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ACCESS TO BENEFITS DATA COULD MAKE UP TO 4.8M HOUSEHOLDS ELIGIBLE FOR MAINSTREAM CREDIT

A new report launched today finds that lenders could consider lower income families for a loan if they had access to additional information on earnings and payment history, collected by government. Lowering the income threshold for a loan from £15,000 to £12,000 could then open up 4.8m consumers to mainstream credit.

There are over 6m families in the UK without access to mainstream credit, who often then resort to doorstep or payday lenders, at high interest rates.

The research, presented to the Financial Inclusion Commission, shows that 76% of social tenants have an improved credit score when their rental payment data is shared, which could make them eligible for mainstream credit.

The report, *Credit where it's due: Overcoming the barriers to mainstream credit with data*, investigates how benefits data held by local authorities can help families with 'thin' or no credit files to access mainstream credit.

It finds that publicly held data can improve the credit-scoring process in three ways: verifying the identity of the consumer; assessing credit-worthiness; and establishing if the loan is affordable. Figures from Experian's Rental Exchange programme show an increase in digital identity authentication from 39% to 84% when rent data is included in credit files.

Alongside helping individual families to access cheaper credit, new sources of data can also help lenders to identify vulnerable households and offer appropriate support. A growing number of Lenders are recognising this duty following recent pressure from the Financial Conduct Authority.

Benefits data is found to be better than other measures, such as relative poverty, in identifying financially vulnerable households. This includes households not traditionally considered to be struggling. For example, the report finds more low-income households in work lack 'financial resilience', than are in relative poverty.

To fully unlock the power of this data, some significant obstacles have to be overcome.

Data sharing is currently the biggest barrier. Government must legislate to open up data-sharing between public bodies, credit reference agencies and lenders, building on the progress already made in Open Banking and the 'Digital by Default' standards. The roll-out of Universal Credit is a great opportunity to do this, because of the scale of information it will collect.

Regulators, lenders and consumers must be educated about the benefits of sharing data, giving them control over what they share, in order to win hearts and minds. The potential for new data sources to boost financial inclusion and lower the cost of credit is too great to be ignored.



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Contact details

Contact: Deven Ghelani
Title: CEO and Founder
Telephone: 07863 560677
Email: deven@policyinpractice.co.uk

The full report will be available at policyinpractice.co.uk on Wednesday 20 September 2017.

Editors notes:

About Policy in Practice

Policy in Practice was founded by Deven Ghelani, one of the architects of Universal Credit, to make the welfare system simple to understand. Their analysis helps local authorities across the UK to use data to identify affected households. Their software shows people how they will be impacted by reforms and what they can do to improve their situation. They have a proven impact on people's lives.