

PERSONALIZED CREDIT SCORE

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ABSTRACT

Credit score is calculated based on data shared by banks reflecting timely payment of an individual's loans and credit cards dues. People who have no access to formal channels of credit are financially excluded due to low/nil credit score. According to the World Bank, less than 1 in 10 people in low and middle income countries around the world are on file in public credit registries. Alternative payment data of contractual agreements (such as utility bills, cheque bounces, insurance premiums, rentals etc.) are not taken into consideration in the traditional credit score calculations to measure and profile financial discipline.

People who have a credit score and have credit relationships with banks have a skewed picture of their financial discipline since alternate payments are not considered in current credit scoring models. Consumers do not have ready access to their credit score nor is it freely available. As a result, most consumers never check their credit score or check them once in a blue moon. Hence credit scoring system today does not encourage greater personal financial discipline in a consumer's daily life. Consumers have very little awareness as to how they can improve their credit score or why their credit score could drop as a result of financial indiscipline. The credit score currently indicates a consumer's credit worthiness at a particular point in time but does not show how the score has improved over time.

Financial Institutions cannot proactively identify consumers who are likely to default on their loans. The reputation of consumers and the connections they have in society play no role in how their credit score is derived. Adding qualitative measures like depth and breadth of social connections and alternate payment data could help refine algorithms used to derive credit scores. Self-help groups and social enterprises with no formal banking relationships currently do not have a credit profile.

SNAPSHOTS

