SOCIAL MEDIA IN CREDIT SCORING: USEFUL INSIGHTS

- Lumata Digital

Introduction

Traditional **credit scoring** looks to the past (credit and payment history) and present (number of current loans, salary etc.) as a guide to the future. **Social media** can provide valuable information to supplement these traditional sources to predict a borrower's ability to repay a loan and meet credit terms. This would greatly aid the lenders such as banks and micro financiers in making responsible lending decisions. Experts say the borrower's posts on **Twitter**, **Facebook** or **LinkedIn**, could be used to build up a more accurate portrait of creditworthiness as they may uncover a borrower's "underlying personality".

What are the social media data sources?

Social media data falls into two general categories:

- ***Content and Engagement*** – includes analysis of both first and third party information contained in a user's profile including posting activity, likes/shares/re-tweets, location, and purchase behaviour. This information can give insight into a user's persona and preferences and may also provide a window into certain life events.

- ***Network Effects*** – an assessment of a user's associates as well as the degree and strength of their social connections. This data provides useful information about a consumer's lifestyle, habits, and behaviours.

What are the social media insights that will help credit scoring?

Big data algorithms applied on social data can give very useful predictions about a user's lifestyle and sociability. This in turn will give an insight as to whether the borrower is trustworthy or not.

Few examples are:

- Social media gives lenders an insight into how an applicant spends their time.eg: partying, shopping, alcoholic etc.
- Verifying the job information put on a loan application through LinkedIn.
- For a small business, drawing negative reviews on e-bay will contribute negatively to the credit score.
- Analysing the sophistication of the language a user employs in Facebook posts or tweets.
- Establishing patterns of behaviour helps a lender look beyond past defaults; a borrower might have attempted to pay back a previous loan but struggled to do so on a low income.

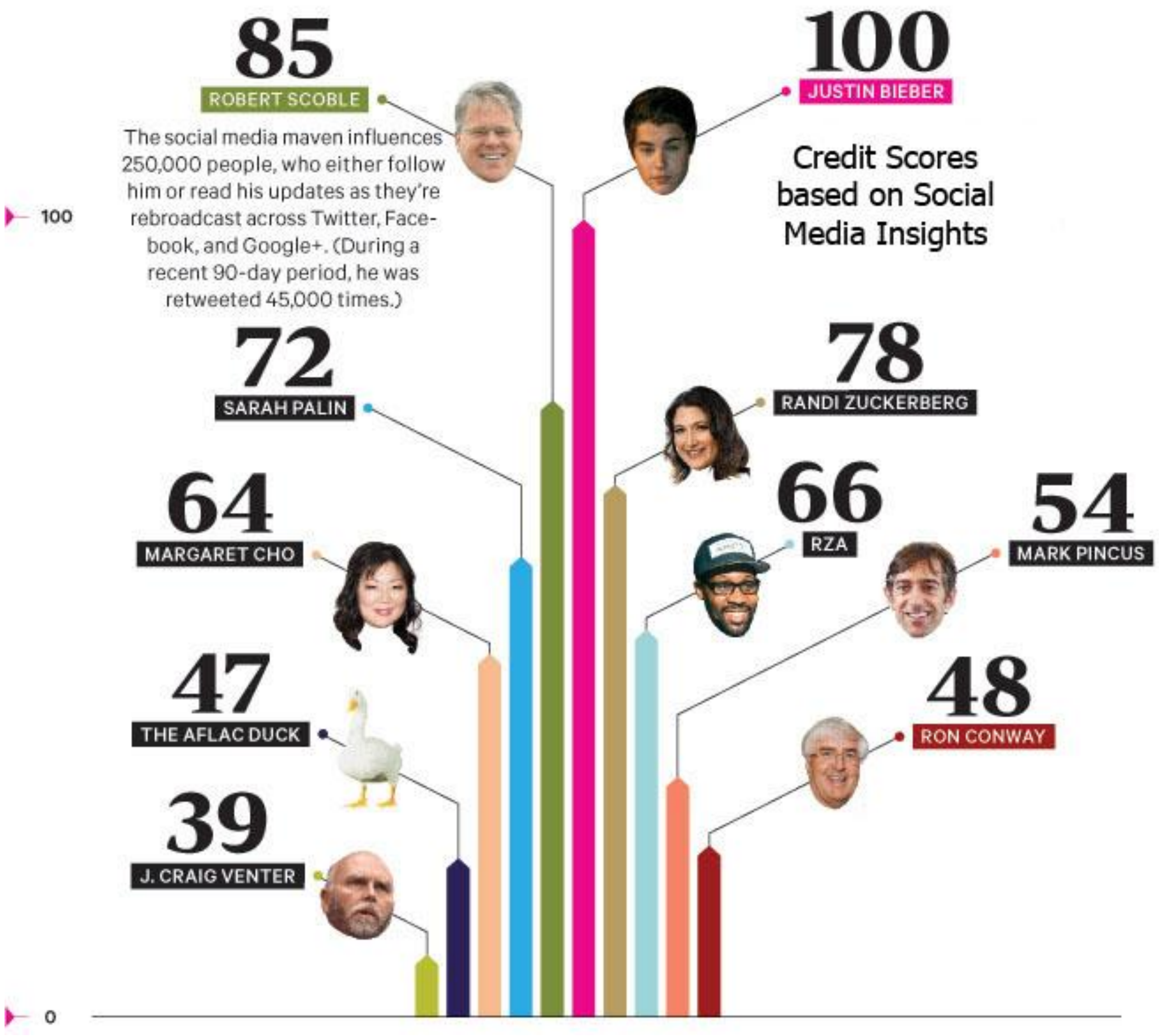
Credit information can also be sourced through the network of friends on the applicant's social profile. The key to getting a loan from can be to have in your network a handful of highly trusted 'friends'. If they vouch for the applicant, the loan will be granted and those individuals will be notified of the successes/failures in repayment.

Who to target for the social media approach?

Rather than aiming at the whole population, it is very important to decide the target group from whom we are aiming to gather the social media data. Using social media insights for credit scoring has divided opinion as it is applicable only to those who actively participate in mainstream social platforms.

Few groups who are open to the social media approach and would be willing to share their social media profiles:

- **Millennials who don't mind going social** and would be enthusiastic to attempt innovative ways of banking.
- Individuals with limited financial disposition/credit history **who want an additional endorsement from social media** for loan approval.



Challenges/Limitations

The challenges/limitations of using social media for credit scoring are:

- ***Privacy*** – While some recent studies show millennials are growing more indifferent about their digital privacy, most consumers are still hesitant to provide access to sensitive personal information.

- ***Discrimination***– Because social networks reflect the makeup of offline communities, consumer advocates have voiced concern that social media data will result in discriminatory outcomes in a credit lending context.

- ***Inaccuracy / Fraud*** – Although the most prominent social media sites strongly encourage user authenticity through various identity verification measures, many of these platforms are susceptible to identity fraud and may not present an accurate profile of an individual. Additionally, users may be further incentivized to game the system in order to receive favourable credit terms (e.g., manipulating their "friends" list or commentary prior to a loan application). Credit algorithms which rely on incorrect or indefensible data and modelling techniques will fall short of the Fair Credit Reporting Act (FCRA) requirements.

Tailpiece

It is fairly obvious that social media data cannot be the only metric used in determining credit worthiness. In order to draw a precise insight on the individual's credit worthiness using social media data, the individuals needed to be persuaded to grant access to their profile. Even the lenders who rely on social media insights acknowledge that there is a chance that the algorithms can be flawed and the algorithm is only as good as the set of data it has been trained on. The accuracy of social network-based scores is at risk when consumers can strategically construct their social profiles/networks to attain higher scores. Those who are motivated to improve their scores may form fewer ties and focus more on similar partners.

References

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