Competition: A Solution to Algorithmic Bias?

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AI and Discrimination: Promise and Reality

- **Promise**: by better predicting borrowers' creditworthiness can expand the number of people who are eligible for credit and reduce discrimination

- **Reality**: can perpetuate discrimination by denying credit to creditworthy borrowers of color or by making credit available to them at higher costs when compared to similar white borrowers

Persistence of Discrimination in AI

– Garbage in, garbage out (machine learning)
– Inscrutable connections with racial impact

- certain hair care products associated with having frizzy hair
- people of color = higher default rates
- algorithm considers hair products purchased

Role of Competition

Economic theory: discrimination is costly; intense competition is a powerful force for reducing discrimination

Therefore: Developers and users of AI tools should have an incentive to detect and remove discrimination

Complexity Undermines Incentives to Address AI Bias

In an environment where complexity makes it difficult for borrowers to compare products, there is little incentive for firms to address computer-generated bias.

Competition will not drive needed change

Technological Advances ≠ End of Bias

Bottom Line: AI Increases Efficiency and Decreases Credit and Litigation Risk for Lenders

- No business case for eliminating algorithmic bias

- Reduced litigation risk: the further humans are from making underwriting and credit scoring decisions, the harder it is to prove discrimination

The Lack of Fair and Efficient Credit Markets

Ferdi Rizkiyanto

Technology for Good

- Interactive tools that assess borrowers' knowledge and financial sophistication
  - Options for deeper learning
- Assistance identifying suitable products
- Anticipated life changes
- Anticipated holding period
- Identify most important terms

Role for Technology

- Programs determine best credit option, taking into account:
  - Borrower understanding
  - Product offerings
  - Borrower preferences, actual credit history, and anticipated life situations

- Computer-generated decision-making beats computer-generated bias