Technology & Consumers Are Determining the Future of Credit

Technology is evolving faster than ever, and the lending industry is one of the fastest. Fintech is a very popular investment right now, fueling the competition in the field. Technology is not only changing the way consumers interact with credit, but also the way lenders determine credit worthiness.

Technology has made vast quantities of data available relatively inexpensively, allowing lenders and more accurate and clearer picture of borrowers' creditworthiness, Visual Capitalist posted in an infographic. We are better able to track critical credit trending information, including its direction, tipping points, rate of change and the magnitude of the changes. Trended credit data improves predictive analysis, offering a 20% improvement in performance versus a simple snapshot in time. As a result, lenders achieve better insight on spending patterns, past balances, payment history and credit use. Alternative, supplemental data also helps paint the picture, including real estate ownership, wealth, address history, how customers pay utilities and other bills, among other key indicators. At the same time, consumers are gaining more control over their data and access to learning about credit.

Information asymmetry has long been a problem for lenders. Consumers are so much more than their credit score. The problem, in particular, persists for consumers and lenders in judging the creditworthiness of those with no credit scores, like college students and others outside the system, Visual Capitalist wrote in a separate report.

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New technologies will help solve this problem. Neural networks, which attempt to solves problems like a human brain would, are evolving to create even more sophisticated pictures of consumers' creditworthiness, according to Visual Capitalist. Neural networks process raw, unstructured and often abstract data for new insights. They will be able to look at billions of data points and find unique

patterns, and when detected, the network will look for and relate it to other examples of similar behavior and create a new profile for this behavior.

Even the way scores are calculated is changing. Current credit scoring algorithms use logistical regressions that can only handle 30-50 variables. New algorithms being developed will be multivariate, capable of mining, structuring, weighing and better using all of the available data. This will create greater trust in the credit marketplace on all sides.

Neural networks can also explain why a particular decision was made, which is very important in the era of transparency and consumer control. Regulatory examples include General Data Protection Regulation in the United Kingdom, which some believe is the direction the U.S. is heading as well, and Payment Services Directive 2, aimed at breaking down the barriers between consumers and their data. The U.K.'s Open Banking requires banks to share consumer credit data in a standardized format and provide it to organizations the consumer allows. Open Data will put consumers even more in the driver's seat. Consumers could voluntarily provide certain information for better deals from lenders, and it would allow consumers to grant access to other third parties and access better rates, new lending models and more.

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Access will be a key point moving forward as consumers move more digital. Authentication of their identities will play a bigger role as consumers become increasingly digital, per Visual Capitalist; technologies like blockchain and biometrics will give consumers more control and increased security, while also ensuring credit reports are more accurate. At the same time, fraud is creditors greatest risk, so verifying consumers' identity online will become increasingly important. Credit is based on trust, Visual Capitalist explained, and new technologies can help strengthen that trust.

Between the changes behind the scenes for lenders and the rapidly evolving consumer experience battle, the complexion of lending is changing for all involved. And with fintechs adding competition seemingly daily, staying on top of technology as traditional financial institutions has never been so crucial. This is survival of the digitally fittest. For most community financial institutions, finding trusted technology partners to help your institution change with the times is a top priority. Ser Tech can help. Contact us today at sales@sertech.com for more information.