

How Alternative Data is Transforming Credit Risk Decisioning in Emerging Markets

DCS explores how careful use of alternative data can complement traditional credit assessment and decisioning processes

AN OPINIONATED PERSPECTIVE
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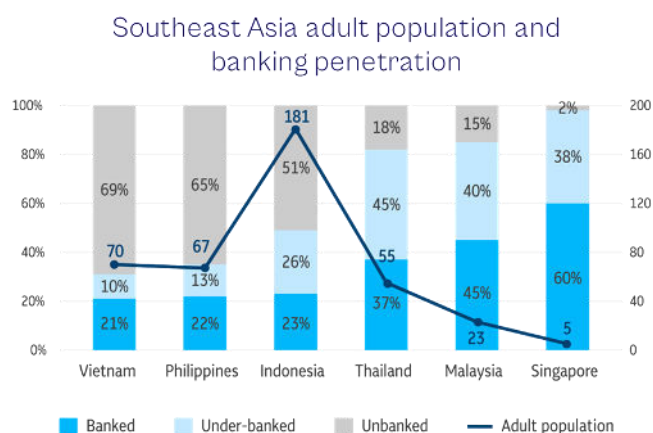
The Growing Demand for Credit in SEA

The demand for credit services in Southeast Asia (SEA) is surging, triggered by robust economic growth, increasing financial inclusion, and the expanding needs of businesses and consumers.

Emerging markets, Southeast Asia (SEA) in particular, are witnessing a remarkable rise in demand for credit services across a variety of financial products.

This trend is primarily driven by robust economic growth, rapid urbanization, and the emergence of a prosperous middle class. These factors are generating increased demand for accessible financing solutions across various sectors, including housing, consumer goods, and the growth of micro, small, and medium enterprises (MSMEs) in the region.

A study by Macquarie Bank in 2022 estimated that more than 70% of the adult population of SEA is either underbanked or unbanked. This presents enormous growth opportunities for financial service providers.



With the demand for credit services in this region expected to grow significantly over the coming years, servicing these underbanked populations presents both an opportunity and a challenge for lenders.

“Regulators have recognized the potential of digital finance and alternative data in advancing financial inclusion”

— Asian Development Bank

To remain competitive in this rapidly evolving landscape, financial service providers are reassessing how they evaluate credit risk and exploring innovative ways to extend their services to reach a broader range of consumers.

Several key market trends are driving this shift:

- **Limitations of traditional credit scoring models:** These models often exclude significant 'underbanked' segments of the population due to the lack of formal financial history, leaving many potential borrowers underserved.
- **The rise of alternative data sources:** The widespread adoption of mobile wallets, digital lending platforms, and e-commerce is creating vast pools of alternative data that lenders can leverage to gain deeper insights into borrower behaviour and creditworthiness.
- **Fintech disruptors leading the charge:** Fintech firms are transforming the competitive landscape with agile, data-driven credit solutions. By leveraging advanced analytics and alternative data, they efficiently serve underbanked markets, compelling traditional lenders to innovate or risk losing market share.

In response to these trends, many regulators in SEA countries are introducing initiatives to enhance financial inclusion, further encouraging the adoption of these data-driven approaches.

By embracing alternative data sources such as mobile payments, utility bills, and digital spending patterns, traditional lenders can deliver more personalized credit products, improve the accuracy of risk models, and expand credit access to millions of underserved consumers.

This transformation is driving a more inclusive and dynamic credit decisioning environment, with fintech playing a pivotal role in fostering competition and spurring innovation.

The need for Alternative Data

The explosion of untapped data sources presents a significant opportunity to enhance credit decision-making and risk assessment processes.

Traditional credit risk assessments typically rely on historical financial data, such as credit card usage and loan repayment history data to score customers and determine risk ratings. This method precludes millions of potential customers especially in emerging markets where most individuals and businesses are "underbanked" or "unbanked", meaning they have minimal or no access to traditional financial services.

How can financial service providers be more inclusive?

What can lenders use to determine risk and creditworthiness for the unbanked?

What are the benefits and challenges involved?

What is Alternative Data?

Alternative data, a non-traditional data source, can be utilized alongside traditional data, helping to provide a complete view of a borrower's financial status. Data such as mobile phone & app usage, utility or rental payment records, e-commerce transactions and social media insights are now more readily available than ever.



When collected, refined, and utilized effectively, these data sources can provide lenders with a wealth of insights, helping to build a more holistic view of potential borrowers. These data points help understand not only a borrower's financial history but also their behavioural indicators, which are valuable insights in determining credit risk, especially in regions where access to formal financial services is limited.

Imagine a scenario, for example where an applicant who lacks any formal credit history applies for credit. Traditional credit assessment would immediately rule them out of the application process at the pre-auth stage. But if the lender had an agreement with the applicant's utility company to access their billing data, it could reveal the applicant has consistently paid their bills in full and on time, thus substantiating their creditworthiness.

This kind of alternative data can help financial institutions make more inclusive lending decisions, reaching underserved groups who might otherwise not qualify for credit. When integrated into a decisioning framework or as an input to credit scoring model, this data can enhance risk assessment accuracy providing a deeper understanding of a borrower's reliability. In such a competitive landscape it is essential for lenders to leverage all available resources make smarter lending decisions and avoid missing valuable opportunities.

By incorporating these new data sets into existing credit processes, lenders can better assess the financial responsibility of individuals and bridge the gap for those who would otherwise be excluded from the credit system. Lenders who can successfully integrate alternative data sources with AI and machine learning models, can strengthen credit risk decisioning, assessment, fraud detection and product accessibility unlocking financial opportunities for millions of individuals and businesses.

Risks & Challenges of Alternative Data usage

While alternative data sources offer lenders new ways to evaluate credit risk and improve financial inclusion, they also come with challenges related to privacy, bias, regulatory compliance, and technical complexity. Balancing the benefits with these risks is essential for lenders looking to responsibly integrate alternative data into their credit risk strategies.

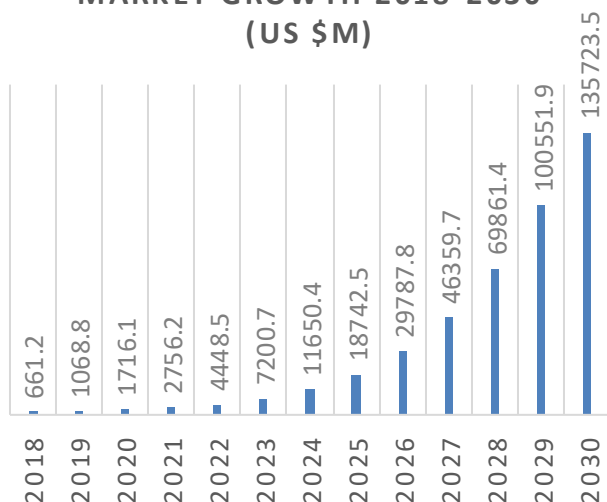
Data Source	Pros	Cons
Utility and Telecom Payment Data <ul style="list-style-type: none"> Rent Electricity, Gas, Water Broadband 	Indicates payment behaviour and financial responsibility	Limited insight into debt management, as utility bills may not reflect affordability
	Frequently updated, reliable	May not cover high-income segments
E-commerce and Transaction Data <ul style="list-style-type: none"> Online transaction amounts, patterns, frequency Merchant types Spending distribution 	Provides insights into spending habits, lifestyle, and disposable income	Privacy and ethical concerns with personal transaction data
	Useful for building spending behaviour profiles	Potential for bias in interpretation (e.g., luxury spending doesn't equal creditworthiness)
Mobile Phone Usage and Location Data <ul style="list-style-type: none"> Payment and transactions Device stability Mobile App engagement, categories used Travel patterns 	Patterns in phone usage and location stability can infer risk and stability	Indirect indicator of financial behaviour
	Accessible in regions with limited traditional data	Privacy concerns; potential biases based on lifestyle (e.g., frequent moves might appear as instability)
Social Media Data <ul style="list-style-type: none"> Employment and Professional information Engagement with financial products High risk activities or harmful content 	Real-time insights into lifestyle, spending habits, and social interactions	Privacy and security concerns
	May provide a more comprehensive risk profile	More abstract and unreliable due to potential discrepancy between online behaviour and actual financial status
		Difficult to standardize for scoring

Leveraging Alternative Data

DCS's perspective of Alternative data, its potential and ethical considerations

The rapid growth of mobile and digital payments, in-app purchases, and the digital economy has significantly accelerated the expansion and accessibility of alternative data. As a result, businesses now have unprecedented insights into consumer behavior and financial patterns. This trend is set to continue as economies increasingly adopt digital platforms and payment methods evolve beyond traditional systems.

GLOBAL ALTERNATIVE DATA MARKET GROWTH 2018-2030 (US \$M)



The abundance of alternative data provides lenders with the opportunity to understand their consumers (and prospects) spending habits, payment reliability, and lifestyle choices enabling them to create a more comprehensive picture of creditworthiness beyond the traditional financial metrics.

Alternative Data in action

LendoEFL and CreditVidiya, are examples of companies who are thriving since the recent explosion of the alternative data industry. They offer data analysis and insight services to lenders, by partnering with mobile carriers, social media platforms, and fintech companies in India, other SEA and Americas regions. They utilizing AI and ML algorithms to transform big data into valuable insights. Clients such as, Scotiabank & Bancolombia integrate these insights into their existing credit decisioning systems, helping to build a more accurate credit assessment servicing applicants that were previously unreachable.

This approach can significantly enhance financial inclusion by effectively 'activating' a previously unbanked segment of the population. As a result, it presents lenders with a substantial opportunity to acquire new customers in regions where majority of the population remains underserved.

Ethical and Compliance considerations

The proliferation of alternative data sources introduces risks that must be managed carefully. Lenders must ensure the reliability and accuracy of the data, handle sensitive information responsibly, and comply with local regulations. Ethical data usage is crucial to developing an inclusive, accurate, and fair credit system.

Conclusion

Alternative data holds immense potential to redefine financial access, drive economic growth, and promote social equity on a global scale. Lenders who embrace this paradigm shift can unlock significant opportunities, expand their customer base, and contribute to a more inclusive financial future.

Talk to DCS

DCS is a Credit Risk Decisioning and 1:1 Customer Engagement specialist that partners with some of the world's leading brands and organisations.

We help businesses integrate both traditional and alternative data sources into the credit decisioning process, strengthening risk scoring models, and optimising performance. With a continuous test and learn approach, we help clients analyse data sources, refine decision strategies and demonstrate measurable uplift.

Whether you aim to modernize decisioning processes, enhance existing models, or adopt new data-driven strategies, DCS offers product-ready Credit Decisioning services designed to drive revenue growth while balancing risk and value in real time.

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