDY:

Velizara

Velizara is a fashion copywriter at a high street retailer. She lives in London and now she calls Fulham home, having recently moved to the area. She's used Canopy ever since she learned her company provides access to it as a staff benefit. Velizara has never had any previous issues either renting or with landlords, but has had to pay for tenant referencing in the past and wait a long time for her deposits to be returned. Previously, delayed returns on deposits have made it more difficult for Velizara to move at a time of her own choosing. The concept of deposit-free renting was attractive to her, and now Velizara says: *'I liked the concept of deposit-free renting and the fact that now when I pay my rent it also helps build up my credit score.'*

VELIZARA'S EXPERIENCE:

'It completely changed the experience of moving as it was so easy. I didn't have to pay for referencing or find the money for a deposit and it meant I could find a property that I may not have found without Canopy.

What steps forward have already been taken?

Let there be light!

Gas, water, electricity and telecoms providers have joined the community of organisations which share customer account information with one or more of the CRAs, adding depth to many people's credit reports. From one in eight records five years ago, they now account for one in four records.

14 million consumers currently have at least one active account on Experian credit reports, and utilities data has been shown to reduce the thin file population by around 4%. This is approximately 1 in 2 UK households, and we believe that full coverage would give us a further 4% reduction.

Rental Exchange

It is time to level the playing field for renters, so their payments are recognised in the same way as monthly mortgage payments. Our analysis shows that by adding rental data to credit reports, the proportion of tenants who can prove their identity online increases from 39% to 84%. We also found that 57% of social housing tenants and 65% of private tenants will move in to a higher score band when this data is added.

That is why Experian partnered with Big Issue Invest, the social investment arm of The Big Issue Group, to pioneer the Rental Exchange. This introduces social housing rental payments data into the credit bureau, providing more complete and accurate credit files for individuals who rent.

We currently hold rental data on 1.2m UK tenants. We are working closely with social housing providers to increase the number of social tenants in the Rental Exchange, while our work with HM Treasury and the Rent Recognition Challenge will help private tenants.

765,000

Experian has reduced the thin file population by 765,000 by adding data from social housing tenants, utilities companies, payday lenders and high cost credit providers.

960,000

By adding private rental, council tax and data from the remaining utilities companies to the bureau, we could reduce the thin file population by a further 960,000 people.

1.52 million

Using Open Banking data on top of this, compared to where we are today, could reduce the thin file population by 1.52 million people.

Where we want to go next

The financial services and utilities sectors have always been characterised by technology-driven change. Today's key players are not the same as they were 10 years ago, and it is crucial that all actors recognise the importance of their role in sharing data.

In the case of the below list, all organisations in these sectors can share customer data with CRAs. Doing so can help businesses to reach more of the market and minimise the risk of potential frustration for people who are turned down for credit because their file is thin. It can also help you retain customers who are aware they are strengthening their credit histories and set you apart from the competition.

New data sources

- **FinTech current accounts:** UK FinTech is booming, but only a small fraction of online-only banks currently share data with CRAs.
- **Building societies:** While many larger organisations share data with the CRAs, a number of smaller institutions do not, hampering their customers' access to credit.
- **Energy:** Larger energy providers share their data, but a number of the new challenger providers do not. Their integration would make a significant dent in the invisible population, particularly if the three million people using pay-as-you-go meters could be taken into account.
- **Short-term lenders:** Given the high correlation of this sector with the invisible population, adding their data to credit bureaus would boost authentication, and help affordability assessments.
- **Open Banking:** The potential of Open Banking is excellent as a source of improved data accessibility, but awareness and understanding remains low. Data sharing also requires pro-active consumer consent. As a result, usage in its early days has been limited. Organisations that are interested in using Open Banking and have strong, trusted brands have a big part to play in building consumer confidence. Our research has shown that over 60% of consumers will share data when the value of doing so is clear.

Further sources of data

- **Credit Unions:** Thanks to credit builder loans, credit unions are a good source of affordable finance among the invisible population. Increased sharing of their data would help thicken the files of their customers.
- **Water:** Adding utility payments to credit reports has yielded significant success. Water companies, however, tend to only share with one CRA. By working with at least one more CRA, or all three, they could help ensure their customers are recognised for making payments on time.

Share smart

- **Insurance:** We would like to see insurance companies share instalment payments with the CRAs. This is particularly important for providers specialising in the student market, to help them establish a credit history early in their credit journey.

6 REASONS WHY BUSINESSES SHOULD CARE ABOUT NEW DATA SOURCES

Embracing data sharing can help your organisation in the following ways:

1. **Improved assessments of creditworthiness**
2. **More up-to-date, real-time information**
3. **Better service and convenience:** Some kinds of alternative data may allow lenders to automate tasks
4. **Lower costs**
5. **Reduced levels of risk**
6. **The opportunity to demonstrate to customers that they are responsible businesses**

Potential data sources of the future

As non-traditional data sources, such as utilities and rental data, have begun to be been successfully added to credit reports in the past few years, the value in finding new sources has come into focus. It's important for organisations which have not previously shared data to recognise what they can do with the information they already gather.

Those most vulnerable in our society – who will form at least some of your customer base - should not be subject to substandard financial situations because not enough is known about them. We are working with the government to look at new data sources, while industry can make a real difference.

The following government data sets could potentially be useful:

- **Council tax:** The payment of council tax enables confirmation of identity, establishment of a regular payment pattern and links an individual to a property, supporting identity verification.

  While not without challenge, given that there are approximately 500 local authorities in the UK, it would provide a regular, reliable proof of payments.

- **Universal Credit:** To accurately assess affordability, it is essential to understand an individual's income in full. Often benefit payments are not captured which makes credit appear less affordable. The Universal Credit database holds an essential data set for some of the UK's most vulnerable and excluded individuals, showing a reliable and verified form of payment being made to them.

  Knowledge of Universal Credit payments could help improve our affordability algorithms by allowing us to identify the income source more accurately.

- **HMRC:** Incorporating HMRC income would significantly reduce the proportion of credit searches that return a 'thin' file or 'non-existent' data and would strengthen our understanding of an individual's circumstance, allowing more accurate decisions to be made. This would result in making credit available to a higher proportion of consumers whilst gaining a more accurate view of their affordability. We could, for example, validate a pay increase to be certain this is a regular income.

- **UCAS:** Each year, UCAS processes about 800,000 applications for Higher and Further education from people who are not yet financially active but are likely to be soon. Access to this data would enable CRAs to support lenders to ensure these people are financially included from an early stage in their financial lives.

Industry data sets

Turning now to data in the hands of private companies:

- **Pre-paid cards:** Given prepaid cards do not require a credit check, they are a useful option for thin file customers. Adding usage data could also provide a pathway to other sources where people pay regularly.
- **Subscription services:** With the growth of e-commerce and streaming of everything from music to films, online subscription services have become increasingly popular. Trend data from such providers could give a picture of a consumer's track record of making regular, accountable payments for a product or service.
- **Digital credit:** Digital credit has been growing in popularity as an alternative to credit cards, particularly amongst younger customers. Access to such data could help to build records for this younger group, who make up a significant proportion of thin files.
- **Savings and Investments:** There is also room to consider whether someone consistently moving money from their current account to a savings account is showing good behaviours which lenders would value. Experian is looking at a proof of concept on shares to understand how these assets could be used for affordability assessments.

Conclusion:

New data sources can help businesses make more appropriate decisions about affordability to lend responsibly and keep up with changes to our society. They can also authenticate their customers securely, quickly and digitally to meet with demand for a seamless customer experience in a hyper-connected world. Adding new data sources would both strengthen our collective understanding of individuals' circumstances and reduce the number of 'thin' and 'non-existent' file individuals in the UK.

They have the potential to significantly reduce the thin file and no-file population, ensuring a fairer consumer experience and showing a more complete picture of their financial position.

From the lenders' point of view, data sources recently added to the bureau (including gas, water electricity and mobile telephone bills) have already been shown to increase the predictive power of Experian credit risk scores. This allows companies to make more accurate lending decisions and reduces the levels of risk to which they are exposed.

By continuing to work with the Government and encouraging industry to join with us to help reduce the size of the Invisible population and fight financial exclusion. mainstream financial products will be more accessible and affordable for everyone.

At Experian, we are already pioneering next generation products equipped and powered by new data sources, so that organisations can make higher quality decisions and so that consumers can access more affordable products and services. Building engines that can not only consume this insight and varying data feeds – but also bring it all together, manage it, understand it, and deploy it for the benefit of everyone.

By using this data-led technology, organisations will be in the best possible position to adapt to the changing digital business landscape and deliver for their customers. We want to work with industry to drive innovation in the provision of services across sectors, transforming the fortunes of millions of people in the process.

WHAT ORGANISATIONS NEED TO DO NOW

- Assess your organisation's view of its customers. What information could help you to get a more complete view of your client base?
- What information does your business share with other organisations? If you share data with other providers then it could help people to get improved access to services and allow them to take control of their financial futures
- Which groups are you under serving? Whether groups of people are not on your organisation's radar at all, or currently marginally declined, new data sources could be the answer to make better decisions

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