

Credit Where Credit's Due

A study into the benefits of alternative credit scoring for the financially excluded in Manchester and the surrounding area.



Research reveals that more than 360,000 financially excluded people living in Manchester could pass a credit check to access more affordable credit.

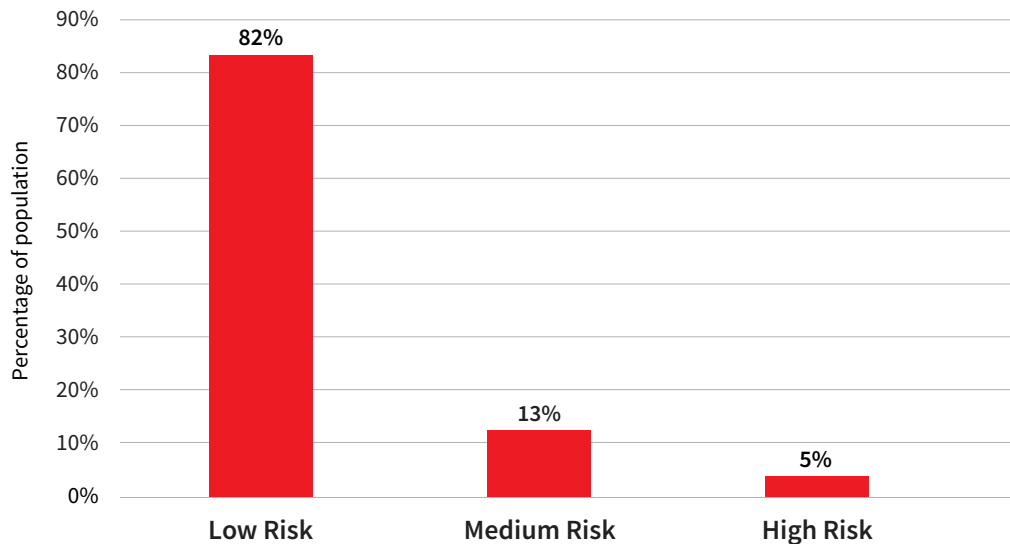
A pilot study by data and analytics firm, LexisNexis® Risk Solutions, has revealed that 362,000 people across Manchester could access more affordable mainstream credit if banks and financial services providers strengthened traditional credit scoring by also using complementary scoring data and tools.

Analysis of 2.18 million people aged 18+ years living throughout Manchester 'M' postcode areas found that one in five (22%) of the population (almost 480,000 people) currently lack the necessary credit footprint to be successfully scored by most high street lenders. This means they would be refused loans and credit at the most affordable rates.

However, the study found that using a range of supplementary alternative data sources could help a substantial proportion of underserved people. As well as helping to accurately score nearly all of Manchester's financially excluded population, the enriched profile information it provides means around 362,000 previously excluded people were revealed as low risk prospects, meaning they could be eligible for the best available lending rates.

Opportunity for financially excluded consumers to pass a credit check

The majority of excluded individuals in Manchester would present a low risk to most mainstream lenders



480,000

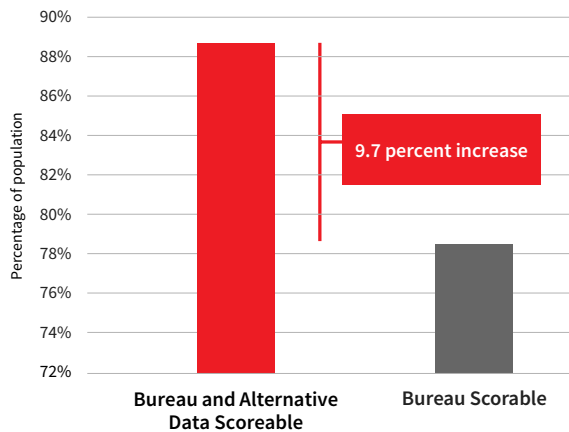
1 in 5 Manchester residents are defined as financially excluded via traditional credit scoring.

8 in 10

financially excluded people in Manchester could pass credit checks to access more affordable credit.

Supplementing standard risk scoring with alternative data delivers the greatest benefit for those most in need, the research suggests. Take the most financially excluded area of Manchester, Moss Side, where just 79% of the population has passed a traditional credit check in the past five years. Using supplementary data in addition to credit bureau information increases scoring success by almost 10%.

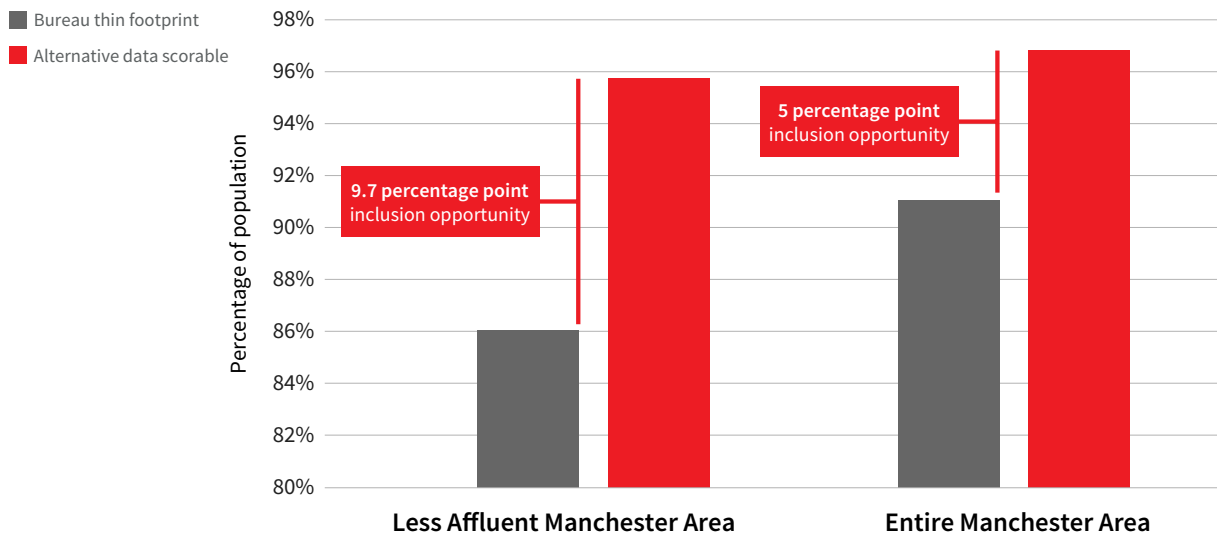
Moss side financial inclusion opportunity



Similar results were achieved in other areas of Manchester affected by high financial exclusion rates, including Worsley (6.4% uplift), Swinton (5.2% uplift), Tyldesley (5.2% uplift) and Urmston (4.8% uplift).

Additional inclusion opportunities across Manchester

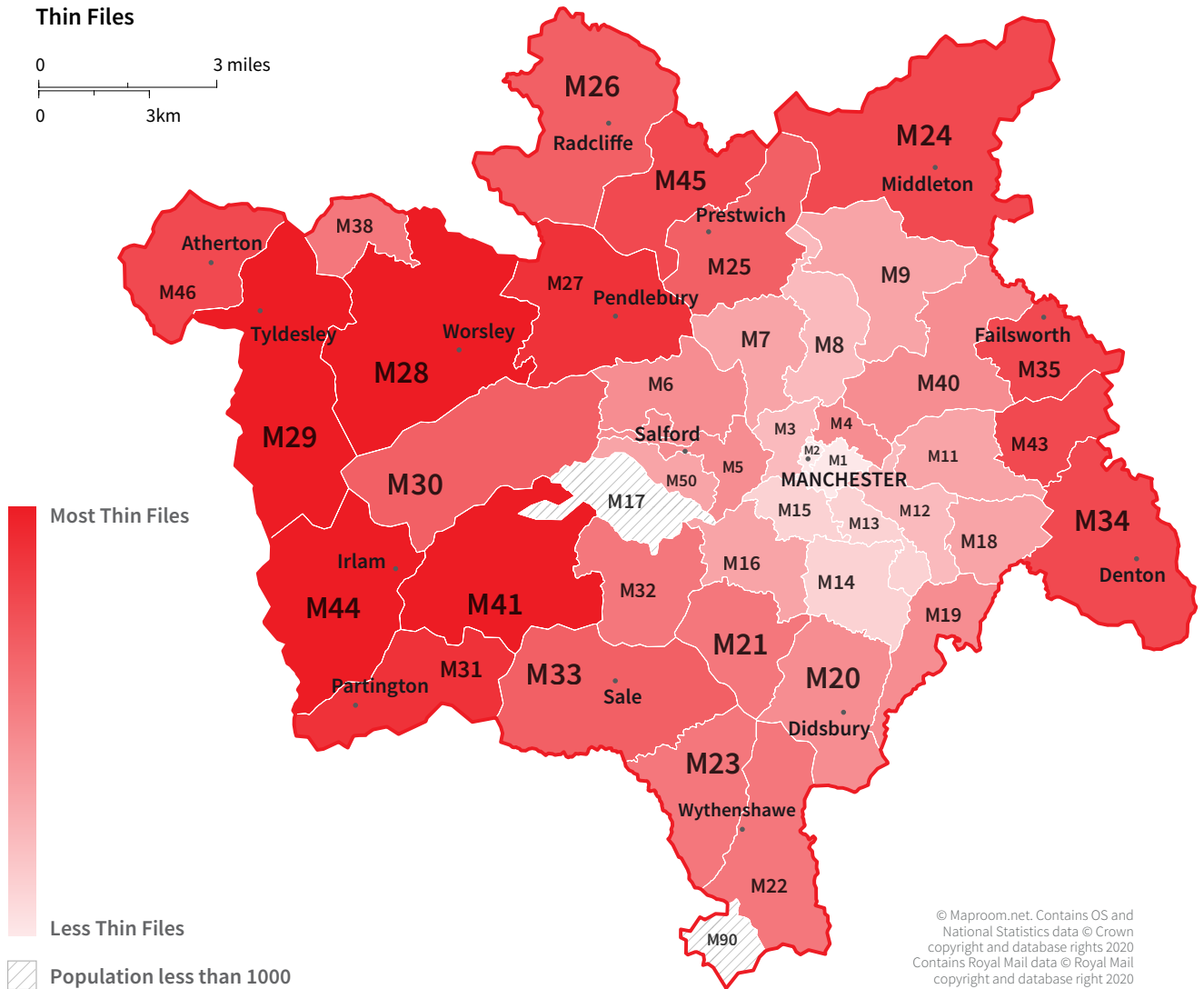
Credit-scorable uplift with bureau plus alternative sources



Inclusion Opportunity	Entire Manchester Area	5%
	Less Affluent Manchester Area	9.7%

Poverty premium

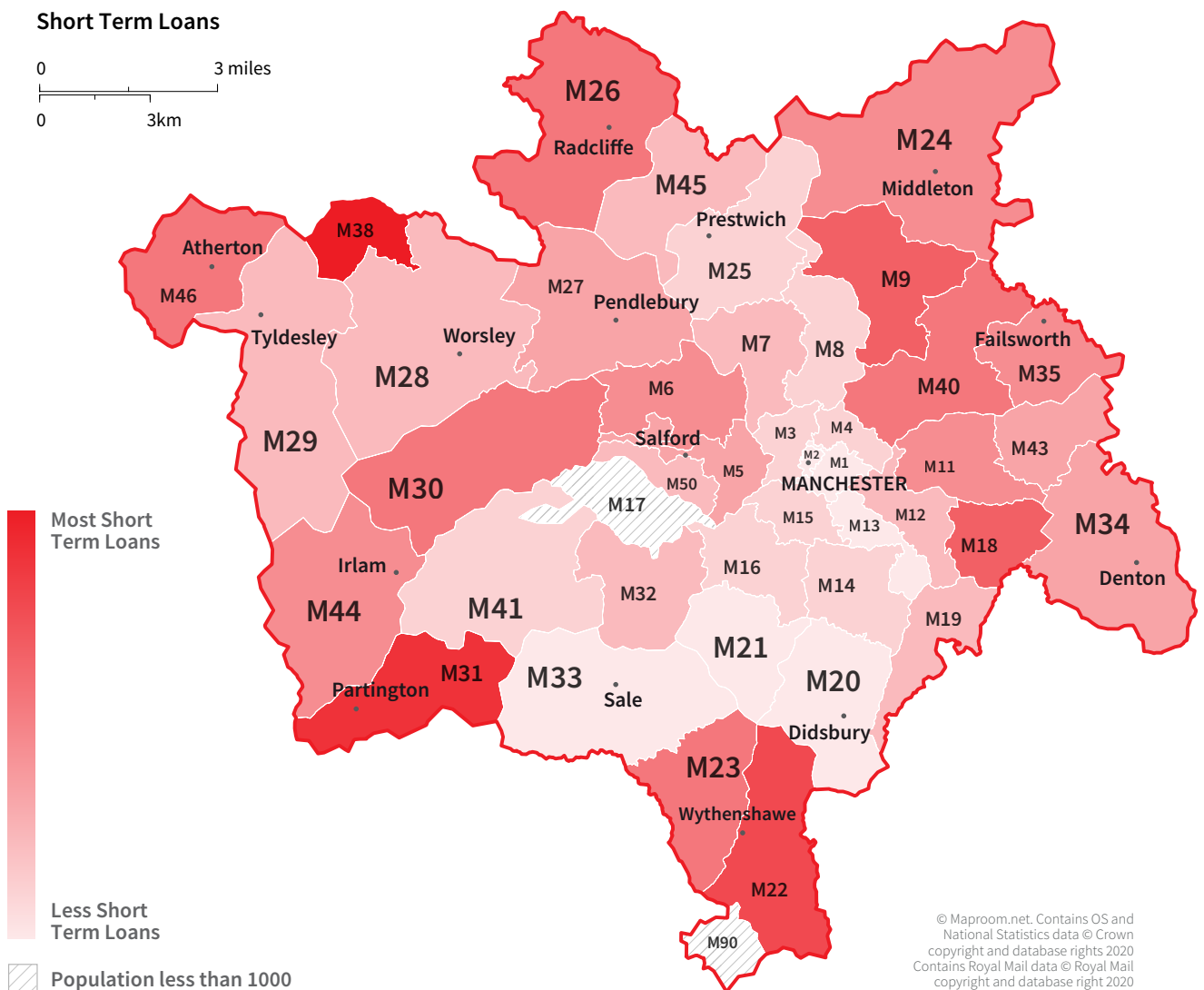
The effects of a thin credit file can be far reaching. With no access to a bank account or Direct Debit facility, a range of options and services are out of reach; among them are affordable broadband and mobile tariffs, car finance and utility rates. Known as the ‘poverty premium’ phenomenon, it leads to those that can least afford to, paying more and affects one in eight British households (13%), according to charity Fair By Design.



Steve Elliot, Managing Director of LexisNexis Risk Solutions in the UK, said: *“Our study shows that there are hundreds of thousands of people in Manchester alone that are being unfairly and unnecessarily denied access to affordable lines of credit. For many families, affordable credit is essential to help make ends meet, and more so than ever during this ongoing cost of living crisis. Instead, these people will be forced down the sub-prime route, where they’ll pay far higher rates and be at greater risk of falling into further debt. It’s incredibly unfair, and it doesn’t have to be the case.”*

Across the whole UK population, LexisNexis Risk Solutions analysis found that around 7.1 million people (one in seven) fall into the definition of 'financially excluded', meaning they could potentially struggle to access affordable and fair financial services.

Financially excluded individuals are often forced to turn to more expensive loans, where interest rates can be as high as 1,250%, according to leading comparison sites. Some even turn to illegal doorstep lenders to access much-needed credit. Short-term loan application volumes in the UK almost doubled (90% increase) between April and June 2022, as the cost of living crisis pushed many to turn to high-interest credit, LexisNexis Risk Solutions data shows.



**Detail on percentage of population across
key vulnerability markers by postcode district**

Postcode	Thin File %	Long Term STL %	Derogatory %
M44	28.48	10.03	0.98
M28	28.33	7.16	0.90
M29	28.31	7.14	0.75
M41	28.15	4.84	0.53
M27	27.88	8.45	0.97
M31	27.13	13.60	1.56
M24	26.95	10.02	1.06
M46	26.70	10.27	0.96
M45	26.64	7.19	0.83
M43	26.33	9.11	1.02
M35	26.23	9.23	1.15
M34	26.11	8.81	0.88
M26	25.93	10.36	0.96
M30	25.75	10.46	1.06
M25	25.56	5.22	0.58
M33	25.42	4.71	0.56
M38	24.97	15.55	1.56
M32	24.97	7.31	0.85
M23	24.33	10.79	1.27
M21	24.13	4.35	0.59
M22	23.22	11.48	1.21
M20	22.54	4.32	0.56
M40	21.60	10.36	1.25
M6	21.57	9.06	1.01
M5	21.16	8.53	0.89
M4	21.07	5.27	0.69
M19	21.01	6.21	0.88
M9	20.95	10.69	1.22
M50	20.92	6.06	0.87
M16	20.67	5.92	0.97
M7	20.25	7.15	1.14
M11	19.66	10.07	1.26
M18	19.55	10.25	1.22
M8	18.85	6.08	0.90
M12	18.47	7.07	1.05
M3	18.17	5.61	0.80
M14	15.44	4.96	0.66
M15	14.70	5.08	0.78
M13	13.50	4.02	0.59
M1	9.61	2.67	0.46
M2	4.34	3.90	0.27

Exclusion catalysts

Whilst social deprivation is undoubtedly a catalyst for financial exclusion, a number of other situational factors can contribute to a person having too thin a credit file to successfully credit risk score.

There are 7.1 million ‘financially excluded’ people in the UK – one in seven adults.

Entrepreneur Ahmed arrived and settled in the UK in the mid 2010s, with high hopes of setting up a business to support him and his family. But he found it almost impossible to finance his new venture. Credit providers were either refusing him finance or not offering him affordable lending rates due to his very small UK credit footprint.

“When I applied for a loan facility to start a business, I had no credit score since I have only been in the UK for a few years. The lack of assistance has really slowed my progress,” Ahmed explains.

“The lack of support is surprising,” he says. “There are no such credit scoring hurdles in the country I am from to access finance. It was only based on ability to pay back the facility.”

Other groups affected in a similar way could include graduates or young adults living with parents, divorcees, and those coming out of long-term care or the prison system – in other words anyone that has been credit inactive for a period of time.

Steve Elliot continues: *“A limitation of traditional credit scoring methods is that they rely heavily on people having a history of UK credit usage. A whole host of people can be excluded from this if, for whatever reason, they’ve not personally applied for credit services or been the named person on household bills, bank accounts or other utilities or services for a period of time, due to their circumstances.*

“A thin credit file doesn’t necessarily imply high risk of defaulting on repayments – it could simply mean the individual is saving for a deposit!”

Steve Elliot

“Using alternative sources to supplement traditional credit scoring methods can provide banks and financial services providers with an enriched view of an individual, and a more accurate view of their creditworthiness. It can include a range of insights from life events to modern credit seeking behaviours and some forms of consented data. For families and people that rely on debt to get through the month, it could mean avoiding a vicious debt cycle that pushes people deeper into financial difficulties and further away from mainstream, affordable credit.”

To find out how LexisNexis® Risk Solutions
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About LexisNexis® Risk Solutions

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