

Credit Based on Character: The Promise of Psychometric Credit Scoring in Europe

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Traditional credit scores are based almost entirely on historical financial data, and unfortunately become untenable when historical data are sparse. Such is the case for some 40 million unbanked Europeans, and nearly 2 billion unbanked people around the world, who lack credit histories, and who are ostensibly blocked access to affordable credit as a result. In an attempt to address this issue, new alternative credit scoring solutions have gained traction in recent years. One such alternative credit scoring approach, which is not based on historical data, measures creditworthiness based on a borrower's personal character. Personal character has long been considered an important component of credit scoring, but is rarely measured directly by traditional credit models. Moreover, little is known about the predictive value that psychometric measures of character can have in credit scoring. This paper attempts to explore this issue by studying a psychometric-based credit scoring tool in applied scenarios. Specifically, we will briefly discuss the development and validation of "Worthy Credit", a brief psychometric questionnaire designed to assess consumer creditworthiness. In addition, empirical data will be presented from two European lenders, demonstrating the predictive validity of the psychometric scores, above and beyond the lenders' financial-based scores. Finally, we will present a model for evaluating the economic utility of psychometric scores for increased loan approvals among the underbanked.