THE FUTURE
OF CONSUMER CREDIT

TECHNOLOGY IS PERMEATING EVERY PART OF OUR LIVES,

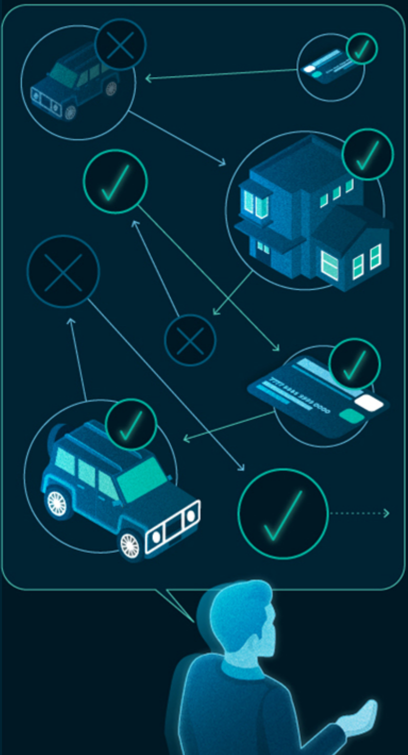
and it's poised to drastically change the way consumers borrow money and how lenders extend credit in the future.

The growing quantity of new data getting generated each day is one major catalyst for this change for the credit industry.

However, it is arguable that who controls this data, how it gets used, and the insights that will get unlocked will be just as important in shaping the future of the sector.

SOLVING A

Perennial Problem



THE BIGGEST PROBLEM THAT CREDITORS HAVE ALWAYS FACED IS WELL-DOCUMENTED.

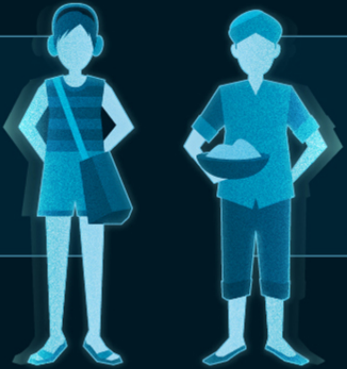
INFORMATION ASYMMETRY

There is more to a borrower than just their credit score. Yet creditors do not always have a 360 degree view of a consumer's creditworthiness in order to better assess their overall score.

Over the years, through usage of credit scores and other useful systems, creditors have gotten better at closing this information gap - but it still persists especially in particular situations...

EXAMPLE 1

College student with limited credit history



EXAMPLE 2

People "outside" of the system like a farmer in rural India

BUT THANKS TO NEW DATA, AND NEW TECHNOLOGY, THIS ASYMMETRY MAY SOON BE A THING OF THE PAST.

Forces Shaping
FUTURE CREDIT

Here are some of the major forces that may help shape the future of the credit industry, addressing the information asymmetry problem and helping expand access to credit, while minimizing lender risk.

1 GROWING DATA

90% of the data in all of human history has been created in just the last two years.

[IBM]

2 DATA IN THE HANDS OF CONSUMERS

New international regulations are putting personal data back in the hands of consumers, who can control the personal data they authorize access to.

3 GAME-CHANGING TECHNOLOGIES

Machine learning, deep learning, and neural networks are giving companies a way to garner deeper insights into data.

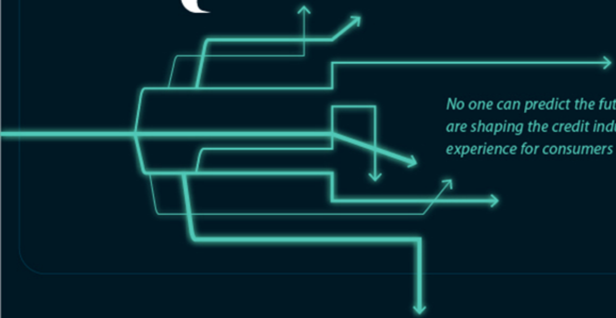
4 FOCUS ON IDENTITY

Authenticating the identity of consumers will become even more crucial as credit becomes increasingly digital. Blockchain and biometrics could play a role.

5 THE FINTECH BOOM

Democratization of data and tech is allowing small and niche players to come in and offer new, innovative products to consumers.

THE CREDIT Revolution



No one can predict the future, but the above forces are shaping the credit industry to be a very different experience for consumers and businesses.

HERE ARE HOW THINGS COULD CHANGE:

More Data, New Models

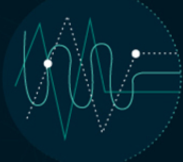
Currently, most credit scoring algorithms use logistical regressions to compute scores, but these really max out at using 30-50 variables. In addition, these models can't "learn" new things like AI can.

However, with new technologies and an unprecedented explosion in data taking place, it means that this noise can be converted into insights that increase trust in the credit marketplace.

New algorithms will be multivariate, and they will be able to mine, structure, weigh, and use this treasure trove of data.

AI

Machine learning can "learn" from massive data sets, and apply these lessons for better scoring.



BAYESIAN

Models can update probabilities as more information is available, helping to better predict creditworthiness.

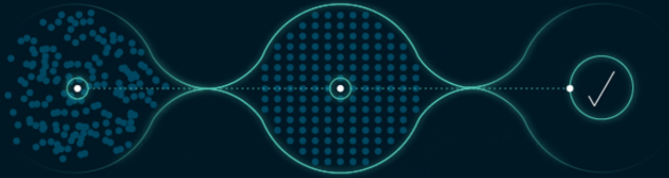
APIs

Application programming interfaces (APIs) make it easier for developers to use technologies, data, and to build new applications.

NEURAL NETWORKS

Brain-inspired AI systems designed to replicate the way that humans learn are used for deep learning. This enables the processing of raw, unstructured, and often abstract data for new insights.

Neural networks will be able to look at billions of data points to find and make sense of extremely rare patterns. For example:



Jenn has a 1 in 1,000 type of credit behavior that is very unique, and hard to interpret with normal methods

Neural networks are able to discover this rare pattern, and relate it to other examples of similar behavior

A profile for this behavior is created, and creditors can deem Jenn more (or less) creditworthy as a result

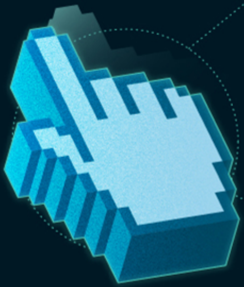
Neural networks will also be able to explain why a particular decision was made – and at a time where transparency is crucial, this will be key.

Data in the Hands of Consumers

Today, much of consumers' financial data - such as loan repayment histories - is held almost exclusively by banks, lenders, and credit agencies.

However, a new paradigm shift is taking place. Consumers are gaining increasing control over how, when, and where their own personal and financial data can be accessed and used by lenders.

DATA REGULATORY TRENDS



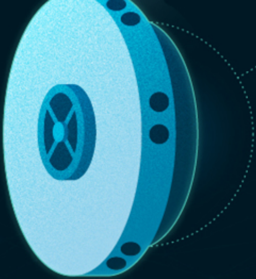
In Europe, some changes have already been made to transfer control of personal data to the consumer, such as the PSD2 and GDPR initiatives.

PAYMENT SERVICES DIRECTIVE (PSD2)

PSD2 will break down the barriers between consumers and their data, giving them even more control of their finances.

GENERAL DATA PROTECTION REGULATION (GDPR)

Meanwhile, GDPR enhances individuals' rights when it comes to protecting their personal data.



OPEN BANKING (UNITED KINGDOM)

The UK's version of PSD2 is known as Open Banking, and it goes a step further.

It mandates that all banks release their data in a secure, standardized form, so that it can be shared more easily between authorized organizations online.

Experts see the trend towards open data growing globally, and eventually reaching the U.S.

OPEN DATA WILL ALLOW CONSUMERS TO:

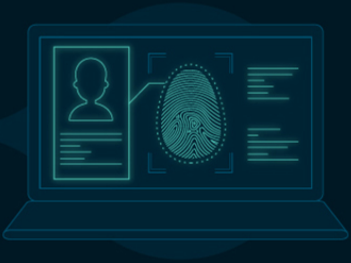
- *Regain control of checking, mortgage, loan, and credit card data*
- *Give up more information voluntarily to unlock better deals from creditors*
- *Grant access to third parties (fintech, apps, etc.) to use this data in new applications and products*
- *Gain access to better rates, new lending models, and more*

Identity Will Be Just as Important

As transactions become more digital and remote, how lenders verify the identity of borrowers will be just as important as the credit decision itself.

WHY?

Credit is based around trust – and fraud is the biggest risk for *lenders. But fraud can be prevented by new technologies that help detect anomalies and prove a borrower's identity:*



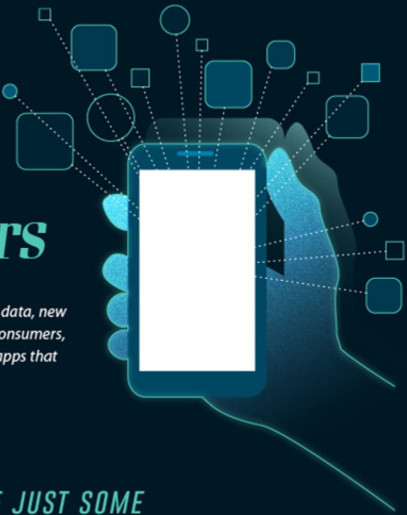
BLOCKCHAIN

Distributed, tamper-resistant databases can help secure people's identities from fraudulent activity.

BIOMETRICS

Fingerprints, facial recognition, and other biometric identification schemes could help secure identities as well.

New Game New Players



With the vast expansion in types and volume of credit data, new technologies, and standardized data in the hands of consumers, there will be a new era of third-party companies and apps that can provide new and relevant services for consumers.

HERE ARE JUST SOME EMERGING FIELDS IN LENDING:

ALTERNATIVE CREDIT SCORING

Psychometric testing or the use of other data streams can be used to power this less traditional form of lending.

P2P LOANS

Does a bank need to be an intermediary?

With peer-to-peer loans, you are matched to an appropriate lender/borrower.

NICHE SERVICES

With an open playing field, companies will fill every gap imaginable.

MICROLENDING

Lending doesn't always need to be in big amounts, like for a mortgage or auto loan.

The future of consumer credit will be drastically different than today. As credit scoring technology continues to advance, so will the power that consumers will have over their own financial futures.

CONSUMERS WILL HAVE MORE CONTROL AND MORE OPTIONS THAN EVER BEFORE.

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Sources:

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