

Millennials shunned from traditional banks turn to alternative lenders to obtain loans

Generation rent is turning to alternative lenders when they need loans. Traditional lenders need to review their approach to ensure they are not passing over credit-worthy young individuals because they are avoiding credit cards.

London, Logical Glue, 27 July: [Logical Glue](#), a leading provider of white box machine learning for better decisions in the financial services sector, has conducted research into consumer borrowing habits in the UK. It found that the average person has had over eight loans in the past and traditional banks are still the most popular route to finance (83%). However, the younger generation is bucking the trend for obtaining credit from traditional routes, embracing alternative lenders while also seeking advice from peers and online reviews for their lending decisions.

The research found that alternative lending for personal loans will continue to grow in popularity as younger people are more likely to turn to them: 50% of 16 – 35 year olds have had loans with alternative providers, versus just 26% of those aged 45 and over. When asked what type of lender they will borrow from for their next loan, under 35s are three times more likely to turn to an alternative lender than the over 45s.

It is unsurprising that younger people are turning to alternative lending as 16 to 34 year olds are most likely to be rejected from traditional loans: 44% versus just 18% of over 45s. When looking at alternative lending, the number of rejections reduces to 33% of 16 - 34 year olds. Overall, 64% that were rejected by a traditional bank were accepted by a challenger or alternative lender.

Credit cards are going out fashion

While many consider credit cards to be a traditional and easy way of gaining credit, it seems they are going out of fashion. Nearly half of 16 – 24 year olds have never had a credit card versus just a third of 25-34 year olds. The younger generations are relying on the Bank of Mum and Dad more than ever before with 30% of those aged 16 - 35 having a loan from a friend or family.

Jon Poulter, CTO at Logical Glue says: “For any lender, increasing approval rates is necessary to grow revenue. But in order for this to have a high-rate of success, the ability to accurately identify credit-worthy borrowers who are highly unlikely to default is key. Traditional scorecards are robust; however, they cannot provide marginal gains for competitive advantage.

“They also cannot take into consideration the shifting habits of Generation Rent, who are reluctant to turn to credit cards and are therefore lacking in the traditional data to make decisions with. In the data-driven age, data can come from many sources and as habits change at speed, decisioning model prototyping needs to be agile to ensure the right information is used and put into production quickly to enable lenders to approve the right people, rather than miss revenue. This is where alternative lenders – born in the digital, data-driven era - have the advantage. They are set up to move at speed and are taking advantage of the latest machine learning techniques to utilise new types of data and spot new patterns.”

Customer experience is key for lenders

When those surveyed were asked why they would choose a traditional bank loan or alternative lender, the differences between the generations were stark. Overall, respondents credit traditional banks with increased speed of service, lower monthly payments and higher likelihood of loan approval. However, millennials are:

- Twice as likely to rate alternative lenders for their speed of service
- Twice as likely to think that alternative lenders have better interest rates
- Four times more likely to feel that alternative lenders have the right financial security to borrow from
- Three times more likely to trust alternative lenders versus the over 45s
- Four times more likely to think customer experience is better with alternative lenders versus the over 45s.



effortless intelligence

Jon Poulter, CTO at Logical Glue says: "As lending becomes ever more competitive, and set against the backdrop of the Bank of England's clampdown on household credit, it is imperative that lenders are able to not only identify and pass the right loans, but that they offer the best customer experience. While in general, traditional banks are still considered to offer the best in terms of speed of service and are deemed more trustworthy, the research demonstrates that alternative lenders are gaining ground and winning the hearts and minds of the younger borrower. By leveraging new, innovative, white box machine learning techniques, these lenders have an advantage in the fight to win the business of the millennials."

"Logical Glue's Machine Learning platform is among the best available, and we can now be much more nimble in assessing an application, but more importantly ensure that we are providing credit to the right people." Julia Throop – Managing Director, Afforditnow

About Logical Glue

Logical Glue is the leading provider of patented white box Machine Learning platforms for the financial services industry. The platform provides innovative solutions to credit decisions and underwriting processes, reducing risk and increasing profits for Lenders and insurance providers using highly predictive machine learning algorithms.

The Logical Glue platform is the first code-free system that can build three different types of integrated predictive models through its dedicated API: neural networks, logistic regression and fuzzy logic models. Logical Glue's Machine Learning platform is becoming the go-to industry solution, providing essential tools to rapidly hypothesise and test modelling sensitivities for data scientists, whilst allowing a straightforward visualisation of complex data relationships and outcomes through its bespoke graphical interface for business users. This has led to numerous industry accolades including the Lord Stafford Awards, a SMART grant award and participation in the Accenture led Fintech Innovation programme.

For more information, visit www.logicalglue.com