

WHITEPAPER

The Complete Guide to Alternative Credit Scoring


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TABLE OF CONTENTS

01 Introduction

02 What is alternative data?

03 Alternative credit scoring vs traditional credit scoring

04 How alternative data can open up financial opportunities for credit invisibles

05 Using alternative data to credit score millennials

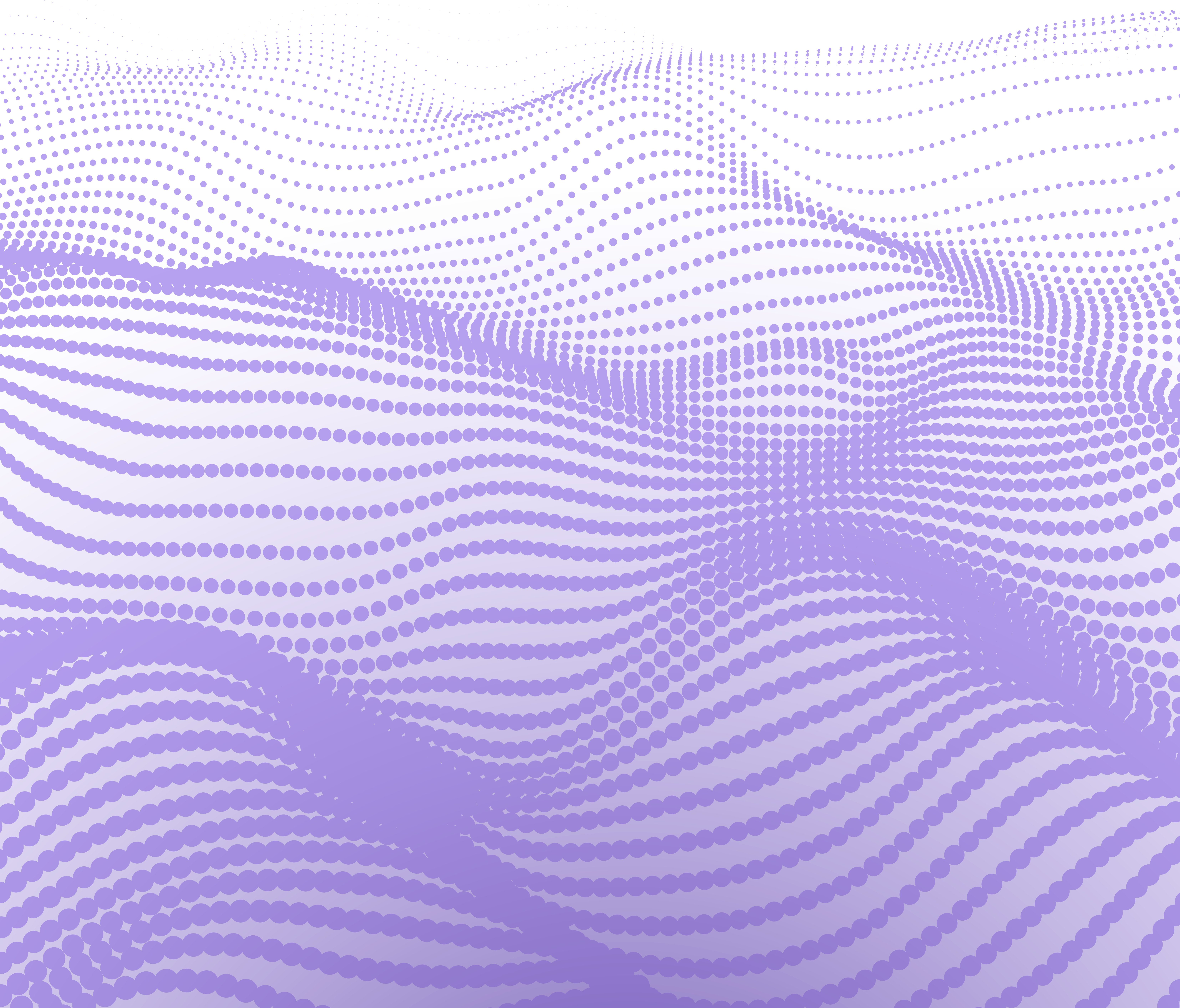
06 Alternative credit scoring, an ally for many industries

07 Credolab: Democratising credit scoring



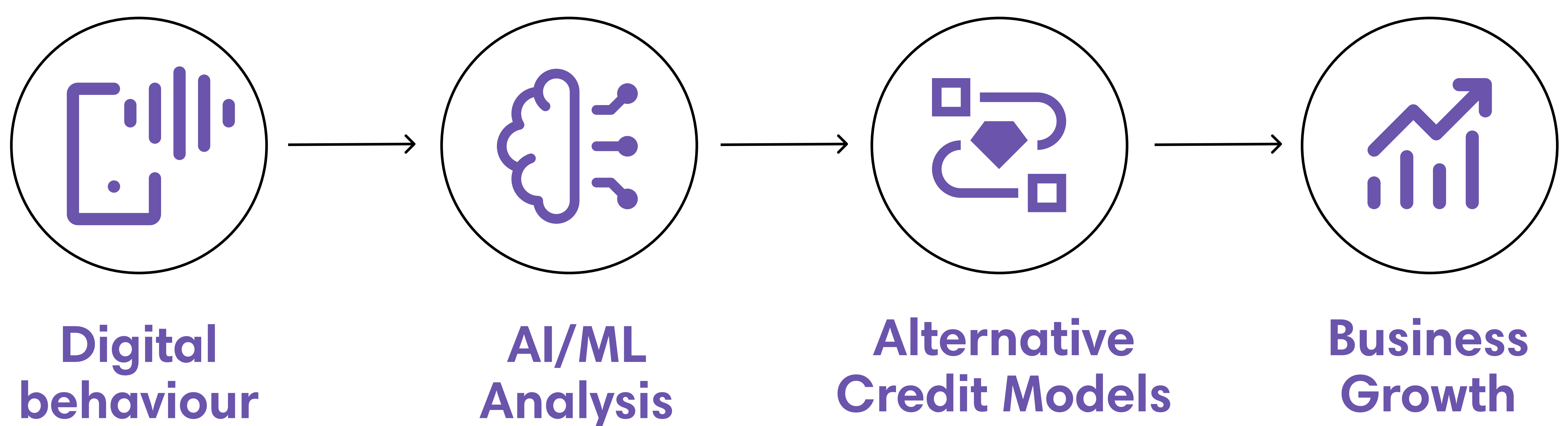
INTRODUCTION

Alternative data has become a buzzword in the banking and fintech world, offering new ways to understand and leverage customer behaviour.



Unlike traditional data, alternative data sources provide a revolutionary approach to assessing creditworthiness. This advanced method addresses the needs of underbanked and thin-file customers, unlocking new credit models powered by artificial intelligence and machine learning. By analysing digital behaviour, companies can tap into unexplored market segments and better serve emerging markets.

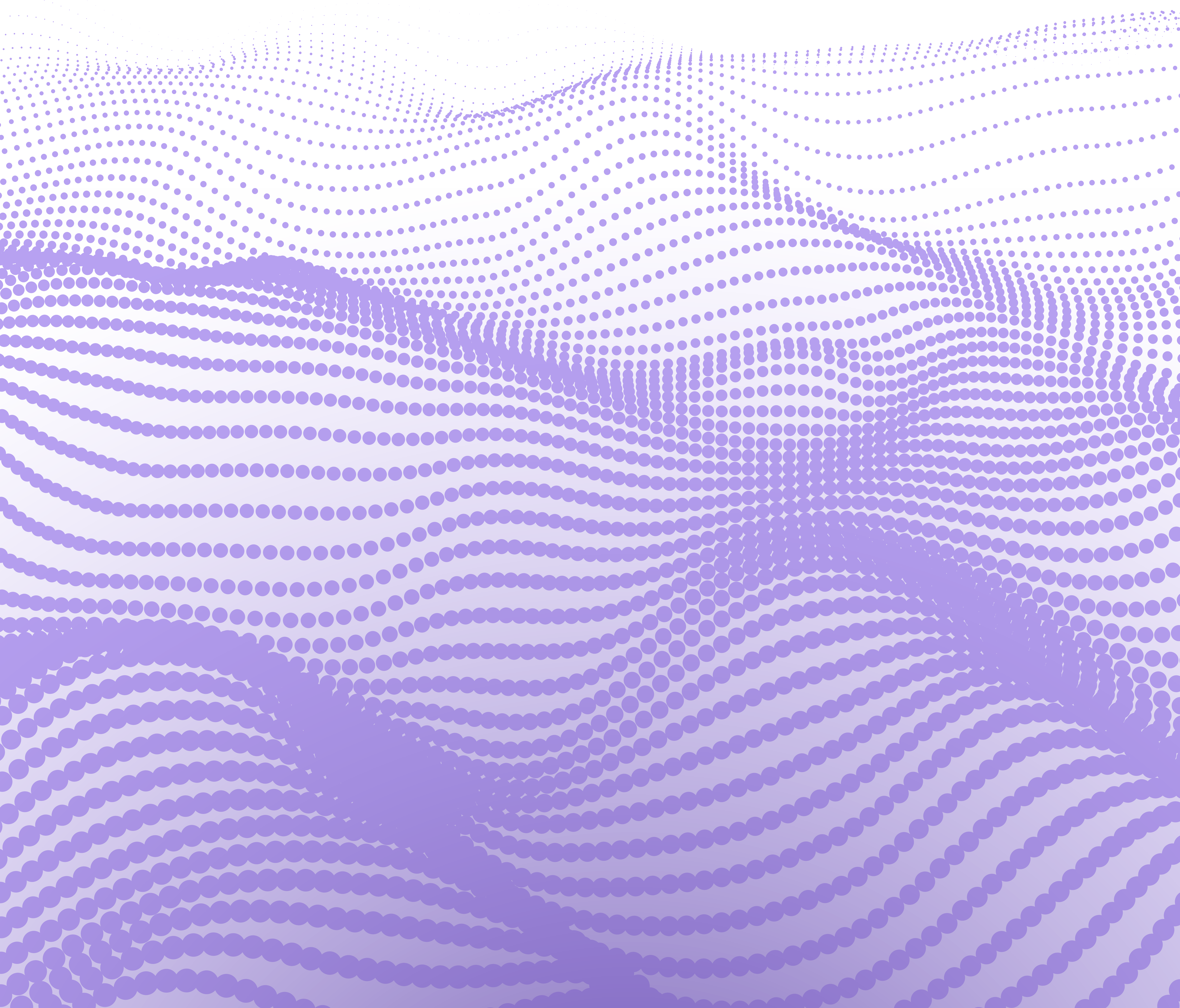
Thanks to the rapid generation of alternative data and the sophistication of AI tools, financial companies now have access to invaluable insights into customer behaviour. These tools allow businesses to predict trends, reduce risks, and enable faster growth by offering tailored credit solutions.



Alternative credit scoring not only expands financial inclusion for underserved populations but also helps companies achieve profitability in an increasingly digital world.

In this ebook, we'll help you understand what alternative data is and, more specifically, how certain tools such as alternative credit scoring can help your business grow by tapping new unexplored market segments.

WHAT IS ALTERNATIVE DATA?



Alternative data is the set of information on behaviours, habits, interests and transactions carried out by a person and obtained from non-traditional sources.

The growth of alternative data is exponential, powered by the fact that more and more users are storing information on the network, generating new data every day. The rapid generation of alternative data has introduced a new, unexplored opportunity to improve profits in the market. The correct use of alternative data through machine learning gives companies a fascinating advantage; access to valuable information about the behaviour of customers - and future customers - allowing companies to grow rapidly.

Social Networks

Satellites

Sensors

Purchase Receipts

**Examples of
non-traditional
data sources**

Nevertheless, its advantages come along with several challenges, and only some companies have been able to incorporate this type of data.

Opportunities:

Unexplored profit potential
through alternative data

Companies gain valuable insights
into customer behaviour, enabling
faster growth

BENEFITS OF ALTERNATIVE DATA

In the first place, it is important to note that, thanks to alternative data, companies can **compare and measure information in real-time**, generating truly innovative indicators. For example, in this way, credits can be offered on the spot to applicants with an alternative credit score.

Alternative data **improves the self-knowledge of a company**. A large amount of existing alternative data allows institutions to have a more accurate perception of their performance. The connection of these insights enables companies to correctly interpret how they are perceived by people, comparing themselves against competitors, suppliers, and other secure connection networks.

Another important benefit to be considered is the capacity to **operate predictively using alternative data**. Through this novel source of information and in conjunction with traditional sources, companies can more reliably predict long-term results. In addition, alternative data allows companies to predict clients' behaviours, and in this way, growth projections become more effective, optimising decision-making and reducing the probability of risk.

Alternative data has been broadly welcomed by companies looking to improve prediction rates, maximise returns and decrease unforeseen risks.

In addition, this new source of data provides security, offering businesses more than just big data.

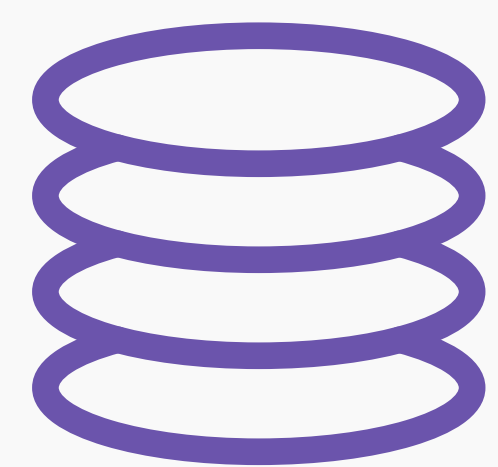


EXAMPLE

For example, in this way, credit can be offered on the spot to applicants with an alternative credit score.

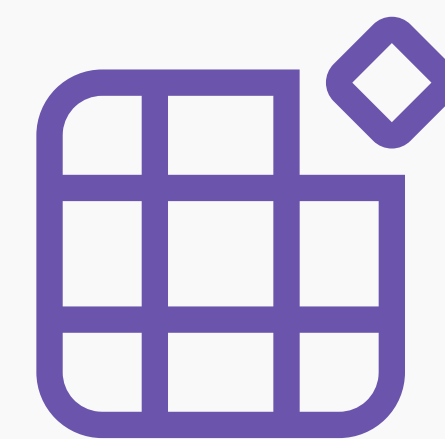
CHALLENGES OF ALTERNATIVE DATA

Alternative data is relatively new, so it can raise several questions at first glance. There is a lack of historical records, plus not all alternative data is publicly accessible. Therefore, it is essential to accurately understand **where information is coming from** and the limitations of usage.



Wide Variety of Data Sources

Numerous data sources require more careful selection and relevance checks.



Lacking Standard Pattern of Use

No universal framework; businesses need holistic strategies with complete information sources.



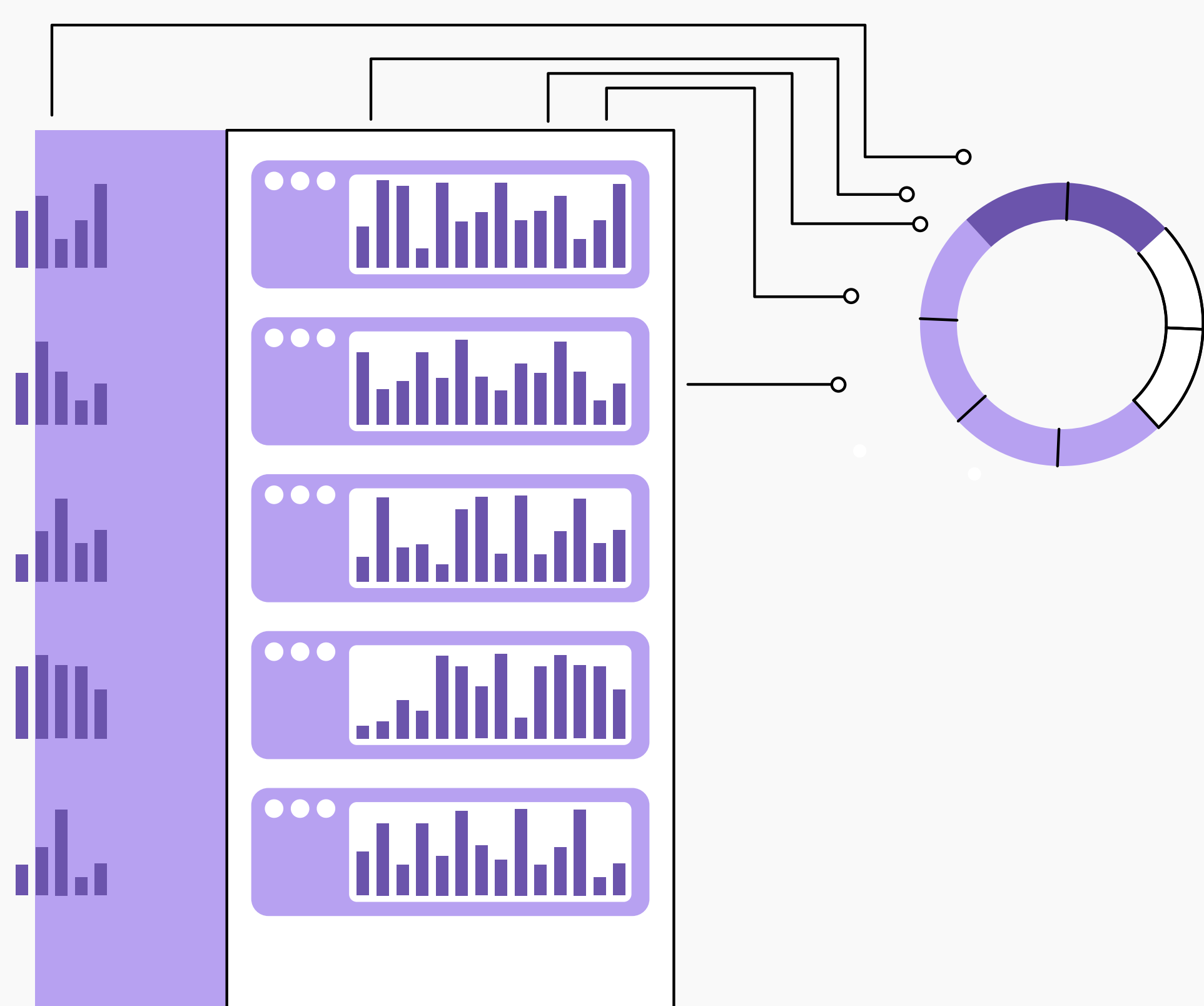
Data Interpretation Challenges

Numerous data sources require source quality assessments and data corruption prevention.



Legal and Ethical Considerations

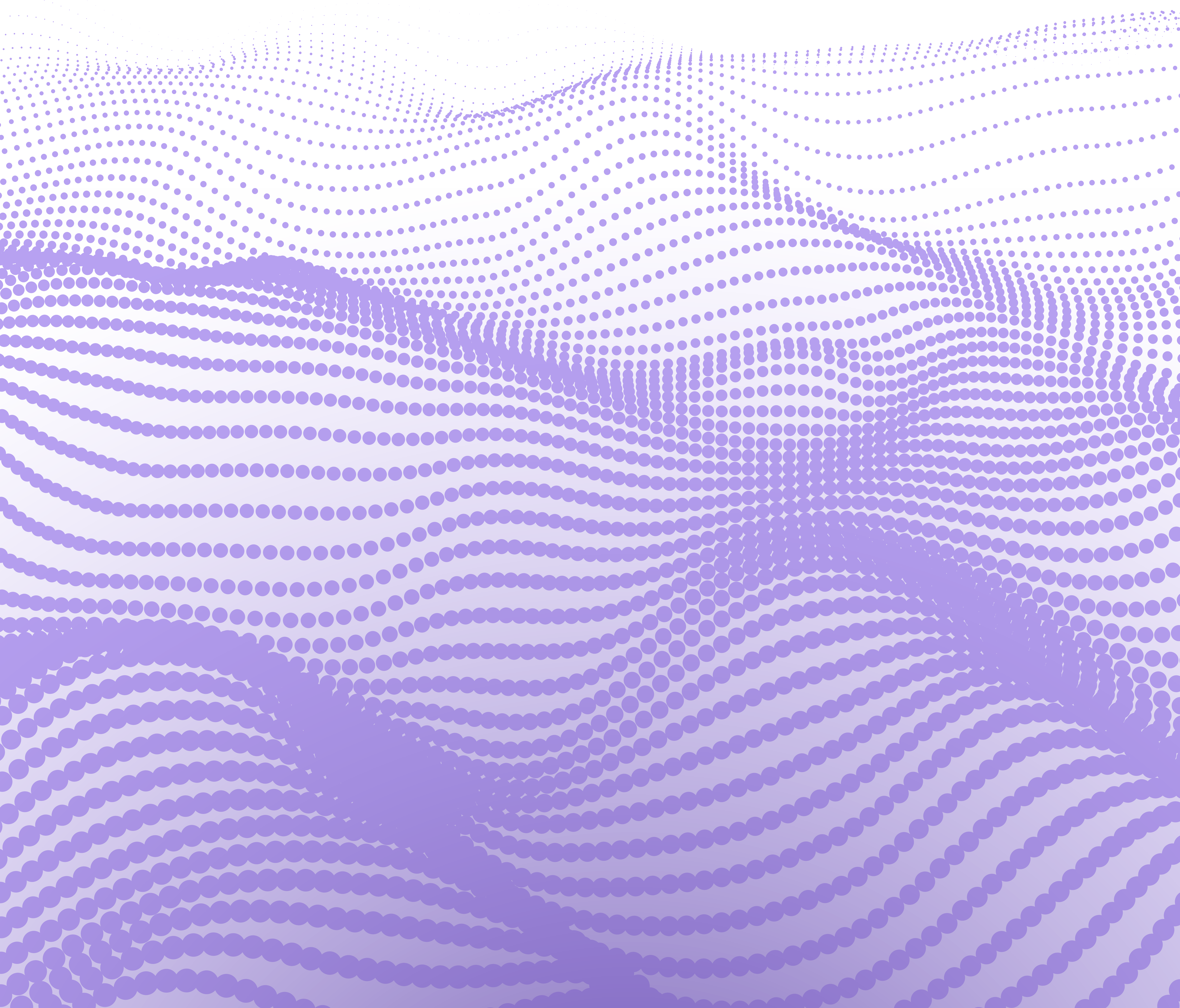
Understanding privacy, implementation limits and, correct and ethical storage is crucial.



EXAMPLE

An incomplete history record without sufficient backup information often requires additional time for data collection to establish definitive behaviour patterns in the future. This underscores the challenges of relying on unstructured and incomplete data.

ALTERNATIVE CREDIT SCORING VS. TRADITIONAL CREDIT SCORING

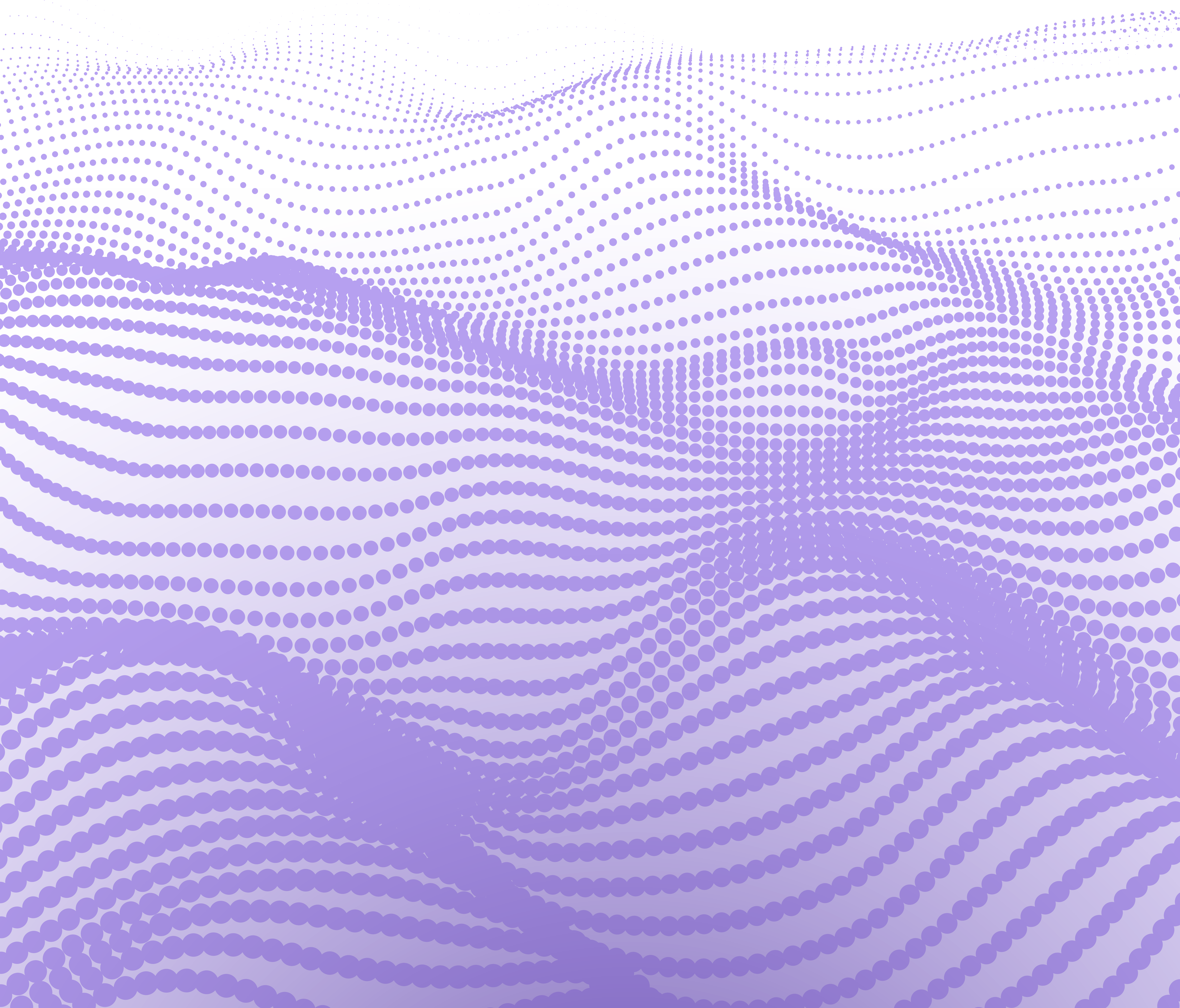


Up until a few years back, a credit score was only obtained through **traditional credit scoring methods**. Traditional credit scores or ratings result from a credit analysis performed by different credit bureaus, indicating whether or not a person or institution is soluble enough to obtain a loan.

Previously, these traditional institutions were the only ones that had the ability to analyse and score the financial history of a person.



HOW ALTERNATIVE DATA CAN OPEN UP FINANCIAL OPPORTUNITIES FOR CREDIT INVISIBLES



Applying for credit has historically been challenging to achieve. It is even more so for people who have little to no opportunities to build their credit scores.

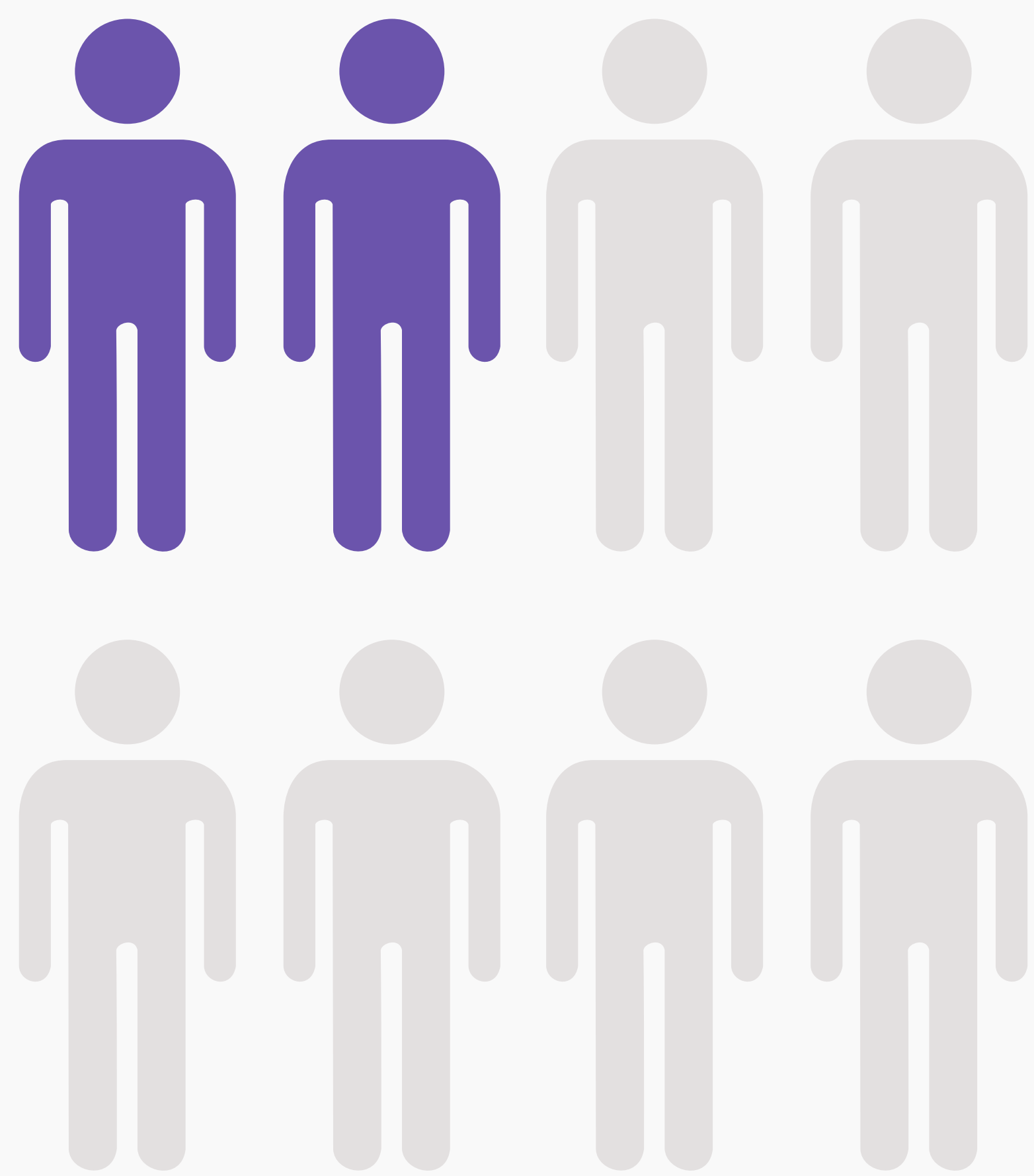
These people typically consist of

Young adults who have yet to build their credit history

Immigrants who cannot transfer their credit report from their previous home country

People of colour, disadvantaged by racial inequality from accessing financial services

These individuals cannot purchase productive assets such as a car or a house or build their wealth with their own resources. Thus, access to credit plays a vital role in strengthening financial power. However, the downside of the traditional credit scoring system is that it provides little to no opportunities for credit invisibles to prove themselves.



Today, there are over

2BN PEOPLE

globally **without formal financial services access** because their data is not held on traditional sources.

A lack of regular, fixed wages and formal savings adds to the financial inconsistency.

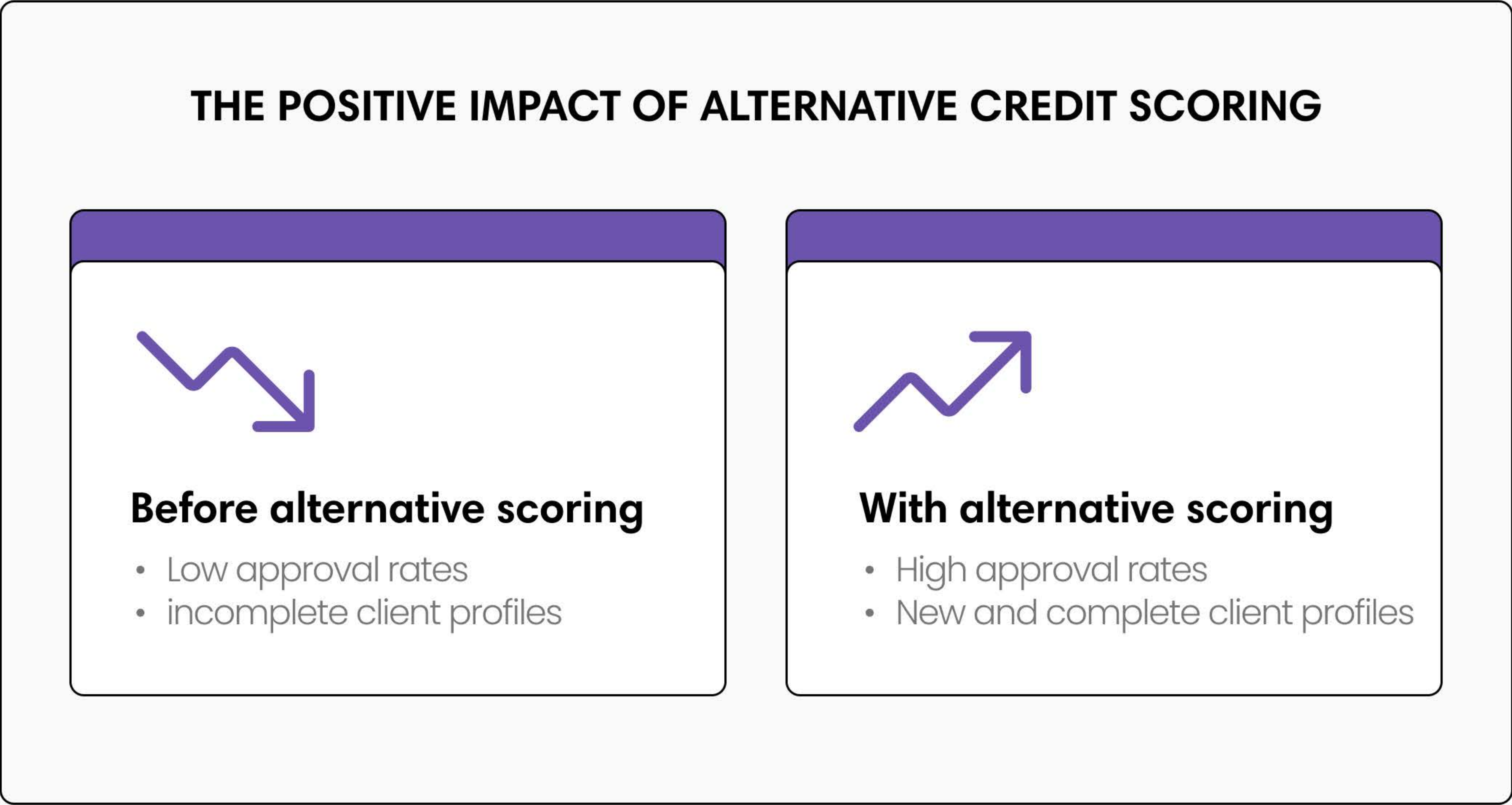
Existing credit models do not serve the needs of economically active lower-income households and enterprises, which is why many lenders are seeking out an alternative approach.

Integrating alternative data sources in credit scoring and lending processes can significantly help credit invisibles build their credit history and scores.

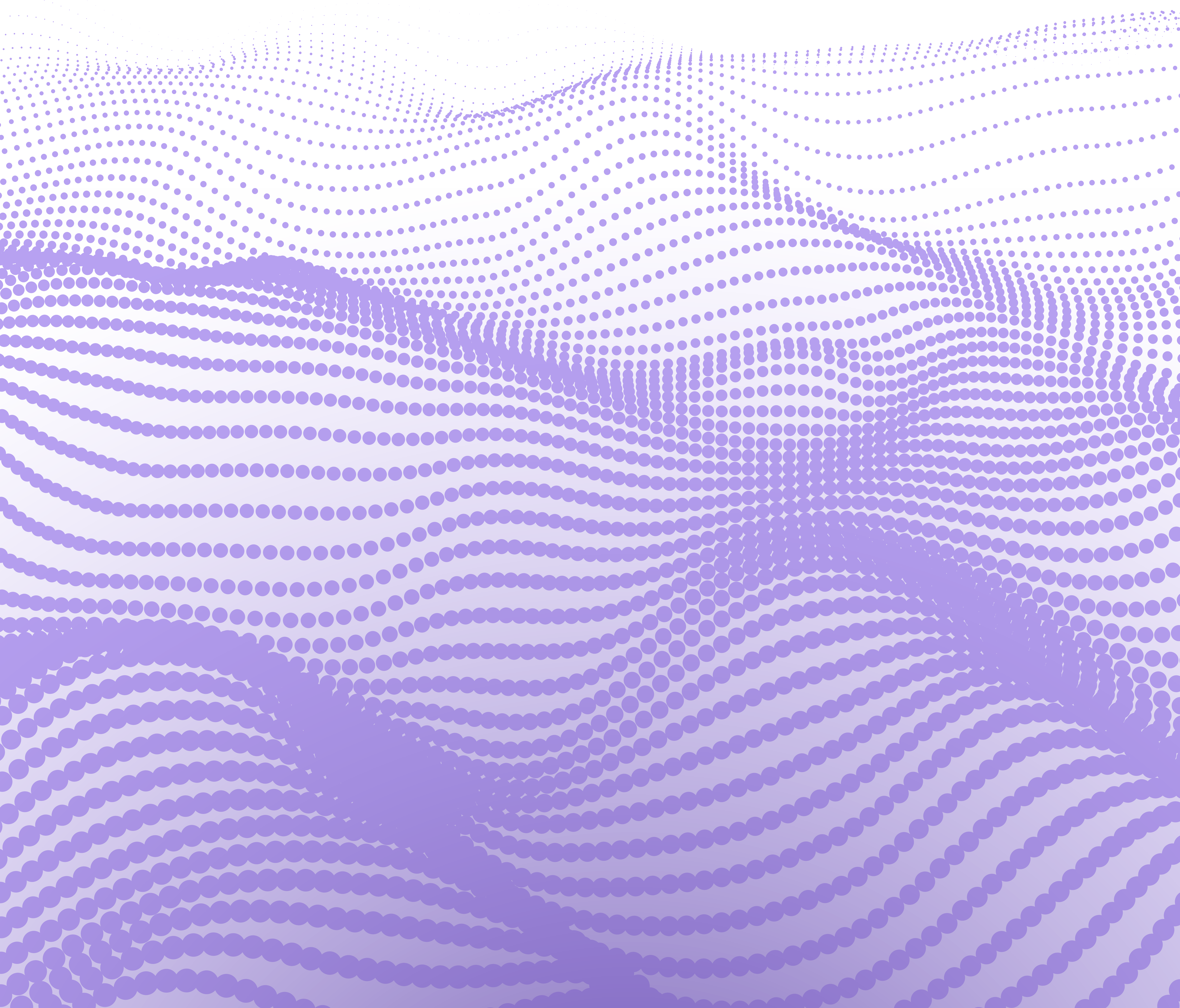
**These sources
can include**

Utility bills
Telecommunications bills
Rent bills
Alternative lending payments
Demand for deposit account information such as recurring payroll deposits
Payments which are already part of people’s regular financial commitments

Alternative scoring uses real-time data enrichment to build comprehensive profiles, enabling companies to better understand prospects and make informed decisions.

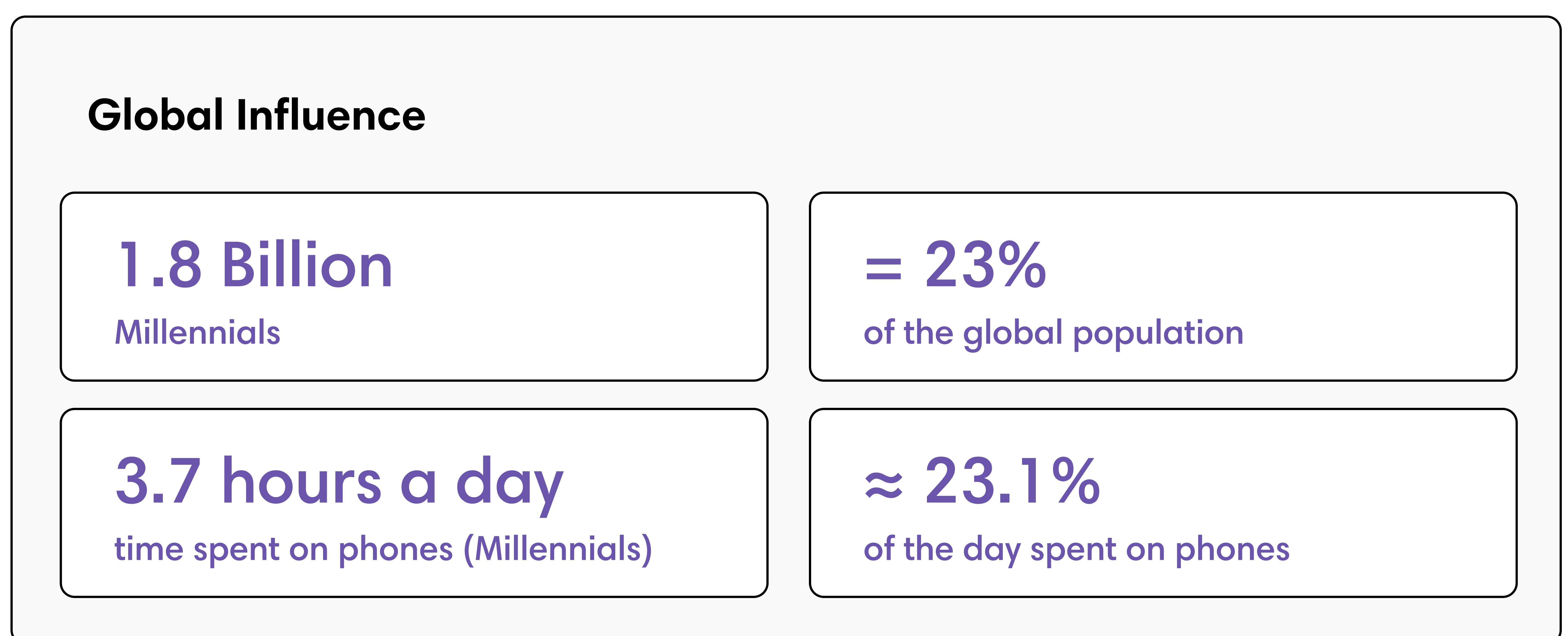


USING ALTERNATIVE DATA TO CREDIT SCORE MILLENNIALS



At first glance, the financial profiles of millennials may seem incomplete or complex to banks and financial institutions. Young people in their 20s and 30s are sometimes affected by the lack of credit history and disabled to meet their goals of buying a home, car, obtaining credit or making an investment. On many occasions, their loan applications are rejected or are imposed high interest rates that prevent them from obtaining profitable loans.

The lack of a traditional credit history does not mean that these young people are unreliable or not eligible for credit. On the contrary, many of them are ideal clients financial institutions need.



Millennials are now the largest adult cohort in the world with 1.8 billion people around the world, equal to 23% of the global population. Plus, they live in a 100% online world.

Millennials are highly dependent on their smartphone usage, spending an average of 3.7 hours a day on their phones, and when you factor out average sleeping time, millennials spend nearly a quarter of the day (23.1%) on their phones!*

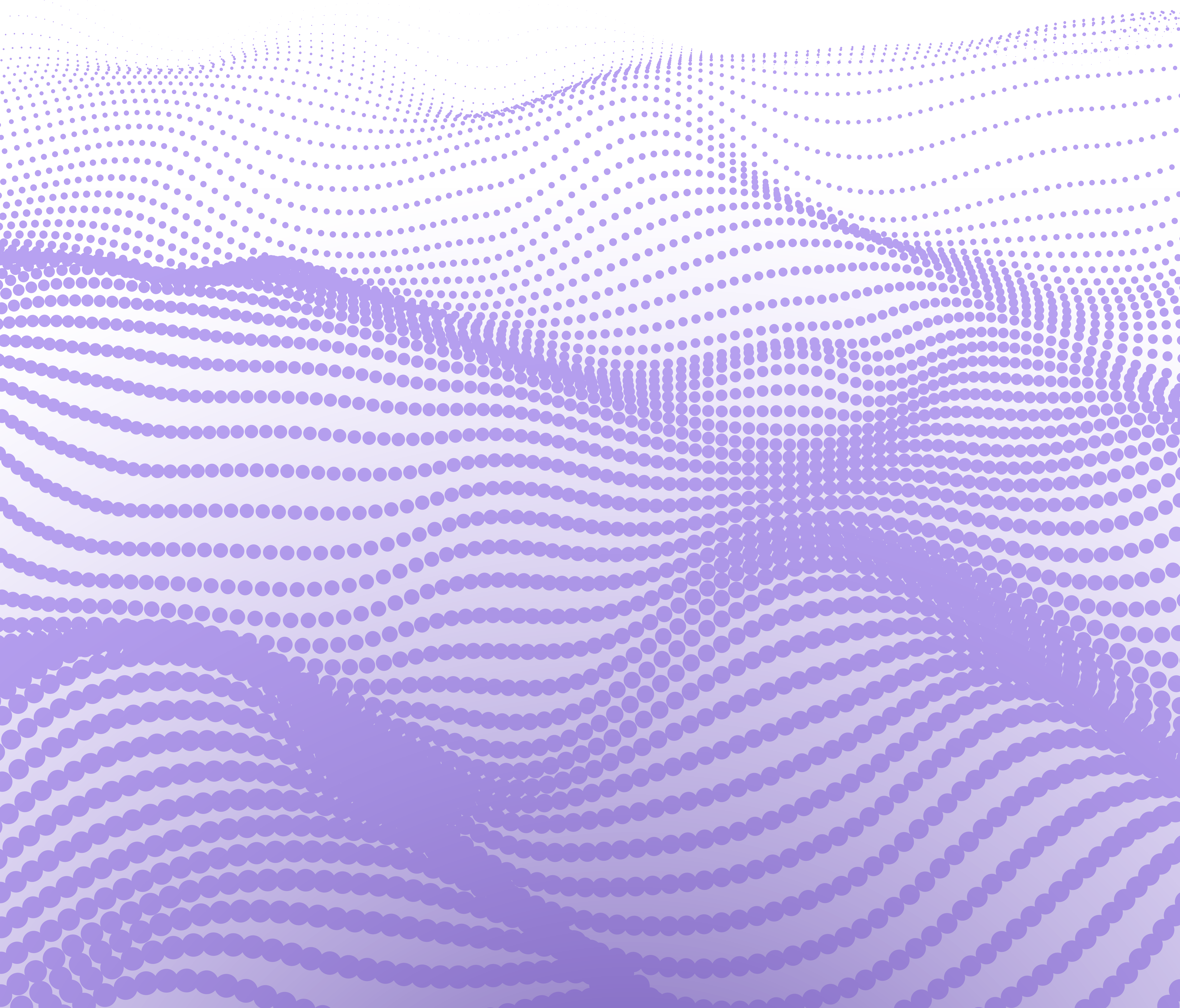
*Source: <https://www.entrepreneur.com/article/360098>

It is no surprise that millennials are also largely involved in financial technology or fintech, with e-wallets and other mobile fintech apps helping them complete transactions in their daily lives.

Unlike their parents, **their first contact and interaction with banks and money flows is completely digital.** With millennials making up nearly half of the world's working population in the next 10 years, their generation's spending power will continuously increase over time, making them highly influential consumers.

Millennials often opt for fintech startups that meet their credit expectations when faced with the great demand in the banking market. These new companies have a closer relationship with young people, adapting to their needs in the entire evaluation process: from their credit assessment to how they communicate. They also use **alternative data and score apps to conduct evaluations, making it more likely to grant loans to millennials who do not have a traditional credit history.**

ALTERNATIVE CREDIT SCORING, AN ALLY FOR MANY INDUSTRIES



The utility of alternative data is so broad that it reaches multiple industries such as: Bank & Consumer Finance, Buy Now Pay Later, Digital Lending, Neobanks & Challenger Banks and Ride-Hailing. Its wide use explains the success of alternative data in recent years and how new sources of information are redefining the game.



Banks and Consumer Finance Companies

- Alternative credit scores predict customer creditworthiness like never before.
- **Helps access untapped segments:** new-to-credit, millennials, thin-file, and self-employed.



Neobanks & Challenger Banks

- **De-risks a new market:** gig workers, unbanked, Gen Z, new-to-credit and small business owner customers.
- Expands access to mainstream financial services.



Buy Now Pay Later (BNPL)

- Segments customers likely to meet payment obligations.
- Improves customer acquisition and loyalty.

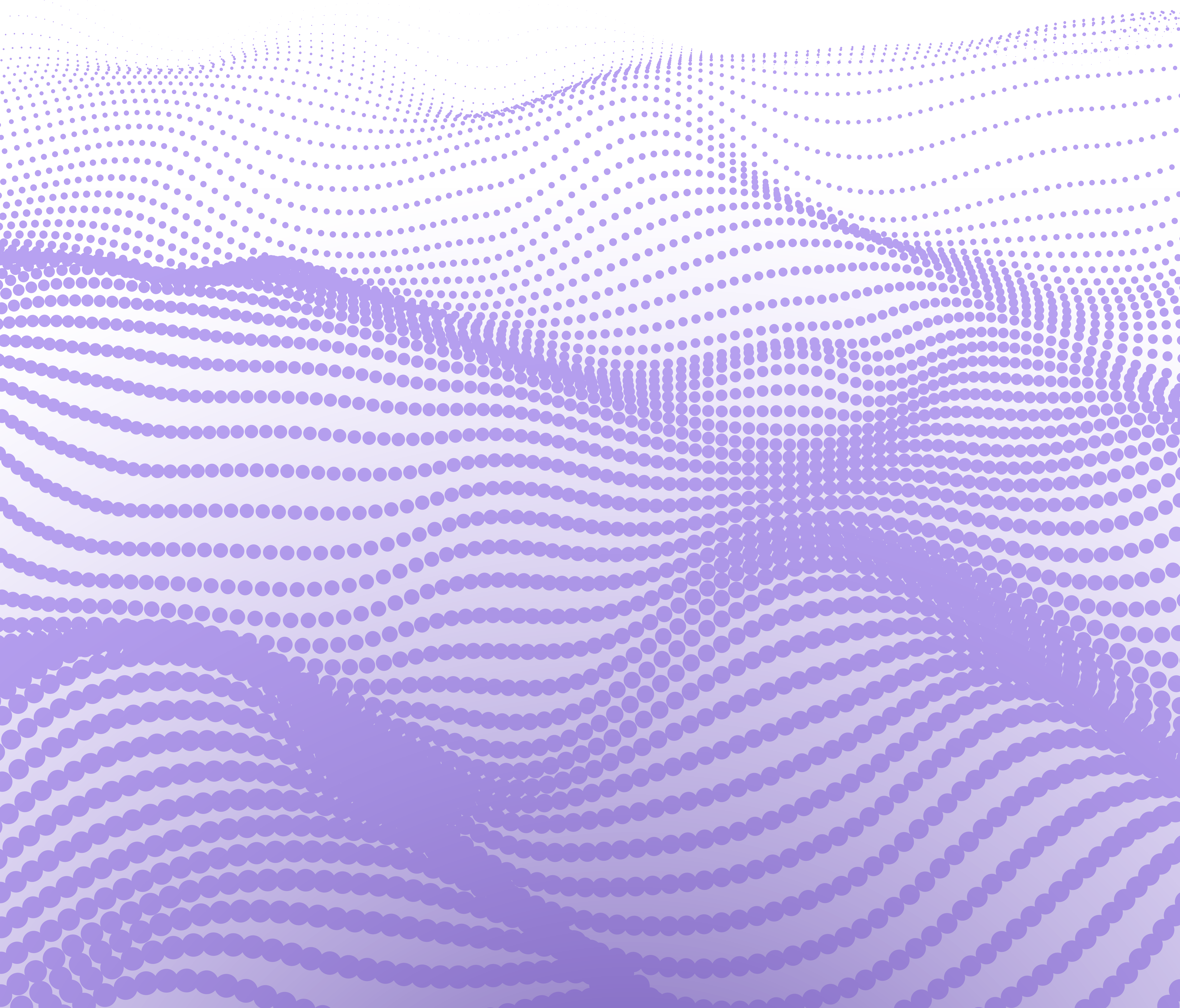


Digital Lenders

- Supports micro, small and medium-sized lenders by improving credit ratings accuracy.
- Helps provide more loans, levelling the playing field against larger competitors.

Thanks to alternative data, companies can obtain more precise credit profiles, make informed decisions, and incorporate these currently untapped sources into the financial market.

CREDOLAB: DEMOCRATISING CREDIT SCORING



We believe loans improve lives. We also believe traditional banking processes leave a lot of people out of the process. That's why Credolab is changing the way the world looks at credit. Our pioneering technology calculates credit scores based on people's mobile and web behavioural data—so lenders can make decisions based on the way people live and work in the modern world.

Existing credit models do not serve the needs of economically active lower-income households and small businesses, which is why many lenders are seeking out an alternative approach.

At Credolab we offer a unique alternative credit scoring solution aimed at serving exactly these people. Thanks to the most sophisticated embedded scoring tool available on the market, Credolab helps you collect alternative data from smartphone and web devices. In a seamless and **privacy-consented way**, we help you collect anonymous metadata—not personal data—while your customers apply for a BNPL product, any cash loan or a credit card.

Smartphones are in the hands of a large majority of users and leave an enormous digital footprint, with tens of thousands of data points that can be used to predict user behaviour. The sheer amount of Big Data is exactly why Credolab's statistical models are so impressively predictive and stable.



Collects Metadata

Number of contacts, storage usage, call timing, etc.



Ensures Privacy

Use anonymised, non-personal data.



Applies Models

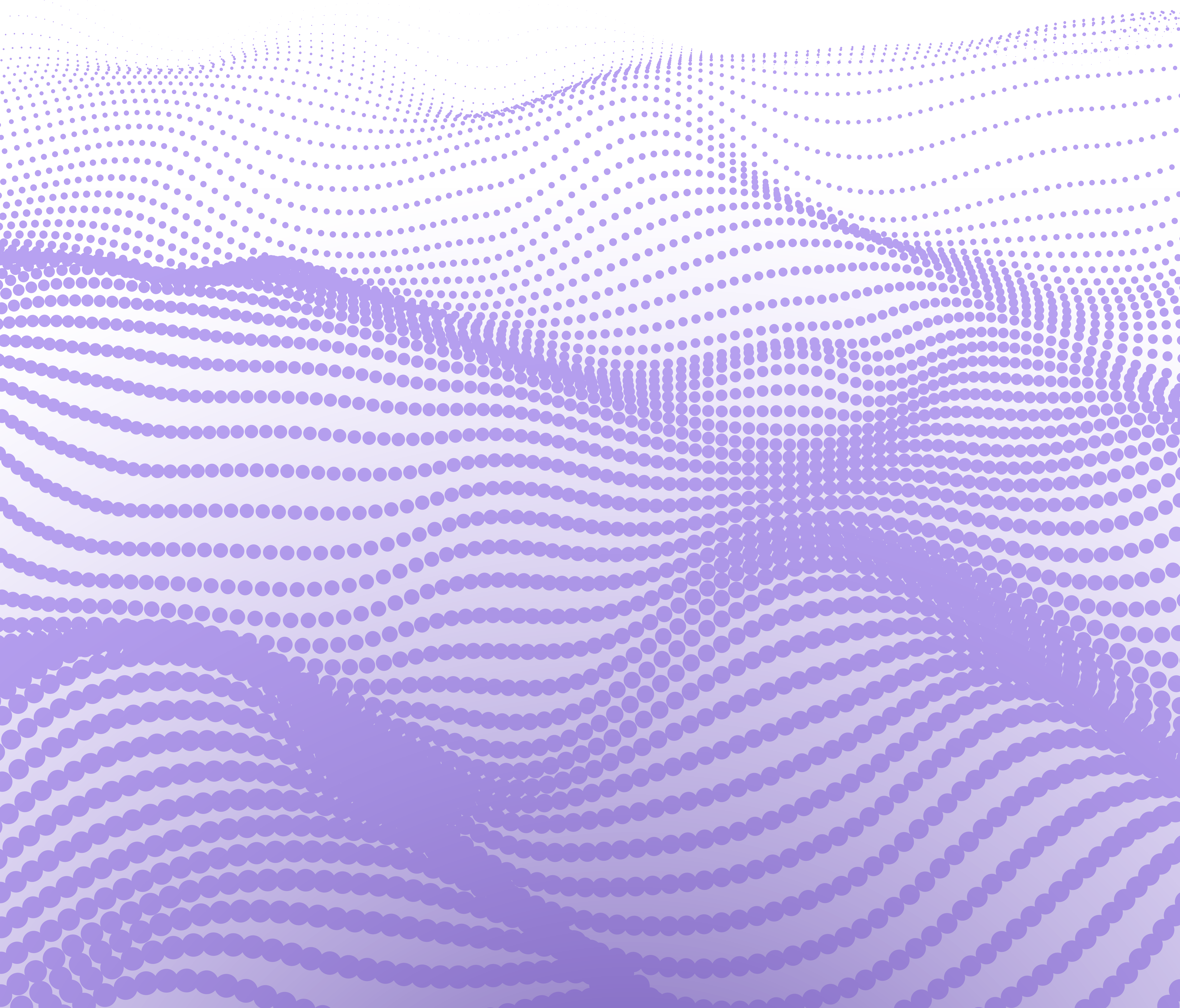
Analyse tens of thousands of data points.



Delivers Insights

Generate highly predictive, stable credit scores.

ABOUT CREDOLAB



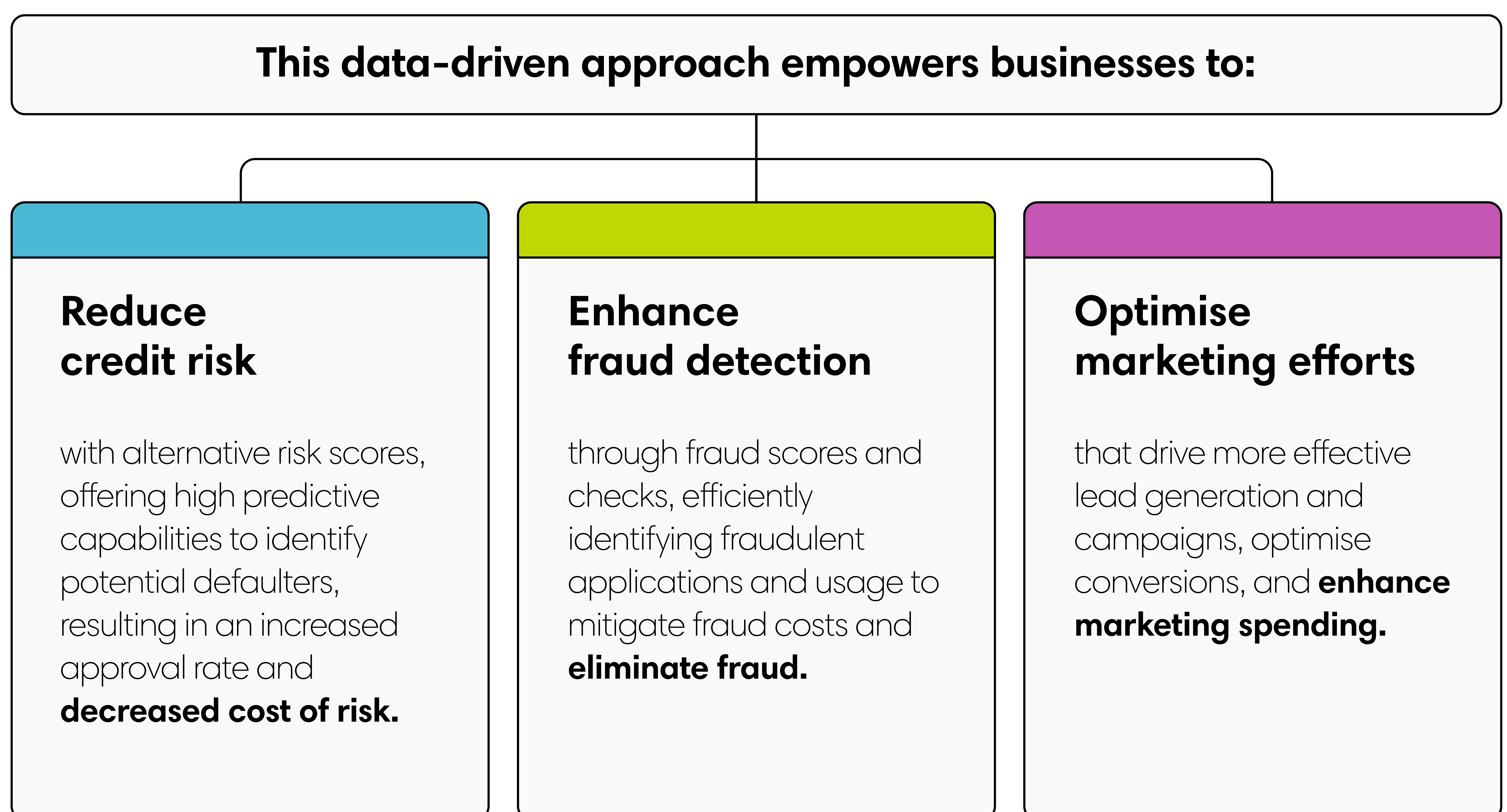
Credolab is a Data and Analytics platform that provides insights and scores built to improve risk assessment, fraud prevention and marketing processes.

Our Products

Credolab's insights and scores enable clients to make better decisions at every customer touch point: application, registration, onboarding, account login, and at every marketing communication.

Our Solutions

Credolab's solutions leverage proprietary behavioural biometrics and device metadata derived from privacy-consented, non-personal, and anonymised smartphone and web interactions. Utilising over 80,000 data points analysed through advanced Machine Learning algorithms, Credolab delivers highly predictive and real-time scores and granular insights via a unified API.



Our Origins and Growth

Established in 2016, Credolab has achieved global expansion, with offices strategically located worldwide and a team spanning 11 countries. Serving a client base of over 200 in 52 countries, our commitment to continuous innovation is evident in delivering solutions that propel business success, champion financial inclusion, and positively impact the bottom line across diverse industries.



Capgemini Financial
Services **Efma**
Financial
Newtech Watchlist 2021



World Economic Forum
100 Technology Pioneers
in the world 2021



Winner of 2021 **Financial**
Newtech Challenge
“Banking-Scale up” Award



Social Impact Award
SFF Global Fintech
Awards 2021



Singapore's Top 10
Fintech & Finance Startups
2021 StartupLanes



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