Alternative Consumer Data: What You Should Know

How financial inclusion in consumer lending can be **achieved using alternative credit data**

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Financial inclusion and improved pricing strategies are ranked among the top business drivers for using alternative credit data

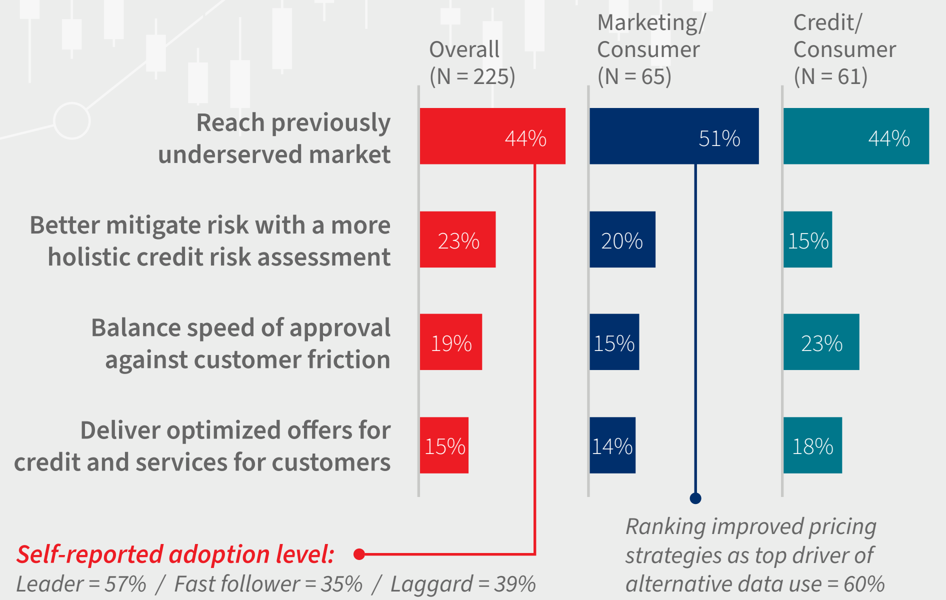
Approximately 20% of U.S. adult consumers have little-to-no credit footprint with traditional credit risk evaluation tools, leaving opportunities on the table.[1]

Alternative data sources can provide financial institutions with a clearer picture of a consumer's financial health and credit risk — improving opportunities for **revenue growth and financial inclusion**.

Improved pricing strategies, **enhanced risk mitigation and less customer friction** are all business drivers for alternative data use, but being able to reach previously underserved markets was the **top ranked advantage** of using alternative data (44%) reported by survey participants in our 2023 LexisNexis® Risk Solutions Alternative Credit Data Impact Report.[2] This is especially true for consumer-focused marketing efforts seeking improved pricing strategies (60%).

***The use of alternative data has positively impacted revenue growth**, with a majority of firms saying their revenue has increased by at least 15% and nearly half of tier 1 banks seeing 25-49% growth in revenue.*

Advantages of using alternative data (% ranked as top advantage)



Notably, firms that self-reported as being leaders in alternative data adoption (57%) have been very likely to realize this benefit and can serve as a lighthouse reference to others. Many financial institutions (35%) perceive themselves to be a fast follower, contributing to the steady growth of alternative data adoption.

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A significant majority of lenders use alternative data to assess credit risk for at least half of new consumer account applications

Alternative credit data increases a lender's ability to score and evaluate over 90% of credit invisible consumers.

The limitations of traditional credit data have made it increasingly difficult for financial institutions to assess the creditworthiness of individuals with limited credit history. **Addressing this visibility gap** and reaching more credit invisible consumers requires a new perspective on credit risk and opportunity.

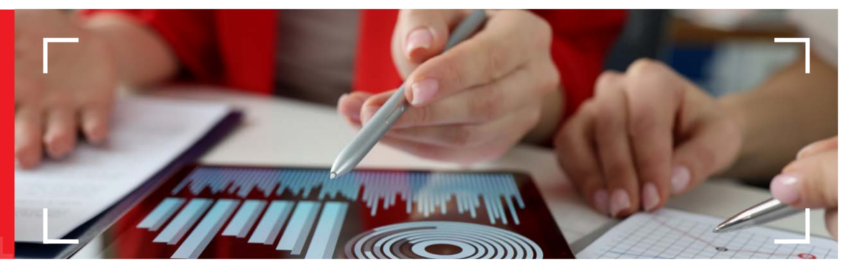
A significant majority of financial institutions (91%) are frequently using alternative data to assess credit risk and gain a **more robust view of financial health** for at least half of new account applications. Many lenders use alternative data in combination with traditional data to evaluate new applications and drive portfolio growth. Organizations with financial inclusion as their top objective (45%) are particularly likely to use alternative data for all new consumer account applications. Lenders are also likely to apply alternative data to assess traditionally scoreable applicants to identify additional financial inclusion and fairness opportunities.

Frequency of using alternative credit data on new applicants	Overall (N = 225)	Consumer applications (N = 126)
Fewer than 25%	1%	0%
More than 25% but less than 50%	8%	9%
More than 50% but less than 75%	29%	26%
More than 75% but less than 100%	36%	40%
All applications	26%	25%

Top objective for using on all applications:

- Financial inclusion = 45%
- Improve segmentation = 25%
- Improve swap in/swap out = 8%

of financial institutions are frequently using alternative data for at least half of new account applications.



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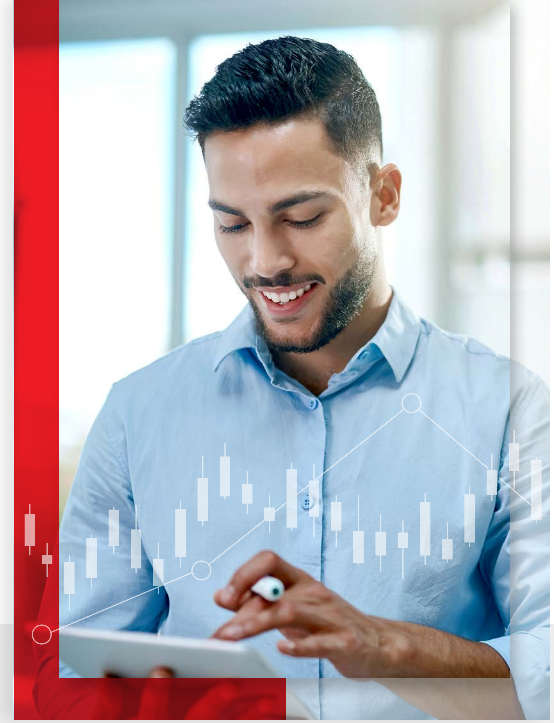


Financial inclusion continues to drive adoption.

Many financial institutions perceive themselves to be a fast follower with alternative data adoption. Lenders with **financial inclusion as a top objective** (55%) and/or a **loan portfolio exceeding $1B** (57%) are more likely to **see their organization as a leader** in using alternative data (37%). Respondents with a credit-risk role focusing on consumers are also more likely to consider themselves as adoption leaders (46%) than respondents in the commercial lending (33%) and marketing (36%) spaces.

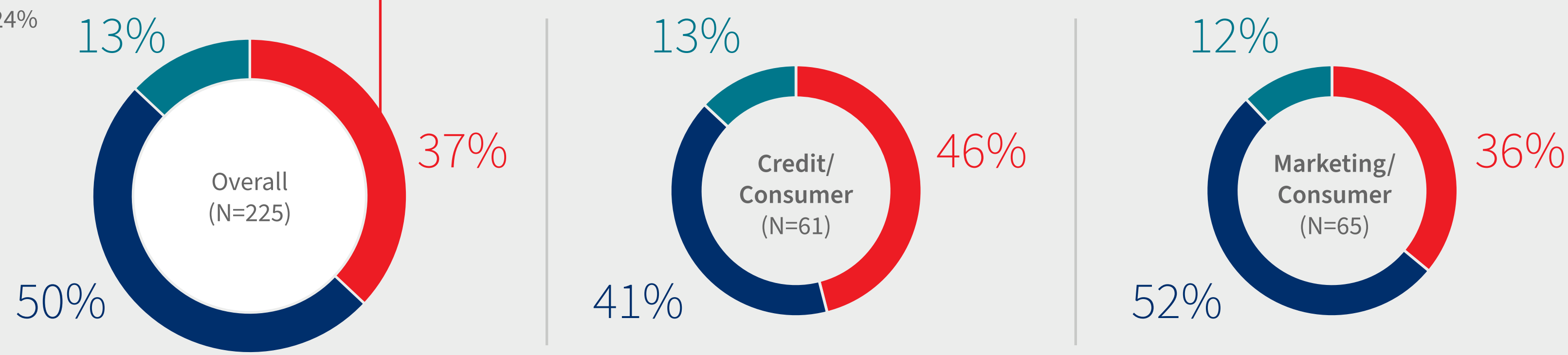
Alternative data adoption status

Top objective for adoption:

- Financial inclusion = 55% (Banks 62%)
- Improve segmentation = 37%
- Improve swap in/swap out = 24%

Loan portfolio

- $1B+ = 57%
- <$1B = 15%



■ Leader ■ Fast follower ■ Laggard

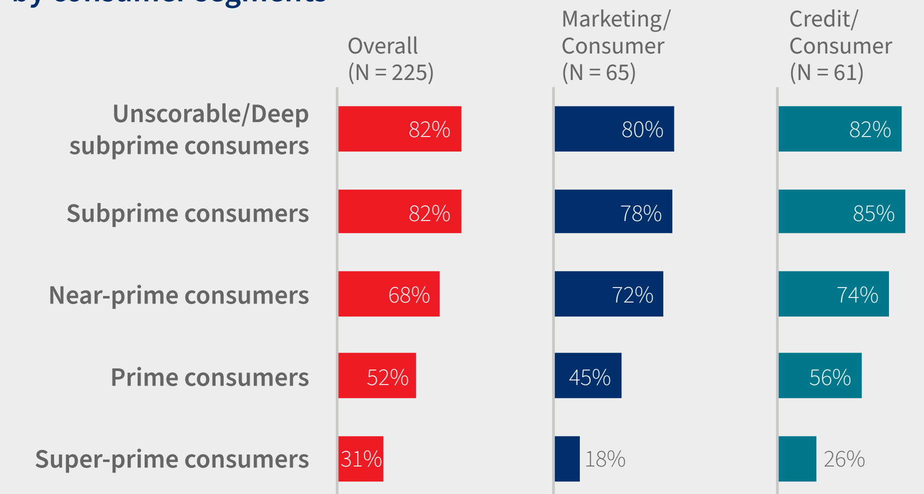
Overlooking credit invisible and thin-file consumers could be a missed opportunity

Leveraging alternative credit data insights enables lenders to reach deeper into the credit spectrum, expanding access to affordable financial products for traditionally unscorable consumers.

Alternative credit scores can **uncover significant changes in creditworthiness** within customer segments which may be missed by traditional credit scores, including early indications of financial instability among prime customers. Alternative credit data can also help detect signs of recovery among non-prime consumers whose **potential for growth is underestimated** by traditional credit bureau scores.

Financial institutions are most likely to use alternative data in their credit risk assessment of deep subprime (82%), subprime (82%), and near-prime consumers (68%). Lenders who consider themselves adoption leaders are highly likely to use alternative data to refine prime consumer segments.

Use of alternative data for credit risk assessment by consumer segments



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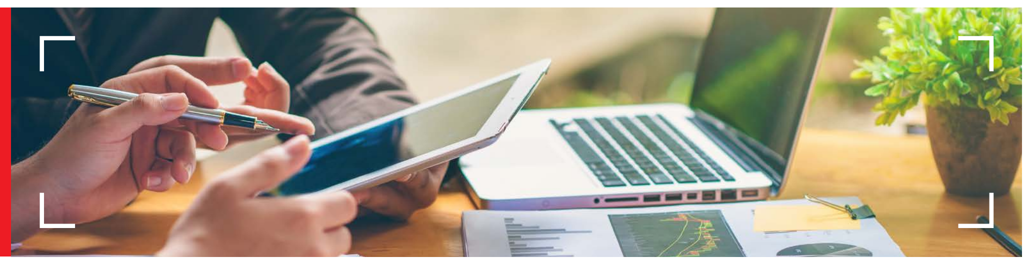
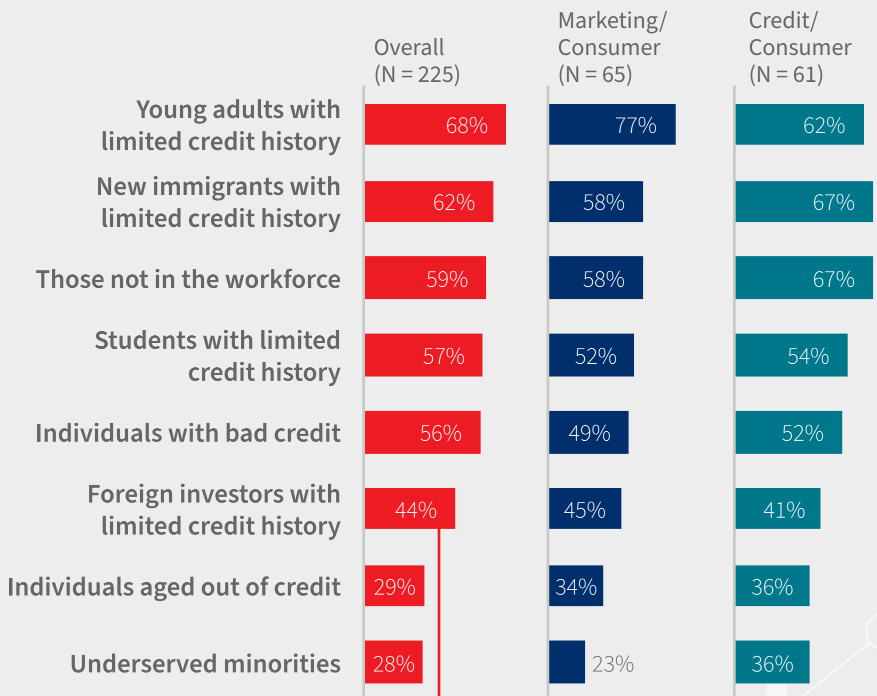
Leaders of alternative data adoption are particularly likely to use it when assessing the credit risk of prime consumers.



Adoption of alternative credit data can impact emerging consumer segments and improve the customer experience

Demographics impacted by alternative data



Top objective for adoption:

- Financial inclusion = 60%
- Improve segmentation = 41%
- Improve swap in/swap out = 35%

Credit invisible consumers are approved 85% less often than traditionally scoreable consumers.[3]

Alternative data has helped financial institutions assess the credit worthiness of **individuals with limited credit history and those with sub-prime credit**, such as young adults (68%), new immigrants (62%), the unemployed (59%), students (57%), and foreign investors (44%).

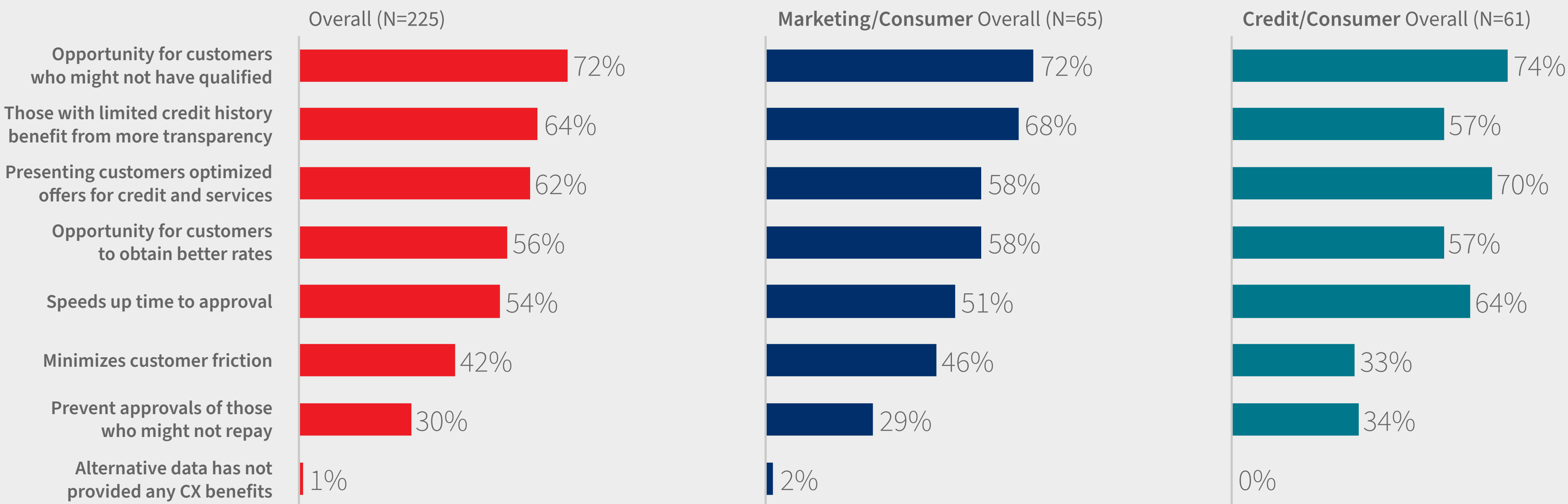
Deep subprime, subprime, and near-prime individuals are the targeted customer segments

Traditional credit files may not give a detailed enough picture to assess consumer risk, resulting in these **demographics being disproportionately excluded** from lending portfolios. But with the right data driving increased transparency, many in this population could be approved and **become loyal customers**.

Organizations are recognizing the benefits of alternative data.

Identifying opportunities for customers who might not have qualified otherwise is the **top ranked benefit** for an improved customer experience in consumer lending (72%). Many marketing decision makers (68%) also point to **increased transparency** for customers with limited to no credit history, such as knowing what goes into their credit risk assessment, as a benefit of using alternative data.

Benefits of using alternative credit data for customer experience



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A new solution for financial inclusion

Our goal is to help the financial services industry build a more robust view of consumer credit risk by creating new alternative data solutions that help lenders gain a clearer understanding of an applicant's creditworthiness. LexisNexis® RiskView™ credit solutions can help lenders to increase approval rates, improve profitability and manage risk thresholds across the customer life cycle. This powerful solution suite draws on a broad range of alternative data — providing insight into key risk factors that traditional credit data may miss.

Ready to improve credit risk assessment across the customer life cycle?

Learn more:
risk.lexisnexis.com/products/riskview

Sources:
1. LexisNexis® Risk Solutions, 2021.
2. LexisNexis® Risk Solutions, 2023. "Alternative Credit Data Impact Report."
3. LexisNexis Risk Solutions, 2018.

LexisNexis® Risk Solutions harnesses the power of data and advanced analytics to provide insights that help businesses and governmental entities reduce risk and improve decisions to benefit people around the globe. We provide data and technology solutions for a wide range of industries including insurance, financial services, healthcare and government. Headquartered in metro Atlanta, Georgia, we have offices throughout the world and are part of RELX (LSE: REL/NYSE: RELX), a global provider of information-based analytics and decision tools for professional and business customers. For more information, please visit www.risk.lexisnexis.com, and www.relx.com.