

Selected Issues for the Evaluation and Implementation of Psychometric Based Credit Scoring

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Alternative credit scoring solutions are being embraced by banks and lenders around the world as a means to improve their credit models. While these solutions present exciting new business opportunities, particularly for servicing the underbanked, some solutions include cross-disciplinary technologies, which apply non-financial data to credit scoring, and are less widely understood among credit risk specialists. Such is often the case with psychometric-based credit scoring, for example, which may show promise as a predictor of loan repayments, but has unique characteristics which are critical for their evaluation and implementation. This paper will briefly highlight a few key topics, based on best practice guidelines in psychometric testing, for the evaluation and implementation of psychometric scoring solutions, while providing examples from field studies. In terms of test evaluations, we will cover: Theory-based measurement models, measurement issues such as test reliability and validity, test development and design, testing accommodations, privacy issues, cultural differences, adverse impact, fakability, and more. In terms of test implementations, we will cover: The initial audit; setting realistic objectives; choosing the right tool; positioning the tool in the application process; piloting; integrating scores and operational usage, and data monitoring.