Another piece of the lending puzzle: Open Banking transaction data for enhanced risk scoring and automated affordability assessment

Application and credit bureau data underpin credit risk assessments and still represent the vast majority of data utilised within industry credit risk models today. Sharing current account turnover data, pioneered in the UK by Callcredit, provides another, now established data source used to gain additional insights into customer behaviour. This approach identifies over-indebted individuals, whilst mitigating future over extension, enabling affordability assessments to be routinely incorporated within credit application processing.

Transaction level data sharing was the next logical step to optimise credit decisioning, benefiting both consumers and lenders. Early adoption of the Open Banking standards, makes this transactional data available for exciting innovations in credit risk modelling, providing:

1. **New data dimensions.** Open Banking data provides fundamentally new behavioural insights. For example, traditional sources do not provide independent, readily available measures of living expenditure, key to comprehensive affordability assessments. Open Banking data allows us to identify things such as luxury item vs. utility bill spend, rental payments, holiday frequency, savings usage and gambling activity, and to explore how they impact on consumer credit risk, affordability and resilience.

2. **Increased speed and temporal resolution.** Traditional data sources are not dynamic. For example, consider a customer applying for an unsecured personal loan with lender B, only days after having had a similar loan approved by lender A. Typically, this first loan would not appear within bureau data for several weeks. However, transactional data, sourced through Open Banking APIs and showing the first loan deposit, would immediately alert lender B to the consumers new situation.

   Additionally, time stamped transactions provide improved temporal resolution over monthly snap-shots, facilitating the detailed examination of payment patterns (e.g. income regularity) and outlier detection, i.e. life events / triggers (e.g. income shocks).

3. **Increased data granularity.** An ability to work at a transaction level enables more precise definitions, which can then be deployed universally. For example, a lender’s specific net disposable income calculation can be automated for new to bank applicants, ensuring process and decisioning consistency.

In this paper we will reveal how these traits of transactional data can be used to build on existing bureau reporting. Specifically, we will:

- Demonstrate significant scorecard performance improvements achievable by combining or supplementing Credit Bureau and Open Banking data.
- Provide examples of transaction based data characteristics that drive performance gains.
- Share related affordability and behavioural insights.

385 words