

the strict implementation of guidelines on the credit risk management system.

“The principles and practices for sound risk management are expected to be embedded in the BSFI’s (BSP-supervised financial institution) credit scoring/evaluation process, which would cover the use of alternative data,” the central bank said.

“Any scoring model therefore should undergo regular review and back-testing by the BSFI, as well as validation by a third party which has the expertise to evaluate the accuracy and predictive ability of these models. The BSP reviews the results of the third-party validation and if needed, can challenge assumptions and comment on parameters used in the model,” the BSP said.

“The use of alternative data is also governed by regulatory expectations on consumer protection under Section 1002 of the MORB (Manual of Regulations for Banks). For instance, well-intentioned algorithms that inadvertently discriminate against specific groups of consumers must be avoided,” the BSP added.

However, the BAP flagged the possible risk against the Data Privacy Act of 2012.

“Proper mechanisms shall be in place to ensure that customer’s private information is not used for purposes against their interests. The customers should be educated and informed and must also consent on how their data is being used. More importantly, customers have opt-in and opt-out mechanisms if they decide to withdraw or modify the scope of their consent in the open finance ecosystem,” BAP said.

In other terms, the use of

alternative data can be a conflict towards the data privacy act. As such, the BSP ensures all policies and regulations will be strictly administered in accordance to the protection of “fundamental human right of privacy, of communication while ensuring free flow of information to promote innovation and growth.”

### **EXPANDING INCLUSION**

Latest available data from We Are Social’s Digital 2022 showed that about 98.8% of adults ages 16 to 64 own a smartphone. In an annual basis, its increment grew by 0.3%. Significantly, 27.9% use applications related to banking, investment, or insurance each month; 21.4% use payment services each month; and 19.4% own any form of cryptocurrency.

The continuous penetration of digitalization through smart devices and the internet generates alternative data that can be utilized for the user’s benefit.

“Over the years, the demand for alternative data has become increasingly prevalent and has undeniably transformed the global landscape — politically, socially, and economically. For instance, some financial institutions have resorted to data from social media engagements to facilitate a more comprehensive credit scoring analysis,” the BSP said.

With the vision “toward inclusive growth and financial resilience,” alternative data is just one of the priority initiatives BSP wishes to take on.

“Under the Open Finance Framework, the BSP envisions an ecosystem that will benefit from the use of alternative data, particularly in driving the development of more customer-centric financial products