Alternative data

By Vanessa Clark

Alternative data? That sounds like alternative fact.

A: Nope, something else entirely. Alternative data refers to information that comes from non-traditional sources that is used to predict an outcome, typically in another domain. This could be predicting a business' performance, or the creditworthiness of an individual, or the likelihood that a customer will buy something. In other words, you take something you know in one context and use it to predict an outcome in another.

Q: Such as?

A: Using satellite imagery of traffic in car parks or social media check-ins to forecast a company's financial results, despite what the board presentation stats say. Or, as the US life insurance industry has done, correlating the prompt payment of monthly bills with the likelihood you'll live ten years longer. Or, as Google did back in 2008 with Google Flu Trends, use search terms to predict flu outbreaks ahead of the Center for Disease Control.

Q: Why is this so significant?

A: Well, for investors and asset managers, it rounds out the picture presented to them by the company, allowing them to make better growth forecasts and decisions. For companies, it provides additional information to tell their story, especially if they don't have access to traditional metrics: say they are a startup. And for consumers, it means, among other things, we'll hopefully get better-targeted advertising, marketing and rewards, and also, it has the potential to open up the financial services market to more people.

Q: How so?

A: Well, it's tricky for those outside the formal financial services market to break into it, because of that endless chicken-and-egg situation: you need credit to get a credit rating, and to get a credit rating, you need credit. This could apply to people who are currently unbanked or underbanked, people employed in the informal sector, freelancers and anyone else who doesn't get paid in the typical 'in your bank account on the 25th of the month and here's your payslip' way. Also entrepreneurs and startup companies. Or even someone who has simply decided to remain debt-free. But if banks and other financial services organisations use alternative data to determine a credit score for a person confidently, more people could qualify for loans and other financial services.

Q: What does our highly regulated financial service sector think of this?

A: The law happens to think the same thing. In March 2018, the Western Cape High Court agreed with a group of retailers that the requirement, when applying for credit, for three months' payslips and bank statements was unreasonable and discriminatory. While this specific requirement was removed from the National Credit Act as an outcome of the case, it's worth pointing out, though, that credit providers still have to assess the customer's affordability, but they get to choose how to do so. Enter alternative data, which allows companies to tap into transactional and behavioural information about these customers, such as social media data, mobile money transactions and so on.

Q: But doesn't this mean more people can get into debt?

A: The argument is that financial inclusion is good for the economic growth of the entire country. According to the World Economic Forum, the 55 new metrics that form part of a framework to advance financial inclusion will help measure the access, usage and impact of financial services among the unbanked around the world and will allow 'organisations to develop business strategies and public policies to lift people out of poverty'. Also, not all debt is bad debt.

Q: What does this mean in real life?

A: According to TransUnion, which is repositioning itself from a credit bureau into an information risk company, the addition of alternative data to its credit scoring service earlier this year has meant that an additional three million people could qualify for credit. In addition, bad debts have reduced by 29%. b