

financing, investing, or getting insured,” it added.

Thus, creating more options allows more interested Filipinos to become banking confident.

One of the initiatives to be prioritized by the central bank is the use of “alternative data” for credit evaluation.

In a webinar by the FinTech Alliance Philippines and TransUnion in January, BSP Governor Benjamin E. Diokno said one example that can benefit consumers for credit assessment is the use of alternative data.

The World Bank Group defines alternative data as information harnessed from modern data sources. These data are retrieved from social media, mobile data, utilities data, behavioral data, online transactions, geolocation data, and browser data, among others, usually not collected by the financial institutions.

In a paper authored by Peter Carroll and Saba Rehmani titled “Alternative Data and the Unbanked” from the American consulting firm Oliver Wyman, they cited that those who have no credit scores are called “credit invisibles.” These individuals may not be holding any credit file, or they currently hold one but do not have sufficient recent information to generate a credit evaluation.

Creditworthiness or credit score is a measure of one’s ability to pay back debt. This is where alternative sources of data can benefit the vulnerable sector of the country who wish to take out a loan.

“Traditionally, credit scoring factors in data which are stored in banks and credit bureaus, and includes payment history, credit utilization rate, length of history and credit mix among others.

Potential borrowers, however, may have limited or zero credit history,” the BSP said in an e-mail to *BusinessWorld*.

The use of alternative data as a means of assessment is not new to the banking sector, the central bank said. Credit scoring firms in the US have been using nontraditional data to generate credit risk profiles for companies. However, this was not immediately taken in as a method by most firms.

“With the emergence of big data and machine learning technologies in the last decade, there is now an opportunity to harness alternative data to enhance credit evaluation,” the BSP said.

ALTERNATIVE DATA FOR THE UN(DER)BANKED

The 2019 Financial Inclusion Survey by the central bank cited that seven out of 10 Filipinos do not have a transaction account. This is equivalent to about 51.2 million adult Filipinos who are still unbanked.

“Financial inclusion necessitates financial products and services be appropriately designed according to the specific needs, capabilities, and context of individuals and businesses, especially those in the vulnerable sectors. The disadvantage of the unbanked and underserved Filipinos is that they have little or no financial transaction data, which is typically used as basis for developing a customer profile,” the BSP said.

Notably, the Bankers Association of the Philippines (BAP) fully supports the priority initiative of the central bank in terms of alternative data use.

“The use of alternative data in assessment for purposes of credit is on the table of discussions in