

## Using Alternative Data Sources for Improved Affordability Modelling

### Abstract

Current affordability modelling, using ONS data has understood flaws due to the nature of the data used: the 18-month data lag, the demographics of the respondents (age, location and affluence). Understanding how accurate these models are is difficult with little real data to validate their outcomes. As open banking becomes more commonly accepted by the public, the coverage of data from this data source has widened. Can transactional data be used to validate or improve the effectiveness of these models?

We will explain how we have used a source of open banking data to scrutinise the outcome of common affordability models against real world spending data. Grouping the population in different logical subsets to understand how and where the divergences arise.

To fill the knowledge gaps that have appeared, we have developed new models utilising non-traditional data. Allowing under-represented parts of the UK public to be more realistically represented. More accurate models of their non-discretionary spending have been developed to give a clearer understanding of their ability to afford new credit.

Given that discrepancies may vary across different demographics, a more nuanced approach is necessary. We will investigate the use of more focused models and leverage both novel and traditional data sources for different customer groups. By simultaneously utilizing these diverse models, we aim to demonstrate improvements that will benefit both lenders and consumers.

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