

FINANCIAL INCLUSION AND ACCESS TO CREDIT



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Credit plays an important role in modern society. When granted and used responsibly, credit can open doors to opportunities like attending university, buying a car or a home, starting or expanding a business — opportunities that can help people broaden their horizons, build their career and wealth, attain greater freedom or peace of mind. For those with limited savings, credit can also provide a lifeline in case of emergencies.

On the other hand, when credit is overused, or used to finance expenses that a borrower can't afford, it can become a burden. The cost of servicing debt can make it difficult for an overextended borrower to save or to cover other expenses or, ultimately, lead to default. Responsible lenders try to avoid putting anyone in this position.

In seeking to avoid costly defaults, lenders commonly look for evidence of both ability and willingness to pay before they make a loan. Their most reliable gauge of willingness has been to look for a track record of repaying other debts, which creates a Catch-22 for those with little or no credit history. Nineteen percent of American adults (49 million consumers) don't have conventional credit scores. These include 28 million who have no mainstream credit file at the credit bureaus (likely because they never had credit before). They're **credit invisible**. Another 21 million have some limited information in their mainstream credit file, but not enough to generate a conventional credit score. They're **unscorable**.

In addition to these groups, another 57 million have scores that classify them as **subprime** — meaning that most lenders wouldn't lend to them, at least not at the same interest rates as prime borrowers. While a subprime credit score often reflects specific negative credit information, it may only represent a limited view. In the absence of recent positive history, even a small amount of dated negative information can drag down a person's score, making it difficult to reestablish credit.

To different degrees, each of these groups faces information barriers to establishing credit, and these barriers create a source of frustration for those caught on the wrong side of them. At a societal level, such information barriers contribute to perpetuating disparities in access between historically advantaged and disadvantaged groups. For instance, while legal and regulatory reforms have long since banned the practice of redlining, Black and Hispanic Americans are still far more likely than White Americans to be credit invisible or unscorable, and less likely to gain access to mainstream credit.

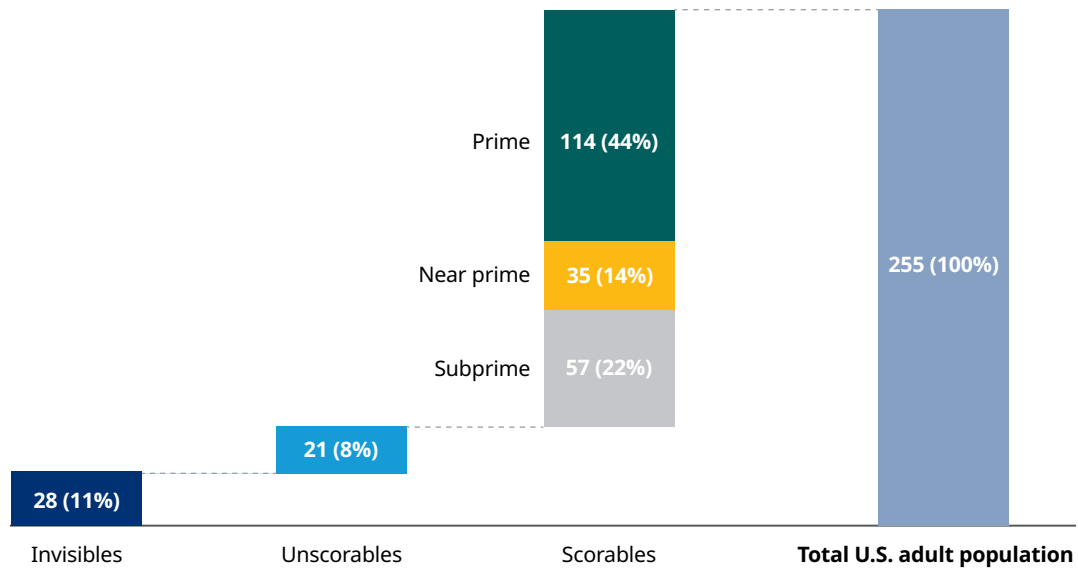
As an industry, lenders can do better. They can expand access to credit, improving their social impact while growing their business, all without taking on undue risks. In recent years, expanded data sources have become increasingly accessible for credit decisioning. These include additional sources of payment history, more detailed and reliable information on current payment capacity (i.e., updated income and expenses), new attributes derived from such information, and alternative scores built upon such incremental information. By drawing upon these already-available data sources, lenders could score essentially all 21 million consumers who are conventionally unscorable, as well as the majority of applicants from the 28 million credit invisibles. For instance, Experian® estimates its Lift Premium™ score can score 96 percent of American adults — a significant increase from the 81 percent that are scorable with conventional scores relying on mainstream credit data. In addition, such enhanced scores would enable 6 million of today's subprime population to qualify for "mainstream" (prime or near-prime) credit.

The research leading to this report was conducted by Oliver Wyman and supported by Experian who shared data-driven perspectives in bringing new data-related products to market. The views expressed in this report are those of the authors.

WHO LACKS ACCESS TO CREDIT?

Our analysis, based on Experian data and previous CFPB research, suggests that 28 million American adults are credit invisible and another 21 million are unscorable (see Exhibit 1).¹ Of those with scores, 57 million are categorized as subprime, which typically indicates they could borrow only at significantly elevated interest rates. Hence, 106 million Americans, or 42 percent of the adult population can't get credit at mainstream interest rates. Of course, many of these individuals genuinely pose greater credit risk. But among those 106 million are many millions who could qualify for credit at mainstream rates if additional data were brought to bear.

Exhibit 1: Current state of access to credit
 # of people in million (% of total U.S. adult population)



Note: Although sources roughly agree on the combined total of ~50 million invisibles and unscorables, they disagree on the split. VantageScore®² estimates 11 million invisibles and 37 million unscorables based on 2019 Census (respectively, 4 percent and 15 percent of U.S. adult population), while the CFPB estimates 26 million invisibles and 19 million unscorable by “a commercially available credit scoring model that is consistent with most credit scores used today” based on 2010 Census (respectively 11 percent and 8 percent of U.S. adult population). Exclusion logic applied by the CFPB to remove suspected “fragment files” may explain differences in these estimates.

Source: Oliver Wyman Analysis; Experian and CFPB data

¹ Outputs shown here and in subsequent pages (unless noted otherwise) are based on Oliver Wyman analysis using a random sample of consumers with Experian credit bureau records as of September 2020. The sample is reweighted to match the distribution of unscorables and scorables from CFPB's Credit Invisibles (May 2015) to account for impact of suspected “fragment files”. By definition, the sample population does not include invisibles. Outputs on invisibles are based on CFPB's analysis. Credit tier categorization used is based on VantageScore thresholds: Subprime [350–659]; Near prime [660–719]; Prime [720–850]

² VantageScore is a registered trademark of VantageScore Solutions, LLC.

There are several common reasons people are invisible, unscorable or lack access to credit.

Immigrants are disproportionately represented among the invisible for the simple reason that they lack a credit history in the United States when they first arrive, even if they have one in their home country.

Youth is the most basic and widespread explanation of credit invisibility. Forty percent of invisibles in the United States are under the age of 25. This is unsurprising given that everyone enters young adulthood without a credit history. However, most people quickly gain one. Thirty-five percent of 18- and 19-year-olds are already credit visible and this figure increases to 91 percent with 25- to 29-years.³ Common paths to becoming visible and scorable are through student loans, student credit cards and guaranteed credit (for example, by parents or other relatives), which do not require the individual to have a prior credit history.

However, these paths aren't equally accessible to all — not everyone goes to college, and not everyone has a parent or relative with good credit who will act as a guarantor. Consumers from **low-income** areas are less likely to have these advantages. For instance, while 30 percent of borrowers in high-income neighborhoods rely on a creditworthy guarantor, only 15 percent of borrowers from low-income neighborhoods do.⁴ This helps to explain why almost 30 percent of consumers in low-income neighborhoods are credit invisible and an additional 16 percent are unscorable, compared to 4 percent and 5 percent, respectively, for those living in higher income neighborhoods.⁵ Even among those who are scorable, low or unstable income can act as a drag on broader financial health, which can lead to genuine differences in the credit risk that scores measure.

Bad experiences with credit also restrict access to credit, in two ways. First, a prior default makes lenders reluctant to extend credit again, even when a consumer's financial circumstances are materially better than at the time of the prior default. An extended period without credit after a default may eventually render a borrower unscorable, regardless of her current real creditworthiness. Second, the consumer herself may be deterred from seeking credit, even when it would be financially prudent, because she has become fearful of borrowing. Such fears can also circulate in broader social communities where friends and family members have had bad experiences with credit or other financial services. As a result, a lack of trust can become a further barrier to effective financial inclusion.

Although these barriers aren't uniquely determined by race or ethnicity, there's reason to believe they contribute to significant differences in credit access between ethnic groups.

3 Credit Invisibles, The CFPB Office of Research, May 2015.

4 Becoming Credit Visible, The CFPB Office of Research, June 2017.

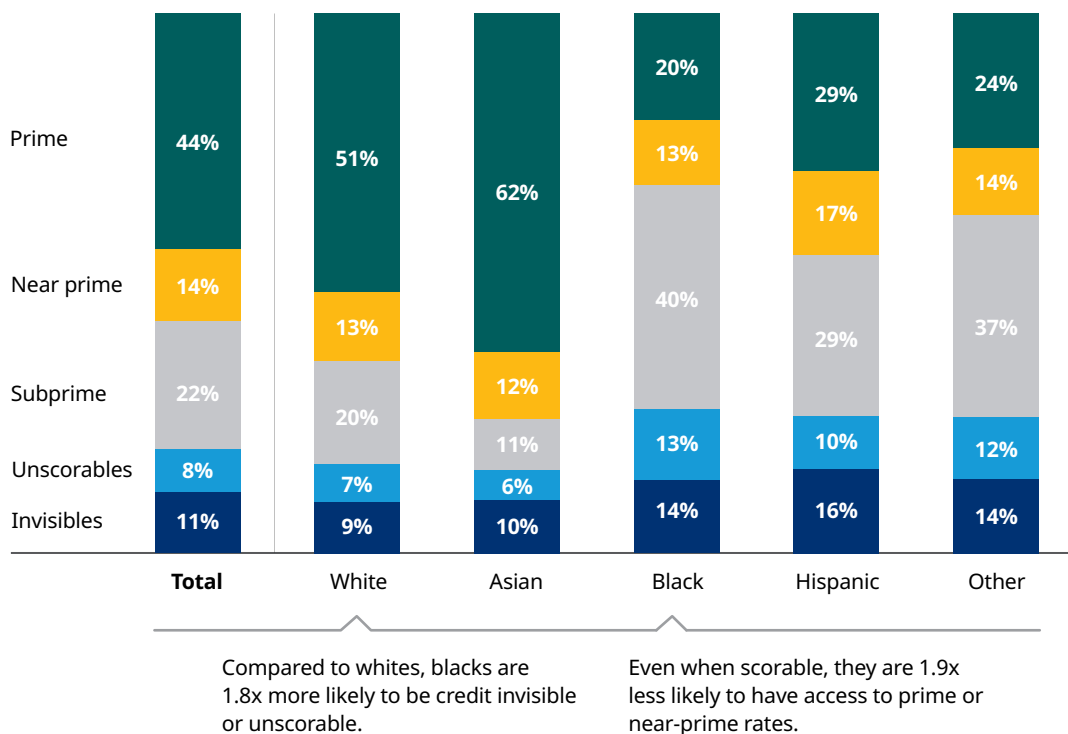
5 Credit Invisibles, The CFPB Office of Research, May 2015.

For instance, as of the 2019 Census, tracts with majority⁶ Black populations have 39 percent lower average income than those with majority white populations, and 41 percent lower proportions of people with a bachelor's degree or higher.⁷

While lenders generally don't collect race data except where required by law, methods have been proposed to proxy for race on a statistical basis, enabling comparison of aggregate outcomes at a group level. Exhibit 2 (below) shows estimates of how aggregate credit access statistics vary by racial groups based on one such method, known as Bayesian Improved Surname Geocoding.⁸ The differences are considerable — for instance the Black population is estimated to have a far larger share of credit invisibles, unscorable consumers and subprime (collectively about two thirds of the Black population of credit-eligible age), compared to the white population (in which those three groups collectively represent a little over one third).

Exhibit 2: Access to credit by race and ethnicity

Differences in access to credit by race and ethnicity
% of total in each segment



Source: Oliver Wyman Analysis

6 Tracts with more than 50% of people from a certain race

7 U.S. Census Bureau, 2015-2019 American Community Survey 5-Year Estimates

8 Using publicly available information to proxy for unidentified race and ethnicity, The CFPB Office of Research, 2014

HOW CAN LENDERS EXPAND ACCESS TO CREDIT?

Consumers who are likely to repay loans but can't access credit face an information barrier. Lenders would happily lend to them, if only they had a better understanding of consumers' financial situation and knew that they were likely to repay loans. After all, by understanding of the consumer's full financial situation, lenders can expand their businesses while mitigating risk.

To access this opportunity, lenders must increase the number of customers whose credit quality they can assess. And they must improve their ability to identify the true credit quality of borrowers. Or, in other words, they must improve their risk differentiation.

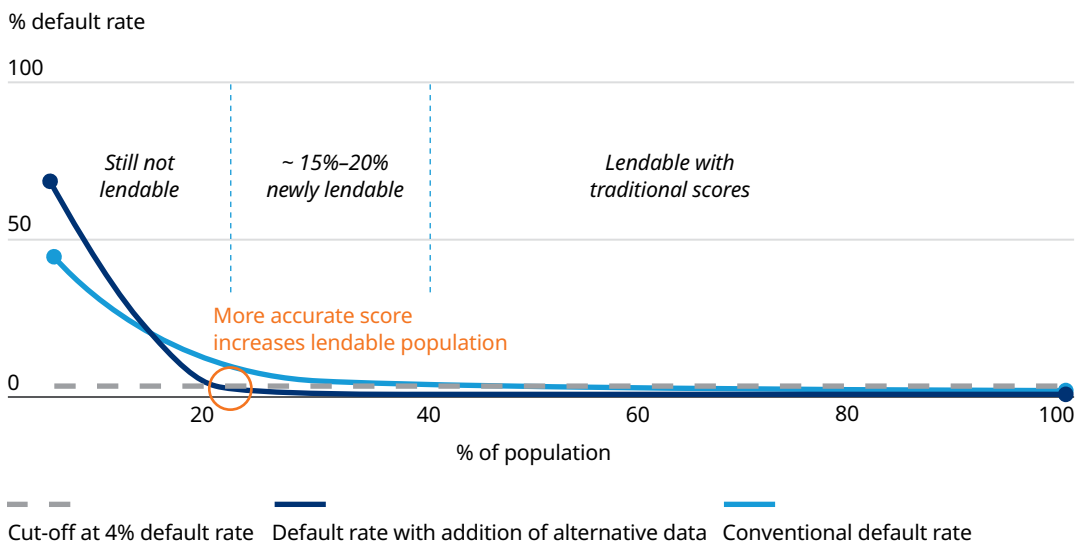
Risk differentiation relies on credit scores that rank consumers from least likely to default on a loan (highest score) to most likely (lowest score). While credit scores are intended to predict the likelihood of default on a loan, they describe only the borrower. A loan's risk may also depend on its terms (e.g., required payment schedule) and the economic environment. But for any given type of loan, a probability of default can be associated with a credit score by observing the percentage age of consumers with that score who have defaulted in the recent past.

Suppose the probability that a borrower with a credit score of 680 will default in a one-year period is 4 percent (or 1-in-25). Suppose also that, for the credit product in question, the loss given default is 50 percent: that is, when a borrower defaults, the lender on average recovers only half of the amount advanced. Then the expected loss when advancing credit to people with this score is 2 percent of the loan amount ($4\% \times 50\% = 2\%$).⁹ If the lender's pre-tax profit margin on performing loans is 1.95 percent, it won't advance credit to people with this credit score. After all, it stands to lose more money than it makes. In this case, 24 out of 25 customers with this credit score would not default. But because one default costs the lender more than the margin from 24 performing customers, taken as a whole this score segment may not qualify for credit at this rate.

⁹ This is a simplification of the risk-related costs faced by a lender, but the complications are irrelevant to the point at hand.

If lenders could better distinguish the risk of individual consumers, the lendable population would increase — to the benefit of both borrowers and lenders. The effect of improved risk differentiation can be seen in Exhibit 3. If a lender had perfect risk foresight, it would be able to allocate every consumer to one of two groups: those who will default (100 percent probability of default) and those who will not (0 percent probability of default). This perfect foresight is humanly impossible. But imperfect risk differentiation is possible. As it improves, it more closely approximates this ideal: That is to say, the curve in Exhibit 3 becomes even steeper at the far left and flatter in the middle, isolating only a small fraction of people with very high risk as unlendable, while identifying a larger portion as having low enough risk to be lendable.

Exhibit 3: Illustrative depiction of lendable population with increased risk differentiation



Source: Oliver Wyman Analysis

Risk differentiation is achieved by data analysis, and it can be improved by using more or better data and by improving analytical techniques. The next two sections consider the prospects for extending credit inclusion in these two ways.

ENHANCING ANALYTICS

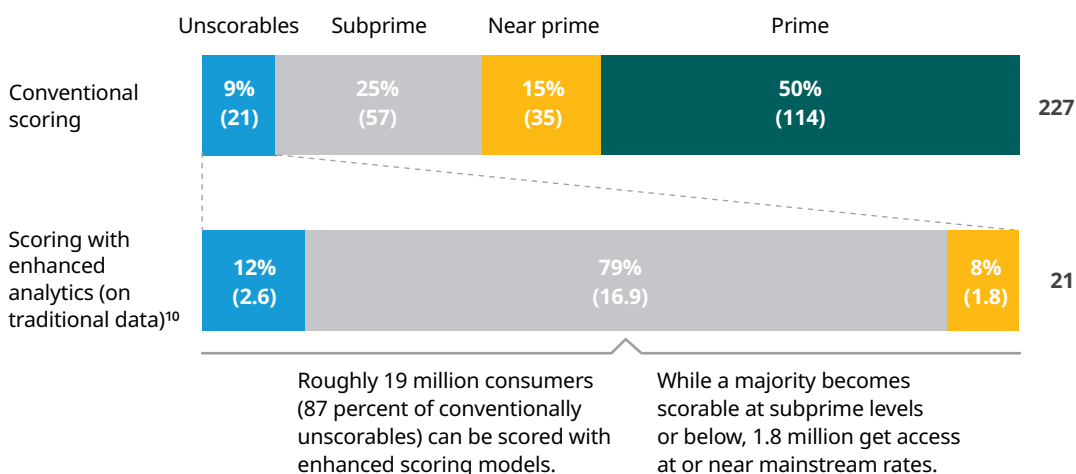
Analytical techniques turn data on prospective borrowers into information about their likelihood to default. For any given set of data available to the lender (or credit bureau), better analytical techniques can extract more information. In other words, these techniques can more accurately differentiate and quantify the risk presented by borrowers on the basis of the data available. In recent years, the application of machine learning techniques to credit data has enabled several opportunities for enhancement.

First, the use of machine learning in the process of model development research has helped identify new predictive attributes, even on the basis of a consistent set of raw data inputs. Examples include trended attributes, which extract further risk signals from the variations in account-level performance within a window of recent history, as well as interaction effects derived from the combination of two or more simpler attributes.

VantageScore® 4.0 is one example of a score that has been developed with such additional attributes, helping it to score a larger number of otherwise unscorable consumers — particularly those with existing but thin credit files. These analytics enhancements can shift the boundaries of the scorable population by 19 million without expanding the data universe. Nearly one-third of these “newly scorable” (6 million) are Blacks and Hispanics. While most are subprime, two million are near-prime and could likely obtain credit at near mainstream rates of interest (see Exhibit 4).

Exhibit 4: Impact of enhanced analytics on unscorables

Top: % of visibles, Bottom: % of unscorables (# of people in millions)



Source: Oliver Wyman Analysis; Experian data

¹⁰ Scoring with enhanced analytics refers to VantageScore 4.0 model run on traditional credit bureau data from Experian.

Second, the use of machine learning has helped to accelerate the exploration of new data sets. It has allowed researchers to identify promising attributes in new data sources and evaluate them for their potential to improve scores more quickly than would have been the case with traditional regression analysis techniques. For example, when exploring payment data from transaction accounts, machine learning techniques can be used to rapidly identify and evaluate potential attributes relating to cash flow stability, income growth or composite attributes that relate balance to monthly expenses.

Third, machine learning techniques are increasingly being used in the final model specification of credit scores, which can result in scores that better differentiate risk than a logistic regression using the same attributes. To deploy such scores directly in credit decisions, lenders need to be able to explain the key factors underlying any individual decision while also meeting fair lending obligations, which must be evaluated at a broader population level. Establishing proper control and transparency to meet these obligations has been an area of significant work for the industry, but is now bearing fruit as workable approaches are established and reviewed. For instance, Experian's Lift Premium score uses a proprietary Experian-boosted decision tree algorithm, which builds upon similar concepts as open source extreme gradient boosting (XGBoost) but adapts established practices from traditional credit scoring, including monotonicity constraints and treatment logic for special values (e.g., missing value codes). Experian then worked with outside counsel to conduct fair lending analysis including testing for disparate impact, evaluation of business justification, and consideration of potential alternatives.

EXPANDING THE DATA UNIVERSE

Even when using some of the advanced analytic techniques described above, sophisticated models are only as useful as the data that feeds into them. To significantly expand the visible, scorable and lendable population, bureaus and lenders must draw on a wider range of data sources.

Traditional credit reports include little beyond the borrower's credit history with mainstream lending products. But, as we explain in this section, there's much other data that can help to predict a borrower's probability of servicing her loan.

Noncredit payments include payments on rent, utilities (such as telecoms and electricity) and subscriptions (such as Netflix). These can provide strong signals about consumer creditworthiness. For example, reliable payment history on utilities can identify better credit risks among consumers without a credit history.

Noncredit payment data can also provide extremely wide coverage. Ninety-one percent U.S. adults have at least one utility account in their name.¹¹ Ninety-seven percent own a cell phone.¹² About a third of American households rent their home, including larger shares of those with a Black or Latino head of household. Yet this data is rarely included in credit files. For example, only 5 percent of renters have their rent payments regularly reported on their credit bureau report.¹³

The noncredit payment data reported to credit bureaus is now primarily negative. Severe delinquencies and collections are reported, but on-time payments usually aren't. Negative payment data is useful to lenders because it helps them identify and avoid consumers with a higher likelihood of defaulting. But without positive data, they miss an opportunity to identify the creditworthy among borrowers who lack a credit history. Positive payment records are also important to balance against the negative in order to identify borrowers who may have struggled in the past, but whose situation or attitude toward credit has improved.

One reason positive noncredit payment data isn't used is that telecoms, utilities and the like aren't obliged to provide it to credit bureaus, and they have reason to be reluctant. For example, telecoms may fear that they'll be giving valuable information to companies competing for their customers. And, although many households rent, the fragmentation of the rental market means that collecting this data from landlords can be costly or impractical.

Lenders and credit bureaus can overcome such obstacles by putting the power in consumers' hands to share this data in digitally. For instance, Experian Boost™ provides a method for consumers to permission access to transaction data from their deposit accounts or credit cards and parses this data to identify recurring payments of specific types. These already include utility and cell phone bills and have expanded to include certain subscriptions like streaming services. Fannie Mae has announced plans to identify rental payments from applicants' bank-account information by similar means.

Such practices are likely to become more common as consumers become more willing to share their data. Fifty-eight percent of consumers surveyed by Experian in 2019 stated their willingness to share utility payment information with lenders, up from 48 percent in 2018.^{14, 15}

Demand deposit account (DDA) data can play a wider role beyond identifying noncredit payment history. Where available, this information can provide broader insight into a consumer's underlying financial health, such as stability and growth of income, sufficient savings, and a low debt-to-income ratio.

11 Adopting Alternative Data in Credit Scoring Would Allow Millions of Consumers to Access Credit, Urban Institute, March 2021.

12 Use of smartphones and social media is common across most emerging economies, Pew Research Center, March 2019.

13 Fannie Mae Aims to Make Home Loans More Accessible, Wall Street Journal, August 2021.

14 State of Alternative Credit Data, Experian, 2018.

15 State of Alternative Credit Data, Experian, 2019.

For employees on a regular payroll, direct deposit has become near-ubiquitous, with almost 94 percent receiving their pay in this manner.¹⁶ As a result, DDA data provides lenders with an alternative to the paystub data provided by payroll companies. For example, Experian offers income verification based on up to 24 months of DDA transaction data.

More broadly, measures of financial health can make excellent signals of ability to pay, allowing for separation of risk among those without prior credit history and even providing a strong complement to credit bureau information for those with existing credit scores. For instance, even a consumer with a prime credit history may present elevated risk if she has overextended herself, taking on expenses beyond her income without a buffer of savings. On the other hand, a consumer with a history of struggling to pay her heating bills in the winter might present as a lower risk if she has just taken on a higher-earning job, enabling her to pay all her bills and begin saving money.

A growing number of lenders use such data to inform credit decisions, but the scope of their efforts varies. For instance, many banks believe in the value of this data but have only begun the work to use it, starting with their internal deposit data from customer relationships. In contrast, many fintechs have limited or no internal deposit history but work with data aggregators, such as Plaid, Finicity, MX and Yodlee, to access bank account data for credit decisioning, with customer permission granted during the application process.

Of course, getting customers to share bank account data is not trivial. Detailed transactional data can include sensitive information that customers may be reluctant to share. To overcome this reluctance, lenders can explain how the data will be used, (if at all) and protected against unauthorized access and provide a transparent and customer-friendly process for revoking access. Lenders should also explain how borrowers stand to benefit, for example, through a more streamlined application process, an increased chance of approval, a lower interest rate, or access to additional product features or services. Depending on the product and broader application process, different benefits may be more salient to the customer, which may suggest different placement in the application workflow — e.g., early in the process to benefit from streamlining or later in a “second look” workflow for consumers who would otherwise be declined or receive a higher interest rate.

Alternative financial services data covers nonbank-supplied credit, such as payday loans, installment purchases, rent-to-own accounts and auto title loans. With a hundred million Americans using alternative credit, this data source has broad coverage.¹⁷ And because alternative financing is typically used by people who lack access to traditional credit, drawing on this data is important for expanding access to credit.

¹⁶ <https://www.nationalpayrollweek.com/wp-content/uploads/2020/09/2020GettingPaidInAmericaSurveyResults.pdf>

¹⁷ Clear View Attributes Product Sheet, Experian, 2019.

Being a close proxy to mainstream credit data, it carries a strong signal regarding creditworthiness. It's especially helpful for differentiating risk among borrowers who haven't previously qualified for mainstream (prime or near-prime) credit.

Some of these products, particularly payday or auto-title loans, are typically not reported by lenders to the national credit reporting agencies, though they may be reported as collection accounts by third-party debt collectors if the consumer defaults. Increased reporting of on-time payments, payments would help to reduce the credit invisible population. In the last few years, national credit reporting agencies have expanded into the alternative financial services data space by acquiring alternative credit bureaus. For example, Experian acquired Clarity Services.

Expanded public records data goes beyond the limited public records information found in standard credit reports. This can include professional and occupational licenses, property deeds and address history.¹⁸ This data is available through alternative credit bureaus, such as LexisNexis, and doesn't require the customer's permission to use (being a matter of public record).

Although this data doesn't concern payment behavior, it can reveal assets and other indicators of personal or professional stability. For example, having an occupational license is a strong positive signal, suggesting personality and behavioral traits that generally translate into reliable credit behavior.

Foreign credit history data can be used to calculate a U.S.-equivalent score that lenders can use to lend to internationals or immigrants without any credit history in the United States. For example, Nova Credit works with lenders to incorporate their U.S.-equivalent scores into the credit decisioning process.

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To estimate the number of Americans who would be made visible, scorable or lendable by drawing on all of these data sources together, we would need to assemble a representative sample of adults for whom all this data is available and then compare the results when scoring them using only traditional data and when also using the additional data. Unfortunately, this isn't currently an option, as scoring models are limited in what they can capture.. Equally important, one of the sources that could be very powerful — customer-permissioned access to deposit data — is still early in the adoption cycle, so the consumers who have opted in so far aren't necessarily representative of the wider population.

However, we can do this for some of the additional data. Experian's Lift Premium draws on traditional credit history, expanded public records and alternative credit data.

¹⁸ Successfully Lend to the Underbanked Consumer, LexisNexis, February 2010.

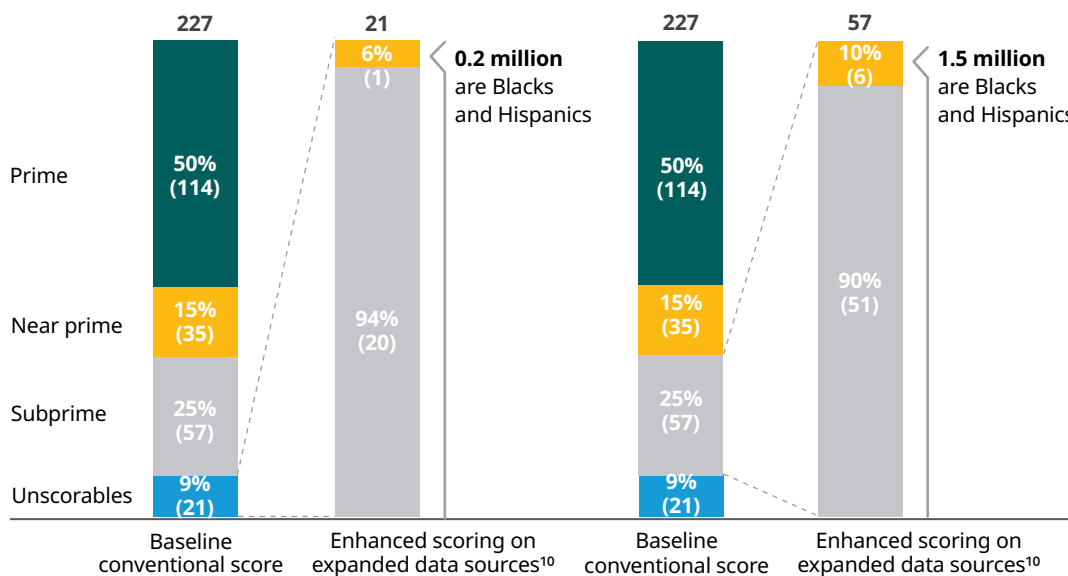
In addition, Lift Premium takes into account rent¹⁹ and utility payments to the extent that these are currently reported to Experian, including consumer-permissioned data for customers who have opted in. This was the most comprehensive view currently available to our analysis, but could be further improved upon in the future by expanded adoption of consumer-permissioned data, and by broadening the use of consumer permissioned deposit data beyond the identification of incremental tradelines to derive new features (e.g., cashflow stability).

Our analysis shows that with Lift Premium, virtually all of the 21 million conventionally unscorable consumers with a bureau file would become scorable, and over 1 million of them would have scores in the near-prime range or better. In addition, 6 million consumers who are currently subprime would be upgraded to near-prime or above, generally indicating they would become eligible for mainstream credit. Of the newly lendables, 1.7 million would be Blacks and Hispanics. Separate analysis conducted by Experian also indicated that, among the 28 million credit invisibles, over two-thirds of those who subsequently opened a tradeline would have been scoreable with Lift Premium.

Exhibit 5: Impact of expanded data

A. Impact on unscorables (people in million)
Left: % of visibles; Right: % of unscorables

B. Impact on unlendables (people in million)
Left: % of visibles; Right: % of unlendables



Source: Oliver Wyman Analysis; Experian data

¹⁹ Positive rent payments data from RentBureau is passed on to the mainstream credit file, and is factored in calculation of Lift Premium score.

²⁰ Enhanced scoring on expanded data sources refers to Lift Premium — Experian’s scoring model leveraging rent payments from Experian® RentBureau®, utility payments from Experian Boost®, expanded public records data (e.g., professional licenses) from LexisNexis and alternative financial service records from Clarity.

OTHER WAYS TO EXTEND INCLUSION

Improving risk differentiation isn't the only way of extending access to credit. Lenders can also provide products and advice that help people to get onto the credit ladder and improve their scores.

Several products that are already available aim at helping customers establish or rebuild credit histories. Credit builder loans, usually offered by credit unions, allow customers to deposit the borrowed amount (often between \$300 and \$1,000) into a locked savings account while they pay back the loan over a period of six to 24 months. Once the loan is repaid, the proceeds are made available to the customer. These have the dual benefit of building a credit history and savings, which could potentially be used as the deposit for a secured credit card which will generate further credit records. These work by extending a line of credit equal to a cash deposit made by the customer. Retail store cards and cards offered by national gasoline brands can also help to build credit records, having lower limits than other credit cards and correspondingly lower score thresholds.

New ways to help consumers become visible

Common paths to becoming visible (and scorable) include credit cards, student loans and guaranteed credit (e.g., by parents). Many consumers who lack access to these can find themselves in a Catch-22 situation. They need a credit history to become visible. But they can't get credit because they are invisible.

Industry players can address this problem by offering alternative methods for becoming visible. For example, some fintechs offer credit builder products which report history to the credit bureaus but don't require a credit check to apply.

Other products are aimed at directly providing credit to customers who couldn't otherwise obtain mainstream credit. Small dollar loans help borrowers pay emergency expenses and cover disruptions in pay, and report payments to national credit reporting agencies. Early wage access products provide an advance on paychecks by confirming individuals' employment and paycheck deposits. Some banks, as well as fintechs, also make directly deposited paychecks available to the customer as soon as they are paid by the employer, making the money available up to two days earlier than the traditional process. No fee overdrafts help customers with limited funds cover small but often critical expenses. Generally speaking, these overdraft and early wage access products aren't reported to national credit reporting agencies, so they don't contribute to building credit history. Buy now, pay later products allow individuals to acquire goods immediately with a downpayment and repay the remaining value of the goods in installments. Unlike purchases using a credit card, these products provide certainty about the payment schedule and the total cost. They can help people with insufficient savings to cover nondiscretionary expenses, such as dental care or veterinary services. In certain cases, these products can also help to build a credit history, if the providers of this credit furnish payment histories to credit bureaus.

Measuring your impact

Some lenders today measure impact of their products aimed at marginalized consumers by tracking consumer populations at different stages of the lending funnel, such as marketing, applications and approvals. They target reaching census parity in the ethnic and racial distribution of consumers. However, they generally don't collect race and ethnicity information directly, to ensure that it can't be misused in decisioning. In these cases, leveraging third-party tools and methodologies to infer race and ethnicity based on publicly available information can help lenders perform ex-post statistical analysis at a population level. An example of this is the Bayesian Improved Surname Geocoding method.

Beyond tracking the number of customers or accounts, lenders should aim to measure the impact of their products on consumers' lives based on more sophisticated financial health metrics. For example, Financial Health Network developed a framework that can be used to assess the financial health of individuals over time across a structured set of factors, including spending, saving, borrowing and planning. They also offer Attune, a tool that helps financial institutions assess their consumers' financial health.

Many without access to credit are suspicious of the financial system. This is especially true of the unbanked, undocumented immigrants and people who have previously defaulted and been subject to collections. Building trust requires lenders to communicate with people in language they understand. They must be transparent about all costs, and ideally should structure those costs to be easily understood and predicted.

Some lenders aim to cultivate a sense of community with their customers. Insofar as they are successful, this can make customers advocates of the product with friends and family who might otherwise be reluctant to use credit. Partnerships with community organizations can also provide a conduit to build more positive relationships and trust in historically underserved communities.

Of course, beyond information barriers, a root problem for many who are invisible, unscorable or subprime is poor underlying financial health, such as unstable income, lack of savings or difficulty managing expenses. While many root causes of financial health are beyond lenders' control, they can have an impact through the products, services and advice they provide.

Person-to-person advice can be expensive to provide, but self-service tools and partnerships with nonprofits can make advice available in a cost-effective manner. Budgeting apps allow users to connect their bank accounts so the app can track and categorize transactions, helping consumers adhere to their predetermined budgets. Credit monitoring services track customers' scores without performing a hard inquiry and let users know when their scores have changed, possible reasons why and how to improve them. In addition to those provided by national credit reporting agencies and third parties, some banks provide their own proprietary version of credit monitoring tools and link them with other financial education or financial wellness tools. Other firms have developed their own financial wellness scores and apps, which give users feedback or coaching on actions that improve their overall financial situation.

Beyond using financial wellness tools to provide advice to customers, banks and fintechs alike can turn similar ideas on themselves. Financial institutions use a variety of methods to assess customer needs and how well their offerings are tailored to those needs, but better measuring outcomes in terms of financial health can help to identify subtle barriers and enablers that affect the ultimate value they create for customers. As lenders continue to adapt their offerings and strategies to better serve the wider communities they operate in, a keen focus on such outcomes can help them steer, refine and redouble their efforts.

CONCLUSION

Credit plays an important role in the financial lives of many Americans — helping them to take advantage of opportunities like attending university, buying a car or a home, starting or expanding a business, and helping them to keeping things going when unexpected expenses arise. When granted and used responsibly, credit can help people build metaphorically richer lives, as well as actual wealth. Yet 106 million adult Americans, many of whom are credit worthy, lack access to credit at mainstream rates.

Responsibly expanding access to credit is both an untapped business opportunity and a chance to have positive social impact in our communities and with historically disadvantaged groups. By expanding the range of data sources drawn on and using the most advanced analytical techniques, roughly two-thirds of new borrowers from today's 28 million credit invisibles and all 21 million conventionally unscorable consumers could already be scored today. The same advances could also help identify 6 million consumers classified as subprime today who could be upgraded to near-prime or above, helping them to qualify for credit at mainstream rates. Expanding the adoption of consumer-permissioned data for credit decisioning can continue to expand the visible and lendable population, by enhancing risk differentiation among consumers with limited or no credit history.

Making credit available won't suffice for consumers to make good use of it if they don't trust credit or the institutions that advance it. Removing information barriers won't necessarily remove trust barriers. Lenders need to understand not only the likelihood that these consumers will repay a loan but what makes them reluctant to borrow. Achieving greater financial inclusion is not a job for risk managers alone.

The endeavor will require some investment in new analytical techniques, new data sources, new products and potentially new ways of engaging with communities. Better identifying and serving the creditworthy consumers they miss today is an opportunity to grow their business while doing good.

Oliver Wyman is a global leader in management consulting that combines deep industry knowledge with specialized expertise in strategy, operations, risk management, and organization transformation.

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