



THE DATA ISSUE

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TODAY'S RISK INFORMATION ECOSYSTEM NEEDS A RETHINK

Serious disruption is needed in the risk information space, says Thomas C. Brown, senior vice president for financial services at LexisNexis Risk Solutions

Few things are as important to a country as a stable middle class and a crime-free society. The global risk information community is the ecosystem behind both these factors, which ultimately stimulates economic prosperity and growth.

In recent months I've spent time in Asia, the middle east, South America and the UK, meeting with regulators, bank executives and other credit industry participants.

Regardless of the country, I've been asked the same question: How do we recreate, while at the same time advancing, the risk information ecosystem that underpins the US economy?

Financial institutions around the world are struggling to embrace more people in the system, while managing credit risk and mitigating the explosion in headline-making financial crimes, such as identity theft and money laundering. This triple challenge is a massive undertaking for any company trying to navigate an increasingly complex financial environment; so much so that I believe it is unachievable to rely solely on traditional methods and thinking.

The answer is simple: Now is the time for disruption in the risk information space using an available alternative.

The legacy risk information domain is built on and relies on finite data. There is value, then, in extending beyond this typical data to other behavioural data sources that conform to local regulations.

Consequently, non-traditional data, like public records, is a viable alternative that must be accessed to help companies mitigate risk in a dynamic global market. More companies want to expand their presence and protect their company by leveraging alternative data, which fills the white space where some legacy risk information providers' data falls short.

Having worked in the global banking industry on the credit side for more than 26 years, it's clear to me the risk information industry's success relies on three elements coming together: expansive data, technology and analytic linking. In other words, these three elements working jointly are the bedrock for the risk information ecosystem of the future.

The missing links

Traditional risk information providers are very good at capturing a single type of data; trade line data based on past credit payment history. Disruption is needed because trade line data provides an important, but limited perspective.

A legacy risk information provider's essence is its role in assessing businesses or people who already have credit.

In addition, legacy risk information providers receive the same standardised data formats from each contributor. While the formats are consistent, this approach can curtail innovation on new or unstructured data.

Some legacy providers also don't have the analytic linking prowess to resolve expansive data effectively. As a result, errors occur, risk misclassification happens and large populations are excluded from the global financial system. Ambiguity surfaces, giving rise to financial crime.

Legacy issues

Legacy trade line data does not have coverage of consumers that do not already have credit. This situation means that an entire sub-population of emerging consumers can become "credit invisible" if lenders rely too heavily on credit histories.

The unbanked population presents an opportunity that can be tapped into using alternative data, technology and analytic linking. It's reported that the under-

banked population in the UK is now eight million people. Despite these staggering numbers, the silver lining is that millions of credit-invisible people should be bankable under more inclusive data policies.

Alternative data such as voter registration, home ownership, address change history and property value brings increasing resolution to the entire population of consumers. This applies to under-banked, unbanked, credit-invisible individuals or privately-held businesses.

The use of alternative data provides a more complete picture of populations, because different data types are considered in the decision-making process.

Incumbent models judge account information from a legacy provider as a single category of content - limiting, for example, a bank's understanding of the "true" credit worthiness of a person or commercial entity. That single category of content is often not robust enough for a credit decision, fraud identification or money laundering mitigation action. Many bank systems cannot determine even simple relationships within existing customer databases.

To solve this problem more financial institutions are weaving alternative data into their risk-decisioning processes.

What's interesting is that while adding in vast amounts of new data from disparate sources is important for assessing the true risk of individuals or small businesses, it presents an operational challenge for a bank.

For the risk information ecosystem of the future to become a daily reality, banks, heads of state, regulators, e-commerce and internet companies, must reframe their mental model about financial intelligence.

They must think beyond using only traditional risk data, and embrace alternative data. ■