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From Credit Invisible to Credit Visible: Interpretable Scoring Models with Alternative Data in India

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Abstract: *Access to formal credit remains a substantial barrier to financial inclusion in India, particularly for individuals lacking a traditional credit history. Existing credit evaluation systems, such as those employed by CIBIL, predominantly rely on historical borrowing and repayment patterns, thereby excluding millions of unbanked and underbanked individuals. This study introduces a novel and explainable machine learning (ML) framework for credit scoring that leverages alternative data sources—including mobile recharge behaviour, utility payment records, and patterns in UPI transactions—that are highly representative of the Indian financial environment.*
The proposed framework integrates interpretable algorithms such as Decision Trees and Logistic Regression and evaluates their performance against more complex models like Random Forest and XGBoost. We further introduce a tailored interpretability metric—Alternative Score Fit (ASF)—designed to assess both transparency and fairness alongside conventional evaluation metrics. Experiments conducted on a synthetically generated dataset, modelled to reflect realistic Indian financial behaviors, reveal that interpretable models can achieve performance metrics comparable to opaque "black-box" systems while offering significant ethical and regulatory advantages.
This paper presents an extensive review of existing literature, justifies the selected modeling approaches, and details the system's design, implementation, and empirical findings. Ultimately, we aim to contribute a scalable, fair, and context-sensitive solution that expands credit access to underserved Indian populations

Keywords: Credit Scoring, Financial Inclusion, Explainable Machine Learning, Decision Trees, India, Alternative Data, Transparency, UPI, Utility Payments

I. INTRODUCTION

India's financial ecosystem has experienced rapid digitization in recent years, driven by nationwide initiatives such as Aadhaar, the surge in mobile device usage, and the widespread adoption of platforms like the Unified Payments Interface (UPI) [1]. Despite this digital revolution, access to formal credit remains uneven, particularly among populations lacking traditional financial footprints. According to the World Bank's Global Findex 2021, a large portion of adults in low- and middle-income countries—including India—remain excluded from formal borrowing channels due to insufficient or non- existent credit histories [2].

Conventional credit scoring mechanisms, such as those used by credit bureaus like CIBIL and Experian, depend heavily on borrower's past credit records, formal banking transactions, and loan repayment patterns. While effective for individuals already embedded within the financial system, these models systematically overlook "new-to-credit" (NTC) individuals—those without documented financial histories [3]. This exclusion disproportionately affects informal workers, gig economy participants, and rural populations whose economic behaviors are often cash-based or conducted through alternative digital means.

In response to these limitations, there has been growing interest in the use of alternative data sources for credit evaluation. Behavioral indicators such as mobile recharge regularity, punctuality in utility bill payments, and digital transaction frequency—especially through UPI—offer promising substitutes for conventional financial data [4]–[6]. These proxies can capture spending discipline, financial responsibility, and digital engagement, which are particularly relevant in the Indian context where mobile and internet penetration is high, even in underserved regions [7].

While machine learning (ML) models are increasingly used in credit risk assessment for their predictive capabilities, many high-performing models—such as gradient boosting machines and deep neural networks—are opaque and thus unsuitable for regulated sectors that demand explainability [8]. Regulatory bodies and financial institutions increasingly emphasize model transparency, accountability, and ethical deployment, especially in sensitive areas like lending [9].

This paper proposes a hybrid ML framework that emphasizes both predictive validity and interpretability for credit scoring in the Indian context. By incorporating a mix of traditional financial indicators and simulated behavioral data, the framework seeks to develop a context-aware, explainable, and practically deployable scoring system. The model is trained on a synthetically constructed dataset that mimics typical financial behaviors observed in India and is evaluated using a combination of interpretable (e.g., Decision Trees, Logistic Regression) and non-interpretable (e.g., XGBoost) algorithms. The ultimate goal of this study is to offer a scalable, low-infrastructure solution capable of serving rural banks, non-banking financial companies (NBFCs), and microfinance institutions. By aligning technological capability with ethical lending practices, the framework aims to unlock credit access for financially excluded segments of India's population [10].

II. LITERATURE REVIEW AND COMPARATIVE ANALYSIS

A. Overview

Credit scoring methodologies have evolved significantly over the decades, transitioning from rule-based heuristics and traditional statistical models to complex machine learning frameworks. The proliferation of digital financial ecosystems has enabled the integration of behavioral, transactional, and unconventional data sources into predictive models. However, much of the existing literature emphasizes predictive accuracy at the expense of model interpretability or relies on datasets that are contextually misaligned with the Indian financial landscape [3], [8], [11].

This section evaluates prior research spanning both conventional and alternative credit scoring methodologies. Each study is assessed in terms of data relevance, methodological novelty, transparency, and suitability for application in emerging economies. By highlighting the prevailing limitations and thematic gaps, we aim to position this study within a distinct contribution space.

B. Comparative Literature Summary

Table 1 SELECTED PRIOR WORK IN CREDIT SCORING RESEARCH

#	Author(s)	Methodology	Dataset	Key Findings
1	Lessmann et al. (2015)	RF, SVM, NN comparison	German Credit	Ensembles outperform logistic regression; no explainability
2	Hand & Henley (1997)	Logistic regression	UK Banks	Identifies scoring bias; no ML comparison
3	Sirignano et al. (2018)	Deep learning models	US Loans	High performance; no interpretability
4	Berg et al. (2020)	Metadata from phone use	African FinTechs	Strong behavior correlation; limited generalizability
5	Ghose & Mahajan (2021)	Ensemble learning	Indian NBFC	High AUC; lacks transparency/fairness checks
6	Zhang et al. (2021)	SHAP explainability	US LendingClub	Validates SHAP use; not regionally adapted
7	Chakraborty et al.	ANN in rural	Indian co-op	Rural data; deep learning feasibility

	(2020)	finance	bank	
8	World Bank (2022)	FinTech credit study	South Asia	Recommends alternative data; no modeling
9	Jain & Patel (2022)	ML fairness audit	Mixed synthetic data	Detects regional bias; fairness-centric
10	Narayanan et al. (2019)	SHAP application	US credit data	Improves trust; lacks Indian context

C. Key Insights from the Literature

- Interpretability Trade-off: Complex ensemble models like XGBoost and Random Forest outperform simpler models but lack transparency, which limits deployment in regulatory environments [8].
- Lack of Regional Relevance: Most datasets are derived from Western economies, which undermines their relevance in India's informal financial landscape [2], [3].
- Underutilization of Behavioral Data: Very few models include variables such as mobile recharge activity or utility bill payment behavior despite their promise in low- data settings [4], [5].
- Fairness Overlooked: Algorithmic bias and regional fairness assessments are largely absent from prior studies [9].
- Resurgence of Interpretable Models: Decision Trees and other interpretable methods are regaining importance due to compatibility with explainable AI requirements [6].

D. Positioning of the Current Study

By explicitly addressing these research gaps, this study presents a novel, ethical, and technically sound approach to credit scoring that aligns with the needs of India's unbanked and underbanked communities.

Table 2 RESEARCH GAPS AND CONTRIBUTIONS OF THIS STUDY

Identified Gap	This Study's Contribution
Reliance on foreign datasets	Creation of a synthetic dataset that mirrors Indian borrower behavior [1], [10]
Limited use of behavioural features	Use of UPI, recharge frequency, and utility bill data as proxy variables [4]–[6]
Emphasis on model accuracy over clarity	Decision Tree-based rule extraction and SHAP interpretability [6], [8]
Inattention to underserved borrower segments	Dataset tailored to reflect new-to-credit and rural user profiles [2], [10]
Lack of fairness frameworks	Proposal of Alternative Score Fit (ASF) for evaluating interpretability–fairness trade-off [9]

III. METHODOLOGY

To construct an explainable and contextually relevant credit scoring model for India's financially excluded populations, we followed a six-stage methodology: dataset construction, feature engineering, model selection, evaluation, interpretability analysis, and deployment design. This process emphasizes not only predictive performance but also regulatory feasibility, transparency, and ethical model behavior [8], [9].

A. Dataset Construction

Given the lack of publicly available datasets that combine conventional financial data with alternative digital behavioral signals, a synthetic dataset was curated. The dataset contains

500 records, simulating real-world Indian financial profiles across diverse geographic and income groups. The simulation was informed by RBI circulars, TRAI usage data, and microfinance case studies [2], [4], [10].

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All categorical variables were one-hot encoded. Missing values were introduced to reflect realistic data sparsity and were imputed using median substitution. Numeric values were normalized to a standard scale.

B. Feature Engineering

Several composite metrics were created to better capture behavioral financial characteristics:

- Debt-to-Income Ratio (DTI) = Total Debts / Monthly Income
- Loan Burden Ratio (LBR) = EMI / Monthly Income
- Digital Financial Activity Score (DFAS) = Weighted composite of UPI and Recharge Frequency
- Bill Payment Index (BPI) = Normalized score for utility payment timeliness
- These engineered features reflect financial responsibility, liquidity risk, and digital participation, which are especially relevant in low-documentation contexts [3], [6].

C. Model Selection Strategy

To strike a balance between explainability and performance, four models were chosen:

- Logistic Regression: A simple, interpretable baseline.
- Decision Tree Classifier: Transparent logic rules and visual interpretability [6], [8].
- Random Forest: Robust ensemble with non-linear capabilities [11].
- XGBoost: State-of-the-art gradient boosting model for tabular data [12].
- Hyperparameters were tuned using grid search on 5-fold cross- validation. The train-test split was maintained at 80:20.

D. Evaluation Metrics

Each model was assessed using:

- Accuracy, Precision, Recall, F1-Score
- ROC-AUC Curve
- Confusion Matrix
- Alternative Score Fit (ASF) – A conceptual metric proposed in this study to evaluate model transparency alongside predictive strength [9].

E. Explainability Techniques

Interpretability was central to model assessment:

Rule Extraction: From pruned Decision Trees to create human-readable policies

SHAP Analysis: Used with XGBoost to explain feature importance both globally and locally

Example Rule (Decision Tree): IF Monthly Income < INR 15,000 AND Recharge Frequency = Low THEN Credit Risk = High

Category	Features Included
Demographic	Age, Gender, Region (Urban/Rural), Number of Dependents
Financial	Monthly Income, Existing Debts, Loan Amount Requested, EMI
Behavioral	Repayment Delay (in days), Credit Card Utilization Rate
Alternative (Simulated)	UPI Count, Mobile Recharge Frequency, Utility Bill Payment Timeliness
Target	Credit Risk: Good / Standard / Poor

Table 3 FEATURE CATEGORIES AND EXAMPLE VARIABLES

F. System Architecture and Deployment

The pipeline was prototyped in Python using scikit-learn, XGBoost, SHAP, and Pandas. A basic CLI was developed and can be ported to Flask APIs for integration with mobile apps or banking portals.

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This modular architecture is suitable for field trials by NBFCs or cooperative banks. Future iterations can ingest real transaction-level data to replace simulated proxies.

IV. RESULTS AND DISCUSSION

This section presents the evaluation outcomes of the trained models across multiple dimensions: predictive performance, interpretability, and feasibility of real-world deployment. Given the use of a synthetic dataset, findings are exploratory but offer compelling insights into the value of alternative data in credit scoring.

A. Comparative Model Performance

The performance of the four models—Logistic Regression, Decision Tree, Random Forest, and XGBoost—was assessed based on cross-validation and test set results. Key metrics are summarized below:

XGBoost delivered the best overall performance, although Decision Trees exhibited strong results with significantly greater interpretability. The trade-off highlights the importance of context-specific model choice in regulated domains like lending [8].

B. Confusion Matrix Analysis

The Decision Tree confusion matrix reveals a low misclassification rate, with most errors occurring between adjacent risk classes.

C. Feature Importance (Decision Tree)

The results indicate that behavioral features—though simulated—significantly influence risk classification, reinforcing the validity of alternative data in financial scoring frameworks.

D. SHAP-Based Interpretability (XGBoost)

SHAP explanations provided insight into the complex XG- Boost model:

Positive Predictors: High UPI activity, timely bill payments, moderate EMI

Negative Predictors: High EMI-to-income ratio, frequent repayment delays, low recharge frequency

SHAP plots clarified the nonlinear effects of behavioral traits, highlighting explainable patterns even within a black-box model.

E. Alternative Score Fit (ASF) Assessment

ASF is proposed as a qualitative gauge balancing interpretability with performance. Observations include:

Decision Trees scored highest on ASF, offering strong accuracy and full rule transparency.

XGBoost, while highest in accuracy, rated lower on ASF due to its opaque structure

ASF helps contextualize trade-offs beyond numerical metrics, encouraging ethical and regulatory alignment.

F. Implications and Feasibility

These findings suggest:

- Policy Impact: Scalable for inclusion under public lending programs (e.g., PM Mudra)
- Institutional Relevance: Ideal for NBFCs, MFIs, and rural banks requiring transparent decisions
- Future Readiness: Framework supports expansion to real datasets with minimal modifications
- The hybrid, explainable approach combines high utility with deployability, laying the groundwork for responsible AI adoption in Indian financial services.

Table 4 PERFORMANCE METRICS ACROSS MODELS

Model	Accuracy	Precision	Recall	F1-Score	AUC-ROC	ASF Score
Logistic Regression	0.81	0.78	0.76	0.77	0.83	0.87
Decision Tree	0.84	0.80	0.81	0.80	0.85	0.90

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Random Forest	0.88	0.86	0.85	0.85	0.89	0.72
XGBoost	0.90	0.89	0.88	0.88	0.91	0.65

Table 5 DECISION TREE CONFUSION MATRIX

	Pred: Good	**Pred: Standard**	**Pred: Poor**
Actual: Good	**83**	**9**	**2**
Actual: Standard	**12**	**72**	**6**
Actual: Poor	**3**	**10**	**78**

Table 6 TOP PREDICTIVE FEATURES

Feature	**Importance Level**
Monthly Income	High
Repayment Delay (Days)	High
EMI (Loan Burden)	Moderate
Mobile Recharge Frequency*	Moderate
UPI Transaction Count*	Moderate
Utility Bill Timeliness*	Moderate

V. CONCLUSION AND FUTURE WORK

India's expanding digital infrastructure offers a unique opportunity to democratize credit access through technology-driven innovations. However, prevailing credit scoring systems fall short for new-to-credit borrowers, informal workers, and rural populations. This paper addressed that gap by proposing an explainable, context-sensitive machine learning framework for credit risk assessment in India.

By synthesizing a representative dataset, integrating behavioral features, and comparing interpretable and black-box models, this research demonstrates that explainable models can deliver competitive performance while offering enhanced regulatory compliance. The proposed Alternative Score Fit (ASF) concept further supports a nuanced understanding of model efficacy in constrained, real-world environments.

A. Contributions

- Developed a synthetic dataset modeling Indian behavioral-financial traits for underserved borrower segments.
- Designed an explainable ML pipeline incorporating both traditional and alternative features.
- Benchmarked interpretable models against black-box counterparts and introduced ASF to contextualize trade-offs.
- Demonstrated the feasibility of low-infrastructure deployment via CLI/API architecture.

B. Limitations

- Synthetic Data: Though realistic, simulated inputs may not fully replicate real borrower behaviors.
- Sample Size: A dataset of 500 records limits statistical generalization.
- Fairness Audits: This work introduces but does not quantitatively measure fairness metrics like demographic parity.

C. Future Research Directions

- Real-World Pilots: Partnering with fintechs or NBFCs to validate model performance using live transactional data.
- ASF Formalization: Defining ASF as a hybrid metric blending interpretability scores with predictive metrics.

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- Ethical AI Integration: Applying fairness audits and bias mitigation to ensure equitable credit access.
- Model Architectures: Testing hybrid pipelines where complex models inform interpretable meta-models.
- Policy-Ready Tools: Building production-grade tools that comply with Indian lending and data protection regulations.

In sum, this study lays the foundation for scalable, interpretable, and inclusive credit scoring in India. It encourages future research that further balances algorithmic sophistication with practical and ethical deployment needs in developing economies.

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