# 2020
# Zest/Harris Poll Consumer Credit Survey

## The Ethical Financial Consumer Is Here

ZEST AI

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# Introduction

Before Covid-19, financial institutions were already pursuing transformation, driven by increasing customer expectations, more competition, evolving regulations, and advancements in technology. Incremental plans were in motion. Consumers were also shifting toward a preference for mission-driven businesses and social responsibility. Nine out of ten consumers say they would prefer to buy from companies that support what they support and boycott those that don't. These numbers are highest among millennials and Gen Z, who say they find more meaning in pursuing social good than in entertainment, sports, or video games. While this consumer trend has been on the rise in other industries, it's now firmly knocking at financial institutions' front door.

To find out who is knocking the loudest and what they want from banks in the post-Covid-19 landscape, we had The Harris Poll ask consumers of all ages and backgrounds how they feel about their credit and current lending practices and the kind of bank and credit union with which they'd like to do business.

Our research shows that consumers are watching how financial brands respond to the current economic, social, and pandemic-related crises facing the country—and are changing their buying preferences in response. The ethical financial consumer is here, and they have strong opinions on how financial institutions should match their values.

This report highlights changing consumers preference for lenders that widen access to credit to underserved populations. It uncovers continued frustration with the status quo and reflects consumers' appetites for new approaches and technologies that look beyond an overreliance on the traditional credit score. The following takeaways will support purpose-driven banks in navigating a post-Covid-19 world, broadening their footprint into the community, and building loyalty with millennials and Gen Z.

→ Next: Consumers Demand More

# Consumers Demand More Inclusive Banking

Overall, consumers want brands to do more than just make and sell products and services. They’re demanding that banks and credit unions better reflect their values: **fairness and equality bubble to the top.**

**Seven out of ten** Americans would switch to a financial institution that has more inclusive lending practices.

**Six out of ten** Americans would switch to a financial institution that Increases access to credit for women.

**Six out of ten** Americans would switch to a different financial institution if it increased access to people of color.

→ Next: AI for Lending? Consumers say Yes

# AI for Lending? Consumers Say Yes

We let Waze tell us where to go and let Netflix tell us what to watch next. It's not surprising to see younger generations' higher comfort levels with the idea of being scored by a robot rather than (or along with) a human. New generations of consumers have always adopted tech to get things done in ways that previous generations (and sometimes the youngest generations) look on with skepticism.

That's why you see Millennials and Gen X (*see figure on the right*) consumers preferring algorithm-based lending for its speed and accuracy in assessing creditworthiness. Wealthier consumers feel the same way. With the rush to more digital mediation in our lives post-Covid-19, AI and machine learning will only become more accepted and their benefits sought after. According to a survey of 1,500 top executives by Accenture, [72% of banking executives say their companies risk going out of business in five years if they don't scale AI.]

51%

51% of Americans would switch to a bank that uses machine learning rather than humans to make loan approvals.

**By Age (Highlights):**

| | |
|---|---|
| Boomers | 40% |
| Gen X | 59% |
| Millennials | 61% |
| Gen Z | 48% |

**By Income:**

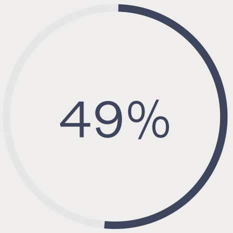
| | |
|---|---|
| < +$50k | 45% |
| $50k - $75k | 48% |
| $75k - $99.9k | 55% |
| $100k+ | 56% |

→ Next: The Current State of Credit Scoring

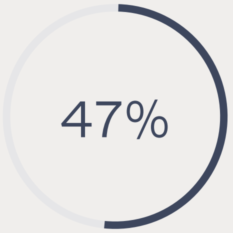
# The Current State of Credit Scoring is Broken

The current credit scoring system needs an overhaul, with close to half of Americans saying the system is broken, discriminatory, and set up for consumers to fail. Despite the best efforts of lending institutions to be fair and inclusive, Black and Hispanic Americans feel penalized by the impacts of centuries of economic oppression embedded in public credit data.

Millions of consumers and businesses struggle with consistent access to affordable credit because of gaps and weaknesses in the traditional credit reporting system that lenders depend on to assess borrower applications. Somewhere between 45 million to 60 million consumers lack sufficient history to generate reliable credit scores. Concerns about the predictive power of the data available to underwrite small businesses discouraged many lenders from the market in the wake of the 2008 financial crisis.




49% of Americans feel the current credit scoring system is broken.




47% of Americans feel the current credit scoring system is set up for consumers to fail.

**Six out of ten** Millennials and Gen Xers say they're disappointed with the current credit scoring system.

Next: Banks need to Address Racism in Lending

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# Banks need to Address Racism in Lending

More than 150 years since the signing of the Emancipation Proclamation, the black community still only owns less than 1% of the total wealth in America. Difficulty accessing affordable credit remains one of the causes of this perniciously stubborn inequity. A recent investigation by the National Fair Housing Alliance, a Washington D.C.-based nonprofit, found that 60% of the time, applicants of color — and ones more financially qualified than their white counterparts — were offered higher-priced car loans. Some debt cost them an extra $2,662 over the life of the loan. As a result, many minorities simply avoid seeking credit due to generations of discrimination. In our report, consumers vented their frustration:

38%

38% of Americans feel discriminated against by their credit score.

39%

39% of Americans feel that the current credit scoring system discriminates against people of color.

**% who said “yes” to the question: Do you feel discriminated against by your credit score?**

| | |
|---|---|
| Renters | 47% |
| Homeowners | 33% |
| African Americans | 47% |
| Hispanics | 43% |
| White | 34% |
| Households with Children | 51% |
| Households without Children | 30% |

**I agree that the credit scoring system discriminates against people of color:**

| | |
|---|---|
| Gen Z | 43% |
| Millennials | 50% |
| Gen X | 45% |
| Boomers/Seniors | 27% |

→ Next: Consumer Anxiety

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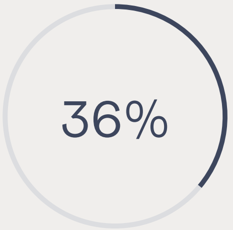
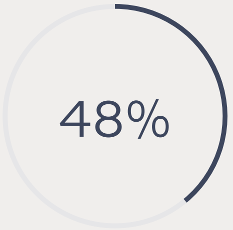
# Consumer Anxiety: Fear and Loathing of a Bad Score

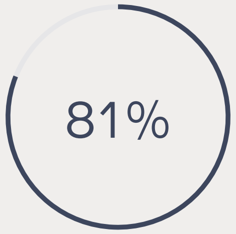
Americans might love their credit cards and refinancings, but they dread their credit scores. Consumer anxiety over checking credit scores is real, likely fueling their negative sentiment towards the traditional scoring system.




36% of Americans dread checking their credit score more than checking their weight.

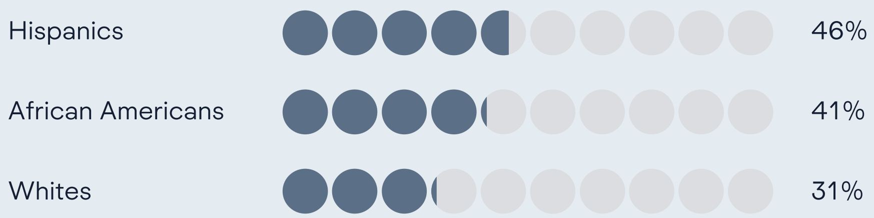



48% of Millennials (ages 26-39) say they dread checking their score more than checking their weight.




81% of Boomers and Seniors dread checking their weight more than checking their score.

**Yes, I dread checking my credit score more than checking my weight.**

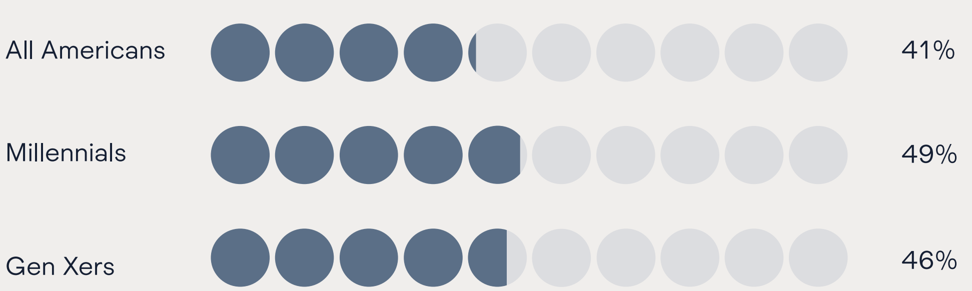



→ Next: What Would You Give Up For Better Score?

# What Would You Give Up For a Better Score?

Last year's Zest/Harris Poll survey revealed that consumers felt held back economically by their credit scores, keeping them from achieving some of life's key milestones. This year we asked what people would be willing to give up to boost their score, and their answers will surprise you.

**I'd give up social media for a month to get a better credit score:**




**I'd give up online shopping for a month to get a better credit score.**


Next: Covid-19 Impact Snapshot

# Covid-19 Impact Snapshot

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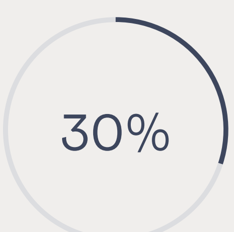
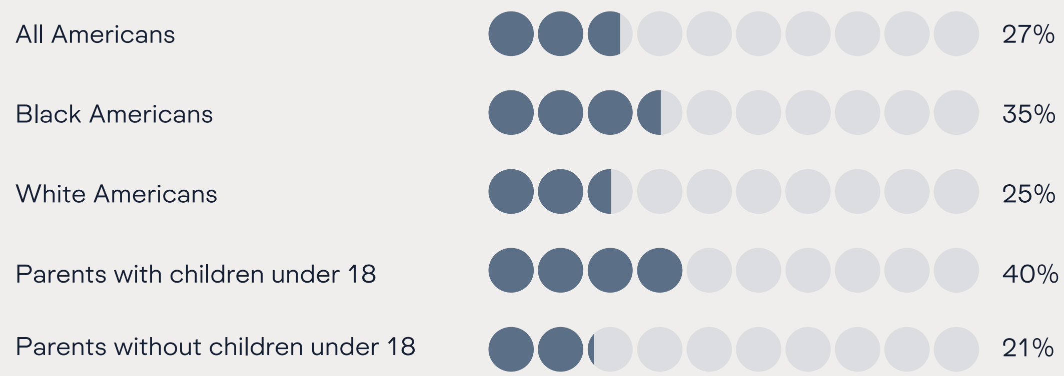
Millions of Americans have struggled to pay their bills due to the impact of the novel coronavirus. Despite initially generous government payouts and forbearance programs, millions of individuals and small businesses need help. Lenders have a significant role to play in supporting their recovery. Based on our survey results, consumers still feel like there's not enough being done to look past the short-term impact of Covid-19 on their finances.



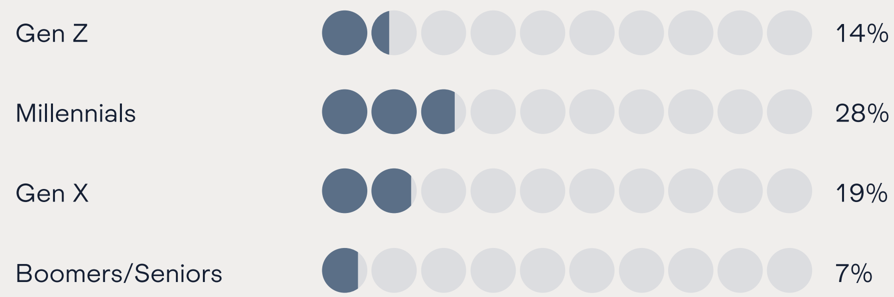

30% of Americans say they've struggled to get access to credit since the Covid-19 pandemic began.

**A substantial number of Americans say their reliance on credit has increased since the pandemic began.**




**Compared to their younger and older counterparts, Millennials are the most likely to say their access to credit has become more challenging.**

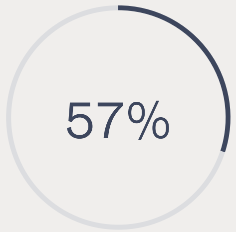
Credit has become harder to get since the pandemic began (by age group):



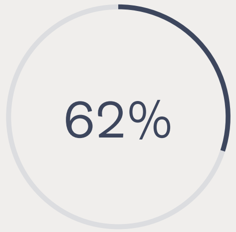

→ Next: What does Consumer Credit Nirvana

# What does Consumer Credit Nirvana Look Like?

Consumers say they would like to see more frequent innovation and more choice in how lenders assess creditworthiness. Ideally, banks and credit unions would take new approaches to credit modeling and use more and new kinds of data.

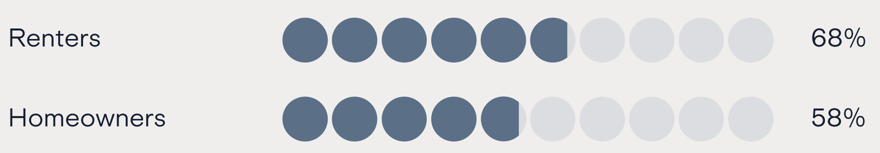



57% of Americans would be willing to share more personal data with a lender if it resulted in a fairer credit decision.




62% of Americans wish there was another way to prove themselves to lenders outside of the standard credit score.

**I wish there was another way to prove myself to lenders outside of the standard credit score:**




→ Next: Everything Begiins With More

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# Everything Begins With More (And Better) Data

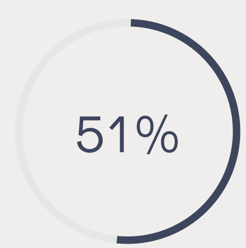
To fill these gaps, both traditional incumbents and new entrants are experimenting with various sources of “alternative” or “non-traditional” data. One of the most promising of these alternatives is cash-flow data — such as records of transactions in and out of consumers’ deposit and card accounts and feeds from small businesses’ accounting software — because it provides a more detailed and comprehensive picture of an applicants economic behavior. While recent technological and market developments are making it easier for lenders to access cash-flow information electronically, the adoption of underwriting models that rely on this data is uneven in the United States.

**Many people feel the current credit scoring system is not rewarding them for their excellent economic behavior.**

## Eight Out Of Ten

**Americans say that making on-time payments for expenses such as rent and utilities should positively affect their credit score.**

**Faster Decisions, More Automation**




About half of Americans say the current process of getting approved for credit is painfully too long.

Next: Moving Beyond the Credit Score to

# Moving Beyond the Credit Score to Provide Consumers with Fairer Lending

For banks, there is an urgent business need to “move beyond the old score” and an opportunity to help traditionally overlooked borrowers get access to credit, ultimately delivering a fairer and improved customer experience.

Not only do consumers demand a change, but the inability to rely on traditional credit scores due to the pandemic is scrambling lenders’ underwriting models. Lenders are trying to figure out how to avoid approving loan applicants who are unemployed and on the verge of running out of government assistance. And some are looking to identify existing customers at higher risk of default.

To adapt, financial institutions need a new approach. A recent article indicated that Bank of America, JP Morgan Chase, Wells Fargo, and Citi Group seek to augment credit reports and scores with real-time income or cash-flow data. As consensus builds to use more data, what’s the best approach to making sense of the data for smarter, faster, and fairer decisions?

As the industry looks for more effective ways to assess credit and loan eligibility, machine learning models are getting a second look. Machine learning allows lenders to model using more variables, creating a more holistic, clearer picture of an applicant.

With machine learning models, lenders can identify risky borrowers who may have looked good on paper and swap them out for better, creditworthy borrowers who—due to their lower score— were traditionally overlooked, ultimately delivering growth, increased productivity, and more inclusivity.

Considering the current economic environment and consumer sentiment, the ability to use more data and better math in a meaningful way to look “beyond the credit score” and more accurately rank risk is fast becoming table stakes. With a clearer picture of borrower risk, machine learning models enable you to make faster, more accurate decisions.

The upside is enormous. For the first time, financial institutions can increase growth while doing the right thing: ensuring greater access to wealth and opportunity in the way they score credit applicants.

Learn More

Next: About Zest

# About Zest

Zest AI makes the power of machine learning safe to use in credit underwriting. Lenders using Zest AI software make better decisions and better loans—increasing revenue, reducing risk, and automating compliance. Zest AI was founded in 2009 with the mission of making fair and transparent credit available to everyone and is now one of the fastest-growing fintech software companies. The company is headquartered in Los Angeles, California. Learn more at www.zest.ai and connect with us on Twitter and LinkedIn.

With Zest, you can:

## Grow

Identify the best borrowers and safely increase approvals

## Protect

Mitigate risk, limit losses, maintain performance

## Optimize

Exchange pricing, segmentation, and recoveries

## Automate

Gain efficiencies and return on high-value activities

Better lending for you and your customers with more powerful insights and more accurate risk assessments, Zest gives you the ability to approve more credit-worthy borrowers, reduce existing losses, offer better rates, and develop more customized policies and rules engines for your business.

# Thank You

Schedule a demo to learn how AI can help your organization make better and faster lending decisions.

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