The Future of Credit Scores **Gregor Mowat**

In the past credit scores have been built from factors like your financial history and how you have used credit. Now however, the credit industry is changing.

There's a lot happening in the social credit scoring space. Although very early on in it's development, in the future your financial profile could include your Facebook activity, what you've been buying online and even what you type into Google. Lenders are still trying to work out what these data points might mean for their lending models, a process that could take several years. But the space is still changing with all the excitement, opportunity and potential ethical and technological challenges that come with it.

So how will social data be used to build your financial profile? Let's look at some of the potential shifts and how it could affect us.

Social Media and Digital Identity

Well, it isn't a science, yet, but think about how we use our social channels to interact and build connections, and then look at how we use our friends and family as guarantors for loans. Lenders of the future may look at whether you're connected to people who have had a lot of issues repaying a loan or whether your parents have separated or your grandmother is still alive. These same lenders may then draw correlations between this data and whether you are likely to be a good payer. Could this have a knock on effect on you? Perhaps. Is this ethical? The jury is still out.

Using social media to better enable positive use of your digital identity is a more obviously positive story.

It is very easy to fake a social media account, but behavioural patterns and social interactions are much harder to replicate. One benefit could be that the link to your digital footprint actually allows for better detection of fraudulent behaviour for things like inaccurate information on an application form. Many social media channels now require you to verify your age using formal identification. By linking social media with credit applications, time could be saved and more accurate information could be sourced meaning our digital identities could speed up long and repetitive processes.

According to the Government, Economists have estimated the cost of manual offline identity proofing could be as high as £3.3 billion per year. 'Digital identity' could give a boost to the country's £149 billion digital economy by creating new opportunities for innovation, enabling smoother, cheaper and more secure online transactions, and saving businesses time and money. It could also make people's lives easier. There are already a number of startups occupying this space with hugely innovative products already beginning to hit the market.

Currently, when you turn 18, you can legally begin to build a credit profile with the three Credit Reference Agencies (CRAs), Experian, Equifax and Transunion. However, the process is not straightforward as you need to first access credit for the CRAs to notice you and then you have to prove you can pay it back responsibly. However, the future could mean that social channels and digital footprints will make it easier for University leavers and ex-military for example, to have a stronger head start to their financial lives without having to take out a loan to prove they can pay it back.

Searching Online
What you search online could also impact your credit profile. If you are constantly searching ‘payday loans’ for example, or debt advice and information, this could mean that lenders think you are living beyond your means and need a lot of high cost credit, more often. This could make you look like a risky bet when deciding whether or not to lend you the money you want.

Open Banking
Open banking will mean consumers can choose which bank accounts are linked to their credit reports. But could this drive people to open ‘dark bank accounts’ to separate out activity like one account for drinks at the pub and for the odd flutter on the horses, but another account for bills and debt repayments? The potential shift in how we behave financially could be huge, but we are years away from the super clever algorithms needed to fix it.

Digital Footprint
The International Monetary Fund (IMF) are currently researching whether combining your credit score and your ‘digital footprint’ could improve ‘loan default predictions’. But how will they collect all the data they need? It’s very likely to be done with machine learning and using Artificial Intelligence (AI). So, not only could a digital footprint could end up helping some ‘unscorable’ customers to get credit but for customers with a low-to-medium credit score, they could either gain or lose access to credit.

This all sounds exciting or scary to some but my final thoughts on this is how we will help those who are not digitally savvy. Financial exclusion already affects billions of people around the world, we need to make sure enough is done at a much higher level to make sure those who aren’t online aren’t excluded from participating fairly when it comes to credit by making sure there are alternative routes. The Department for Culture, Media and Sports (DCMS) are doing a lot of work in this space and more specifically looking at data protection, security and inclusivity. It will be an interesting few years ahead, watch this space.