Could Social Media Have Prevented the 2008 Financial Crisis?

If lending was based on more than just credit scoring would financial institutions be able to make better decisions?

LONDON, UK, April 26, 2017 /EINPresswire.com/ -- Could Social Media Have Prevented the 2008 Financial Crisis?

In 2017 the vast majority of people use social media in one form or another. Companies are increasingly using what we post and who were are connected to in order to make a whole host of decisions about us. For many this seems like a scary thought, but could it actually be something that could have more far reaching benefits than at first sight? [David Turner, UK CEO of leading global customer experience expert, Webhelp], explores this issue.

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> *David Turner, CEO of Webhelp UK*

"We are all familiar with stories of people off work 'sick' or claiming benefits who have been caught out by pictures on their social media profiles. And while the debate about how private this sort of information should be will rage on, many hard working, law abiding people feel a certain amount of satisfaction when the cheats are caught out in this way.

"What if we were to take that a few steps further? What if our [social media profiles were used to back up our applications for mortgages] or loans?

"Traditionally, banks have relied on the data captured by credit reference agencies to determine whether someone should be granted a loan or not. The problems with this system are numerous and well documented. Firstly, it ensures that loan and mortgage applications tend to be a very lengthy process – and one in which customer service appears to be held in very low priority. This can be incredibly frustrating if the applicant needs a quick decision. Would a check of our social media activity be enough to suggest whether or not we would be likely to pay the loan back and make it possible to give lending decisions more quickly?

"Secondly, and arguably more crucially, if an applicant has no credit history they will be refused a loan. There are a few reasons why someone might have no credit history. They could be the type of person who saves up for things rather than buying them on credit. They could have been living in another country where they had an impeccable credit rating, but that rating wouldn't count to an agency in the UK. I've even heard of people being told they would be more likely to get credit if they had a negative rating than no rating because at least they would have a credit history.

"Does this encourage lending to people with the worst attitudes to credit and penalise those who don't take out loans or buy goods on credit?

"How would that change if lending institutions based decisions on people's social media activity?

"I suppose that may depend on how truthful people are on their social media profiles. While posting Ibiza holiday pics when off work sick may not be the smartest move, it is more honest than that person has been with their employer.

"Indeed many people are inclined to show off on social media and therefore may be more likely to exaggerate their spending habits in order to impress their contacts. The picture painted by that same person to a financial institution when they are applying for a loan may be very different. Perhaps that potentially exaggerated social media picture would be a better basis on which to base financial lending decisions.

"If that was the basis used by institutions pre the 2008 financial crash, would it have prevented the collapse caused by lending to so many people who couldn't afford to repay their loans? Would such an approach prevent a similar collapse in the future?

"Perhaps it would and perhaps it wouldn't, but I strongly suspect there will never be the appetite for important lending decisions to be based solely on our social media activity.

"However, while not being the only answer, it is certain that social media provides a wealth of very useful information on individuals and the more complete a picture a financial institution can have of an individual the better the lending decisions it can make.

"How many family members a person is connected to could indicate a support network that could help to protect an individual during a time of hardship, for example. It also indicates a certain stability that financial institutions find appealing.

"I am confident that information gleaned from social media will continue to be used in more and more ways. For now I think we have just glimpsed the tip of the iceberg as far as this is concerned and it will be fascinating to see how far it goes.

"New types of financial institutions are entering the marketplace and using this type of data to make quicker, and they would argue, more accurate, lending decisions.

"How far back would activity be taken into account? Surely our social media activity as a seventeen year old couldn't prevent us getting a mortgage at 45?

"One thing is for sure. If these challenger fintechs can offer customers lending decisions in a more forward thinking and pleasant customer experience environment, people will be queuing up to borrow from them. We are in a world where people are borrowing more and more money. This same world is one where customer experience counts for more than loyalty to the traditional lending establishments, who forfeited much of the trust of their customers during the financial crisis.

"Could the combination of a customer focused loan service with a new system of credit checks provide the pathway to a new future for lending and borrowing?"

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