



# The Power of the Payslip

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Using employment  
data to grow  
your portfolio

A guide for lenders



# Executive Summary



**The credit market is growing while consumers experience a cost-of-living squeeze.**

Patchy Covid recovery, fluidity in the job market, and a growing number of gig-economy workers makes it even more important for lenders to be able to accurately verify an individual's employment status and source of income.



## **Several factors make it crucial for lenders to understand affordability in 2022**

The post-pandemic fallout and the impending cost-of-living crunch means that lenders must remain vigilant in understanding consumer's affordability.

Lenders must continue to fulfil their FCA duties to protect the vulnerable and relieve FOS complaints by using accurate data to understand affordability first-time.

Open Banking solutions can be seen as intrusive, making it harder to access granular data.

In a competitive market, lenders can't afford to lose customers that could be accepted at low-risk with more employment information.



## **Verify an individual's current employment status with Experian's Work Report™**

Giving lenders real-time access to three-months of granular payroll data and 12-months of rolling net/gross pay can better inform income security and credit risk.

By using Work Report™ to assess affordability and credit risk, lenders can accept thin-file or marginal customers with poorer credit scores that they may have traditionally declined.

Work Report™ eliminates fraud in self-reporting and verifies income and employment from source, directly from an individual's employer.



## **Access verified income, length of service and employment sector of applicants**

Length of tenure and employment sector are predictive of the risk of default.

Accurately verifying an individual's employment status at a time of increased transience and uncertainty in the UK employment market is important to minimise risk.

Lenders can take on customers others would turn down, confident that they represent a reasonable risk based on a better understanding of their employment status and source of income.

# A tough call: Judging affordability and creditworthiness in a post-Covid landscape



The UK's Covid recovery hasn't been swift or even as expected. In 2022, as costs on fuel, utilities and household essentials rise, more consumers will feel the squeeze.

It is likely that more people will turn to credit to help manage their finances. Indeed, The Bank of England has reported a 34% increase in gross consumer lending since January 2021.

New lending volumes are returning to pre-Covid levels, and while the overall quality of consumer credit is better than at the start of the pandemic, several factors make it increasingly difficult to identify those worthy of credit going forward.

As a result, lenders need a more complete view of an individual's financial wellbeing to ensure they make the best decisions for themselves and their customers.

## Lay of the land: What's affecting consumer financial health in 2022?



### Households feel the squeeze

The cost of fuel, utilities and household essentials are all rising rapidly. Annual food price inflation reached 3.5% in December [Guardian], while changes to the energy price cap could see some households pay twice as much on their bills after April 2022



### Inflation on the rise

Inflation has increased to a 30 year high of 5.4%, whereas a year prior it was only 0.3%



### Churn in the employment market

The Office for National Statistics (ONS) reported unemployment fell by 1.4 million people\* 1 million workers changed jobs from July-Sept and 400,000 joined the big resignation to find alternative employment during H2 2021.

Workers on company payroll rose by 257,000 in November, the largest monthly rise in payroll employment since 2014.



### Patchy Covid-19 recovery

Historical employment hotspots like London have seen slower growth in job vacancies than areas like the North East (which had a 61% growth in new job adverts since February 2020) [Experian]

\* The Office for National Statistics (ONS) said unemployment rate fell to 4.2% in the 3 months to October, representing ~1.4 million people, down from 4.3% in the 3 months to the end of September.

**The pressures facing consumers will have a direct impact on the lending landscape this year:**



Although outstanding balances on UK consumer credit cards and other loans remain significantly below pre-Covid levels, **credit card balances have increased** month-on-month since April 2021 [Bank of England]



Household mortgage debt, continues to break new ground - reaching **£1,556.5 trillion** in November 2021 [Bank of England]



A **growth in arrears** is predicted as many struggle with the increasing cost-of-living. The number of households in 'significant arrears' (greater than 10% of their balance) has already grown by **16%** between Q2 2020 and Q2 2021 [[Mortgage Finance Gazette](#)]



The Bank of England **increased interest rates from 0.1% to 0.25%** at the end of 2021. While still low by historical standards, this decision may lead to higher borrowing costs and lower disposable income

In this nuanced and sophisticated landscape, it's harder for lenders to assess prospects. Without using the best data available to accurately assess risk, lenders can't always offer the best solutions to customers.

Forward thinking lenders are looking to new, emerging sources of consumer data to minimise exposure without turning away creditworthy applicants.

# Big decisions: Why getting affordability and creditworthiness right matters in 2022 and beyond



As people across the nation feel the effects of the recovery at different speeds, getting affordability and creditworthiness decisions right is crucial, but challenging.

Several pressures require lenders to do everything in their power to adequately and proportionately understand risk:



## Regulatory pressure

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Regulators have seen a **notable rise in new unaffordable lending complaints**, with 57,541 lodged in the year 2020/21 (up 54% on 2019/20). Per FOS standards, lenders are charged £750 per complaint, regardless of the ruling.



## Defaults

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With households facing higher costs and rising interest rates, there are likely to be **more defaults in 2022** [Atradius]. The full impact of the pandemic has yet to play out for many financially stretched households. Lenders need to get credit decisions right to lend responsibly and reduce exposure to defaults.



## Competitive market

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Lenders need to find new opportunities to grow without increasing risk. **Lenders can't afford to turn away thin-file and no-file consumers** worthy of credit or lose potential customers in the application journey with lots of friction and a poor customer experience.

## Currently, several factors are making it difficult for lenders to achieve these aims and overcome regulatory and market challenges:

It is not easy to fully understand an applicant's current financial situation:



There are still **5.2 million people** in the UK with no credit history and **3.9m** who may be described as **Credit Marginals** that are frequently subject to manual affordability reviews



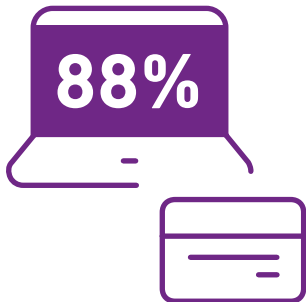
Currently, **no single source** of data gives a complete picture of applicant financial health



Circumstances are changing quickly. Good decisions require **timely** and **accurate data**

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## There's increasing demand for fast, friction-free, digital services:



of UK adults said online is their preferred channel for credit application [Experian]

Although, of the 25 million UK people engaged in Online Banking,



**85%**

have never shared data through Open Banking services



Newer, sophisticated fraud techniques make **secure digital services** more desirable

Many lenders are experiencing a squeeze on underwriter services. New solutions are needed, to **reduce costs, increase efficiencies** and to **free up capacity** for processing more credit decisions through increased automation or quicker, easier access to more accurate data

# Employment data: Increase profits, cut risk



Automated access to verified employment data with a consumer's consent offers a new opportunity for lenders to understand affordability in real-time. Obtaining verified income and employment information is proven to enhance the quality of lending decisions



Richer, more reliable data - gathered directly from employers, with a consumer's consent - can give lenders a competitive advantage. It allows them to take on customers who they might otherwise turn down due to incomplete or inaccurate data, confident in the knowledge that they represent reasonable risk



Automated employment information can be used in association with other sources of bureau data such as credit scores, consumer indebtedness and debt to income ratio information to accurately inform a lender of an individual's suitability for credit

# Experian Work Report™: Employment data sharing made easy

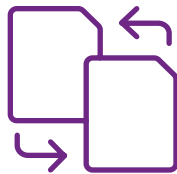


Experian's Work Report™ delivers employment information and verified income directly from payroll. It is designed to help lenders understand affordability, make better lending decisions and offer new solutions to underserved market segments.

## How does Experian Work Report™ help lenders?



Work Report™ provides direct access to verified gross income, employment tenure, employer name and industry sector. Using it, lenders can view 3-months' worth of granular payroll data and 12-months of rolling net/gross pay



Seamlessly integrate Work Report™ into a current application journey. Applicants only need to provide an employer's name, National Insurance number, and their consent. Then a network of payroll providers, connected by APIs, deliver the data in an API and/or a simple, standardised report



Experian's solution offers up to 30% coverage and is on track to provide employment data for 60% of UK workers by December 2022



**“This Shangri-La of HMRC  
type data is the goal”**

Tier 1 Building Society



## For consumers, Experian Work Report™ is:



A simple check, seamlessly integrated into any application process. It works to verify income rather than derive it (unlike Open Banking) requiring less data and is less time than Open Banking



Ideally suited to applications like mortgages where there is a requirement to share payroll data, as well as bank statements amongst brokers and lenders. One-in-three lenders said it takes them **up to seven days** to get payslip information directly from the customer

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## Lenders can:

### Increase profitability



Using new sector and tenure data, lenders can **make significantly better credit decisions** and take on more customers without increasing risk

### Grow your market



With additional data sources to assess affordability, lenders **can accept thin-file customer segments with more confidence**

### Reduce risk



Work Report™ **eliminates fraud in self-reporting**. Receive employment status and verify applicant income - gross and net - rather than deriving this information from bank statements

### Cut wasted time



Work Report™ **gets straight to the insights**: no paper or pdf payslips. Lenders get immediate, consented access to verified income, employer name, employment tenure and status

## For regulators, this method:



Meets regulatory requirements for **robust affordability checks** by verifying income



**Cuts fraud:** collecting employment data directly from the employer eliminates the potential for applicant document fraud



**Proven to be consumer-friendly:** automated sharing of payroll data has been used for over 25 years in the US, where it's shown to offer better lending experiences and improve access to credit for consumers



**“Currently, we are limited by capacity to underwrite, more than it is our balance sheet holding us back - this solution could help us lend more”**

Tier 1 Bank

# Employment sector and length of tenure: The keys to unlocking new profits



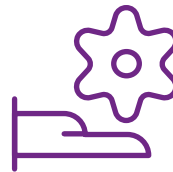
**A key source of profitability is not just avoiding risk but also taking on applicants who could be lower risks than their credit score alone might suggest.**

In a fluctuating employment market, understanding someone's current job situation can be powerful for identifying worthy applicants previously invisible to lenders (when combined with affordability checks).



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As well as verified income, Work Report™ gives the **length of service** and the industry **sector** the applicant works in



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Longer service is predictive of a lower risk of default. Experian research found that **less than one-in-ten** (8.8%) applications from consumers with 'long tenure' produced bad loans



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Default risk also varies by employment sector. Experian research found that **one-in-five applications** from consumers in the 'high risk' SIC group defaulted on their credit commitments, compared to fewer than one-in-ten (7.8%) working in 'very low risk' groups

# Using employment data can surface swap sets



In the chart below, we see how an applicant with a **better credit score** (641-720) placed in the 'high risk' SIC group carries a greater degree of risk than the applicant with a worse score (481-640) in the 'very low risk' SIC group - 45.9% vs 44.2%.

Delphi Banking and Finance score band	SIC group risk category			
	Very low	Low	Medium	High
< 481	77.7%	86.8%	90.0%	92.4%
481 - 640	44.2%	55.9%	61.9%	
641 - 720	24.1%	36.8%	40.2%	45.9%
721 - 800	13.3%	21.2%	25.7%	28.0%
801 - 960	5.7%	9.1%	9.6%	13.6%
>=961	1.6%	2.3%	3.5%	4.7%

Having this data allows lenders to make better decisions than using a credit score alone:



For instance, someone with long service at an employer could be more likely to repay than someone in a higher credit-score band with shorter service



Likewise, someone in a low-risk employment sector can carry a better risk score than someone with a better credit score working in a higher risk sector



Therefore, lenders using employment data can take on more customers with thin-file or lower credit scores that would otherwise be deemed too risky



Being able to provide immediate evidence of an accurate and verifiable source of income could be enormously beneficial to those individuals employed on short term contracts or who have several, low paid jobs providing multiple sources of income which, when aggregated better demonstrates their affordability

# How Work Report™ compares with Open Banking and CATO

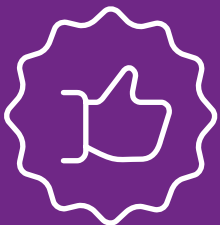


	Source	Income Data	Employment Data	Access
<b>Affordability IQ</b> Income verification	Monthly summarised UK current account	Estimates on total credits in a current account	N/A	Shared via Legitimate Interest
<b>Work Report™</b> Income & employment verification	Direct access via employer's HR payroll	Verified gross & net income. No expenditure	Employment inc. tenure and industry sector	Shared via consumer consent
<b>Open Banking</b> Income & expenditure verification	Direct access UK current accounts	Verified net regular, income & other income. Verified expenditure	Derived from bank transactions	Shared via consumer consent

Work Report™ is currently the UK's only solution providing instant access to verified gross income, employment tenure, employer name and industry sector.

It gathers these insights directly from the employer, rather than deriving them from bank transactions, and provides more employment data than traditional bureau affordability scores.

Work Report™ offers a lower-friction customer journey than Open Banking and can be combined with bureau affordability scores to increase lending volumes and make quicker, better decisions for consumers.



**“Very slick. A lot slicker than Open Banking. Really good”**

Tier 1 Bank

## How can Work Report™ be used?



### Mortgages

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Work Report™ is an alternative to Open Banking or manual methods of income verification, removing manual document collection and sourcing payroll data in seconds



### Originations

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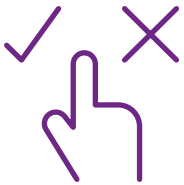
Employment data can supplement bureau data in affordability and creditworthiness checks and help lenders identify new borrowers



### Credit affordability checks

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Work Report™ can be used on top of CATO to increase volumes, without increasing risk, in less clear-cut affordability decisions



### Pre-qualification and auto-approval

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Employment data can complement bureau credit data to provide an affordability check during pre-qualification and auto-approval for credit online. It may be of particular relevance to aggregators where customers frequently provide estimates of their income



### Collections and debt management

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Employment data can provide value across the lending lifecycle. Lenders can use it to verify current income to help judge whether those in default are likely to be able to repay

To find out how verified employment data can help you contact us at  
**[business.uk@experian.com](mailto:business.uk@experian.com)**