

Augmenting Credit Risk and Affordability Solutions with Credit Balance Information

Abstract

In the realm of credit risk assessment, traditional metrics such as Current Account TurnOver (CATO) data often fall short in capturing the nuanced financial behaviours of individuals. This limitation can result in the exclusion of potential borrowers who exhibit responsible financial management but do not fit conventional profiles.

Credit Balance information provides valuable insights into an individual's spending and saving patterns, which are not typically reflected in traditional credit assessments. By analysing balance and turnover trends, lenders can identify high-risk behaviours, such as frequent overdrafts or erratic spending, as well as low-risk behaviours, such as consistent savings and prudent expenditure. This view of financial activity enables a more accurate prediction of creditworthiness and risk, enhancing the reliability of credit assessments.

Furthermore, Credit Balance information plays a crucial role in affordability assessments. Traditional methods relying on monthly CATO data may overlook individuals who manage their finances effectively but have irregular income streams. By incorporating Credit Balance data, lenders can assess an individual's ability to repay based on their actual financial behaviour rather than solely on income stability. This approach allows for a more inclusive evaluation, potentially offering credit to individuals who would otherwise be deemed ineligible under conventional criteria.

The integration of Credit Balance information into credit risk models also leverages advanced analytics and machine learning techniques to continuously refine and adapt assessments. This dynamic framework ensures that credit risk evaluations remain responsive to changing economic conditions and individual financial circumstances. As a result, lenders can make more informed decisions, extending credit to a broader segment of the population while mitigating risk.

This presentation will explore analysis undertaken by TransUnion on how incorporating Credit Balance information into credit risk and affordability solutions addresses these gaps, offering a more comprehensive evaluation of consumer behaviour and financial health.

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