

Do you know your score?

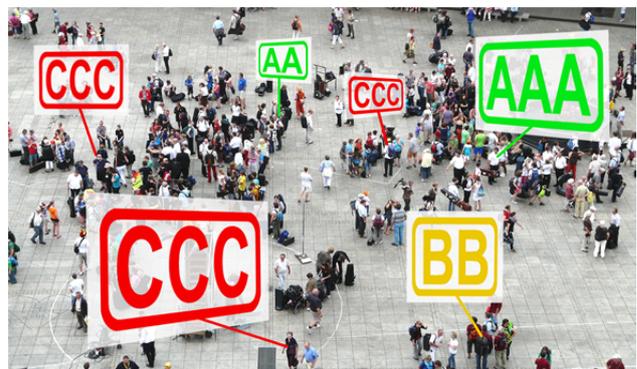
In brief

- In recent years, technological development has greatly enhanced the possibilities of data storage and analysis.
- In Austria, collections of data for the purpose of calculating debt defaults are barely regulated.
- People are categorised on the basis of statistical values and discriminated against because of this classification.
- Errors occur time and again, and because of a lack of transparency their correction is difficult.

What is it about?

Not only when applying for a loan, but also for many other business transactions has it become standard procedure to calculate the probability of default for individuals and companies. According to the result of this calculation, consumers get a score, the so-called 'credit score'. This score can be numerical or – similar to other ratings – ranges from AAA to D. Based on this score, consumers are then also classified into risk categories. On the basis of these categories, they will subsequently be able to secure a loan – or not, or only with higher interest rates than others. Some examples: mail order sellers may offer the option of bank transfer to some people/companies after they have received the goods whilst others can obtain them only after payment in advance. Mobile telephone network providers may provide a contract to some customers whereas others are only allowed to get a prepaid card. Some people may be able to pay for a new car in instalments whilst others must pay in cash. Such practices show that the impact of the initial classification may cost you money and make life difficult, opening up opportunities in life to some that remain closed to others.

In the past, one could secure a loan only in case of bank employees being able to expect full repayment during the life of the loan, on the basis of personal reputation or because of a solid professional occupation. Today, large data collections and their analysis make it possible to extract factors which correlate either positively or negatively with the risk of defaulting. Such factors include age, gender and marital status, but also one's home address or first name. For example, the chances to secure a loan for someone called Michael may be low if it was known that all persons called Michael repay their loan instalments with delays.



What is your score?

The problem in employing such practice is, however, obvious: it tries to express the complexity of social life and related future behavior of human beings in a numeric value which is largely fueled by the past behavior of others.

At the same time, this sector is practically unregulated. There is no definition as to which data may be used for such calculations or which transactions necessitate them. As a result, consumers are now subject to constant monitoring of their living conditions. The so-called credit score is widespread and in constant use.

From a practical point of view, however, the score is anything but up-to-date: because of the simplistic nature of calculating life, incorrect data, data entry errors, etc., individuals suffer consequences as a result of how they have been classified, often even without their knowledge: in Austria, the majority of consumers are unaware of the fact that such score exists for them and how it affects their lives.

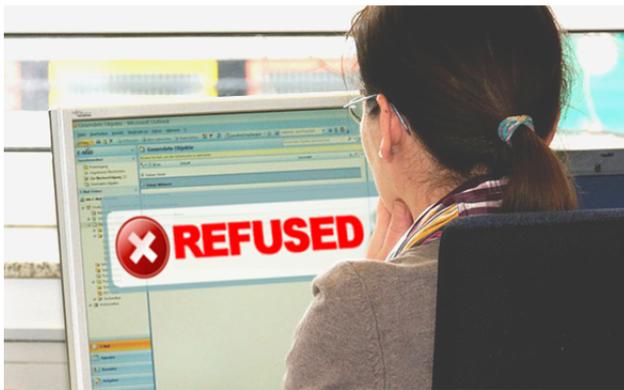
Basic data

Project title: Credit Scoring in Österreich
Project team: Peissl, W., Sterbik-Lamina, J., Rothmann, R.
Duration: 12/2013 – 06/2014
Co-funded by: Chamber of Labour Vienna, Department of Consumer Policy

Relevant findings

This recent study has shown that the calculations for the credit score, which can strongly impact on a person's life, are completely opaque. In many cases one is even unable to obtain information in relation to their own score following specific requests or in relation to the calculations' underpinning factors. The ongoing data collection and monitoring of personal circumstances represent a deep invasion of privacy.

In practice, the rights of access, potential subsequent rectification and deletion are ineffective: on the one hand because consumers often do not know about this collection of their data, on the other hand because the contracted companies consider the method of calculating a trade secret. In that way, the companies avoid the factors they have actually used becoming known to individuals who might then try to 'manipulate' their credit score – by altering their habits and consumption patterns so that their score is influenced in a positive way, a practice which is already common in the Anglo-American world.



Trying to secure a loan: computer says 'No'

The understandable desire to reduce the risk of defaulting often results in banks employing several means of safeguarding themselves, but at the expense of the consumer: in case of providing a loan not only will the credit score be calculated, a therefore pledged life insurance policy is also used as a form of security and an additional insurance needed – i.e. a form of payment protection insurance which is intended to cover the loan in the event of loss of regular income – despite banks being compensated for their business risks through the interest they charge.

As a result of abstracted life circumstances people are sorted out, because they may have been given the 'wrong' first name by their parents. Another contributing factor: choice of residential area. Living in a 'not so desirable' neighbourhood may result in having to pay higher interest rates for the next transaction. This type of assessment leads to economic inequality and stereotypical discrimination.

What to do?

This type of monitoring of living conditions, together with the evaluation of general statistical data used in credit scoring, creates dependence and inequality. Consequently, measures are needed to re-establish proportionality, aiming at equality between consumers and the economy:

- More transparency on procedures and their impact on consumers.
- The types of data to be used must be clearly defined to prevent excessive data collection.
- The Austrian Data Protection Authority must be given all the necessary resources to address the lack of enforcement in the area of data protection law.
- Data on credit ratings should not be made available to all in-house staff. Instead, a dedicated data protection officer has to ensure compliance with regulations.
- As has been shown, more empirical social science research is necessary to analyse social implications of current practices. Furthermore, it should also be examined how the values of those who program the applied algorithms impact and affect the algorithms' results.

Further reading

Rothmann, Robert, Sterbik-Lamina, Jaro, Peissl, Walter (2014): Credit Scoring in Österreich - Endbericht. Bericht-Nr. ITA-PB A66; Institut für Technikfolgen-Abschätzung (ITA), Wien.

epub.oeaw.ac.at/ita/ita-projektberichte/a66.pdf

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