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OCTOBER 2025

Alternative Data for Credit Scoring

Current Trend

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OCTOBER 2025

Current Trends

Background

Traditional credit scoring models have historically depended on limited financial indicators such as credit history, income documentation, and loan repayment records. However, this framework has systematically excluded large populations—especially individuals and small businesses in emerging economies—who operate outside the formal financial system. The global financial inclusion gap, estimated at over 1.4 billion adults without access to formal credit, has prompted regulators and financial institutions to explore innovative credit evaluation methods.

The rise of digital ecosystems, mobile financial services, and data analytics has created a new opportunity to leverage alternative data sources—ranging from telecom records to social and behavioral data—to build a more complete picture of a borrower's creditworthiness. This approach represents a significant shift in the financial sector's ability to extend responsible lending while minimizing default risk.

Concept and Definition

Alternative Data for Credit Scoring refers to the use of non-traditional data points to assess a borrower's ability and willingness to repay loans. These data sources include mobile phone usage patterns, digital wallet transactions, rent and utility payments, online shopping behavior, and even social media engagement metrics. By integrating these unconventional datasets with traditional financial data, banks and fintech companies can produce more accurate, dynamic, and inclusive credit assessments. Machine learning and artificial intelligence (AI) models are increasingly deployed to process these large, complex datasets, identifying patterns and correlations that traditional models may overlook. For example, consistent mobile top-up behavior or stable digital wallet activity can indicate financial reliability even in the absence of a formal credit record. Such data-driven insights enable lenders to make informed decisions about first-time borrowers.

| Importance

The use of alternative data is revolutionizing the way financial institutions approach credit scoring. It enables greater inclusivity by bringing credit access to individuals previously invisible to the formal financial system. This innovation also enhances portfolio diversification, supports sustainable growth, and contributes to economic development by empowering underserved entrepreneurs and consumers.

In the broader context of digital transformation, alternative data aligns with global trends in financial innovation, regulatory modernization, and responsible data use. The concept has become particularly relevant in markets like Africa, the Middle East, and South Asia, where mobile penetration and digital payments have outpaced traditional banking access.

Credit scores are derived from various factors relating to credit history using algorithms that may vary across credit scoring models. Traditionally, credit data including such data as credit amount, credit type, credit maturity, guarantees, and historical payment performance data has been used.

Over time, the data used has expanded to include other types which we refer to as alternative data. Alternative data refers to non-traditional information or unconventional data sources that are not typically used in traditional credit scoring models. These data types provide additional insights into creditworthiness beyond the information found in credit reports from major credit bureaus. For women-owned/led MSMEs that have traditionally been underserved by formal financial systems, these new models can potentially improve their access to credit. For example, platforms like PayPal and Kiva use alternative credit data to evaluate borrowers. Examples of alternative data can be diverse and include the following:

- **Cash-flow data:** Cash-flow sources, which include sources of cash-flow data included transaction account data from banks, business accounting software, payments processors, and e-commerce platforms, as well as copies of pay stubs, invoices, bill statements and similar materials provided by applicants can be used to extract relevant financial indicators related to income, expenses, balances, and activity levels.
- **Bill payments:** Regular and timely payments of bills which include utility bills (electricity, water, gas), telecommunication bills (internet and telephone), can indicate responsible financial behavior and may be used to assess creditworthiness.
- **Rental data:** Information about rental payments can showcase ability to manage monthly obligations, thus reflecting creditworthiness.

Importance

- Public records on employment: Consistent employment history and higher income levels may positively influence credit scores.
- Public records on legal proceedings and disputes: Public records related to legal proceedings can have a significant impact on credit scoring, as they provide insight into financial behavior and responsibility, and legal obligations and liabilities.
- Public records on traffic violations: While traffic violations may not impact the credit score directly, unpaid fines could lead to a court judgement or could be sent to a collection agency which, if reported to a credit bureau, could negatively impact a persons' credit score.
- Behavioral data/ psychometric data: Behavioral or psychometric data refers to information about an individual's behavior, personality traits, preferences, and other non-financial attributes which can provide insight into an individual's risk profile and financial behavior.
- Social media: data Analysis of social media activity or online presence can provide supplementary information on lifestyle and financial habits.
- Data from mobile phone applications: Mobile applications may collect data, such as transport movements, geolocation, and transactional data and can be used to assess the behavioral patterns of mobile users.
- Insurance data: A history of maintaining consistent insurance coverage may indicate financial responsibility and risk management skills. Timely payment of insurance premiums would be considered a positive credit behavior.
- Tax payments: Unpaid tax liens can also be reported in public records and included on credit reports. Tax liens indicate that a government agency has a claim against an individual's property due to unpaid taxes.

Benefits

- Enhanced financial inclusion by extending credit access to unbanked and underbanked individuals.
- Improved risk prediction accuracy through real-time, multidimensional data insights.
- Personalized lending products and dynamic credit limits tailored to customer behavior.
- Operational efficiency via AI-powered automation and reduced manual underwriting costs.
- Promotion of entrepreneurship and SME lending through better risk segmentation.
- Stronger data-driven decision-making supporting portfolio resilience and profitability.

| Challenges

- Data privacy and consumer consent remain critical concerns under evolving global data protection frameworks.
- Inconsistent data quality and lack of standardized metrics may distort credit outcomes.
- Algorithmic bias and explainability challenges can lead to regulatory and ethical issues. The complexity of algorithms used in credit scoring creates model risk and can make the decision-making process obscure.
- Limited regulatory clarity in many jurisdictions regarding the use of alternative data for lending decisions.
- Dependence on third-party data providers introduces risks around accuracy, reliability, and governance.
- The challenges of data privacy and ownership in alternative data usage require organizations to adopt a proactive approach to build trust and ensure ethical practices.
- Ensuring stability of the data may be a challenge given data source longevity constraints, the volume of the data, and external factors.

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