

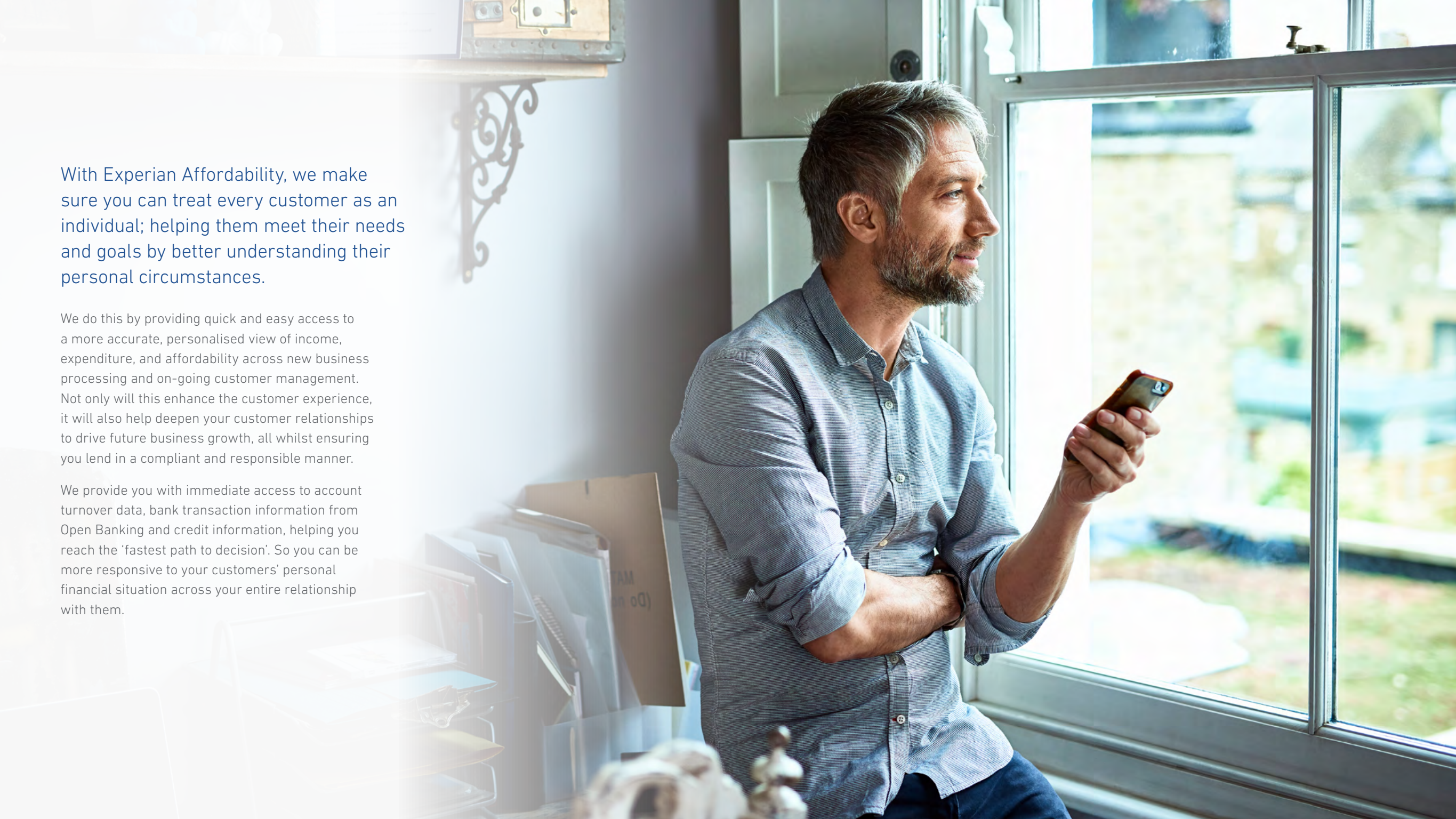


# Experian Affordability



Putting **the individual** at the heart of affordability



A man with a beard and short grey hair, wearing a light blue button-down shirt, is standing in a room and looking out a large window. He is holding a smartphone in his right hand. The room has a desk with a laptop and a printer in the foreground, and a window with a view of a residential area outside. The lighting is bright and natural, suggesting daytime.

With Experian Affordability, we make sure you can treat every customer as an individual; helping them meet their needs and goals by better understanding their personal circumstances.

We do this by providing quick and easy access to a more accurate, personalised view of income, expenditure, and affordability across new business processing and on-going customer management. Not only will this enhance the customer experience, it will also help deepen your customer relationships to drive future business growth, all whilst ensuring you lend in a compliant and responsible manner.

We provide you with immediate access to account turnover data, bank transaction information from Open Banking and credit information, helping you reach the 'fastest path to decision'. So you can be more responsive to your customers' personal financial situation across your entire relationship with them.





Creating value  
for you

We cut operational costs

50%

reduction in time taken to source credit scores, income, and expenditure data

- **Our bureau data can be used to confirm up to 80%** of incomes when income supplied by a consumer
- **Using our easy to interpret bureau indicators** could reduce the volume of customers going through manual review in an application by up to 30%. This allows more customer applications to be processed
- **We provide a single integrated solution** combining access credit, summarised current account data, and detailed bank transaction data via a single source
- **We provide complete data coverage** – 100% coverage of UK current accounts to source transaction data

We improve operational efficiencies

75%

improvement in underwriter productivity through automation

- **We provide instant connectivity to Open Banking data** without the hassle and cost of investing in your own platform – Experian's Open Banking Platform is fully integrated to access up to 12 months of bank transaction data for a customer
- **We optimise your insight** – 95% of transactions accurately categorised in under 1 second
- **FCA regulated and licensed access to Open Banking data** using Experian's Account Information Services Provider (AISP) accreditation. You can use the strength of Experian's brand to build trust with consumers, and encourage them to share their bank transaction data to make better informed decisions

We increase approvals

3% to 10%

improvement in acceptance rates

- **Flexibility within our Open Data Platform** design means you can use it for multiple use cases, reducing costs to deploy, providing a significant return on investment,
- **Advanced data science and analytics** that enable us to automate the interpretation of financial information, analyse behaviour, and inform intelligent decisions
- **Can integrate with existing Experian applications** such as our suite of ID verification tools to authenticate the source of an individual customer's data, and our automated decisioning software to maximise the value of our Open Data Platform

## How the market is changing

Until recently, many organisations have focused their attention on understanding the risk a customer may present to their business – their creditworthiness. In particular the chances of an individual defaulting on their repayments. Less attention has been paid to whether a customer can afford the cost of a loan – their affordability.

From now on organisations must consider a customer's capacity to afford a loan along with their willingness to pay. Only by taking account of an individual's credit worthiness and their affordability can a business accurately understand a consumer's financial well-being and ability to pay, now and in the future.

*"We want firms to make a reasonable assessment, not just of whether the customer will repay, but also of their ability to repay affordably and without this significantly affecting their wider financial situation. This should minimise the risk of financial distress to customers"*

PS18/19: Assessing creditworthiness in consumer credit: Policy statement published 30/07/2018

## The FCA is making changes to the rules for lending

The FCA is encouraging organisations to do more to protect customers, especially those who are high-risk or vulnerable. To do this there is a need to accurately assess affordability in relation to the product being offered and the individual's financial well-being. In some instances, the FCA would like more accurate checks to be put in place that go beyond simple income verification, for example using current account transaction data, to provide a more granular view of affordability over time.

The FCA is clear that it doesn't want to be too prescriptive. It wants lenders to look at every customer as an individual and make a 'reasonable assessment' of the costs and risks of credit for each of them. In this way, lenders should be able to grow their business responsibly. They'll be confident they're taking on customers that can afford the repayments but also making sure they're not declining applications unnecessarily; for example, turning down someone based solely on their salary or wages when they also have income from savings or from another person in the same household.

*"At the same time, we want to avoid being too prescriptive, as this could have harmful unintended consequences, including for the cost and availability of credit. We want firms to take a proportionate approach, taking-into-account the costs and risks of the credit for the individual customer."*







# 4.7million

*The number of people employed in the gig economy – doubling in the last three years*

Source: Ipsos Mori, June 2019

## Changing socio-economic landscape

The UK's changing socio-economic landscape is also blurring this challenge.

With the rise in flexible working, traditional affordability checks simply don't take-into-account the resulting variations in an individual's monthly income. A new way to look at affordability, over a longer period, and with ongoing insights into a customer's life changes, is needed to get a true sense of what's affordable.

## Customer Experience

Over the last few years, customers' expectations around experience have changed dramatically. Digitisation has changed the way we spend, save and borrow.

*For example, 40% want anytime mobile access to current accounts and credit cards respectively. More people are switching, and nearly every customer is seeking added value, whether it be from access to better product or services or understanding their eligibility for a service before they apply.*

The emphasis in all these trends is on timeliness, convenience, ease of access to services.

Customers want to be able to apply for credit quickly and get an instant decision, whether that be via their PC smartphone or tablet. Putting more steps into the process can often be enough to dissuade a customer from completing an application switching instead to another organisation that can make the decision they need faster.



## Responding to Covid-19

Covid-19 is rapidly changing the personal financial circumstances of millions of consumers. Making it difficult for organisations to quickly assess vulnerability and identify customers that need support now and throughout the crisis. Individual's are less likely to be able to afford services, and the number of vulnerable customers has increased. Customers who previously may have been able to afford a loan are finding their finances stretched.

The exposure this presents to organisations means that it is more important than ever before to ensure you have an accurate understanding of an individual's affordability.

As ever, it will be important for credit providers to assess affordability as part of the onboarding process. However, with the pressures of Covid-19 on consumers' incomes, it will be crucial to determine whether extending credit is affordable for the customer. To accurately make these

evaluations and inform better decisions, data will need to be gathered more frequently and at greater depth.

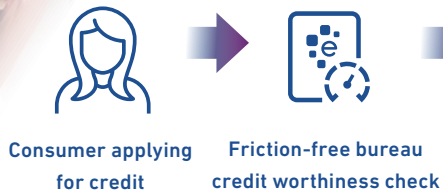
Newer, richer data will also help consumers understand not just what they're eligible for given their new circumstances, but also what's affordable. In turn, this will empower them with both choice and knowledge. It will enable them to access suitable products and prices, as well as building a better awareness of how new credit lines, or a product switch, will affect their overall financial health – which may well be changing week by week.

The continuous monitoring of affordability is critical not only to help identify stress, and therefore pre-delinquency, but also to protect vulnerable consumers and businesses. Being able to perform affordability checks 'in-life' will bring the value of foresight – something that's needed at speed, and scale – protecting you and your customers.

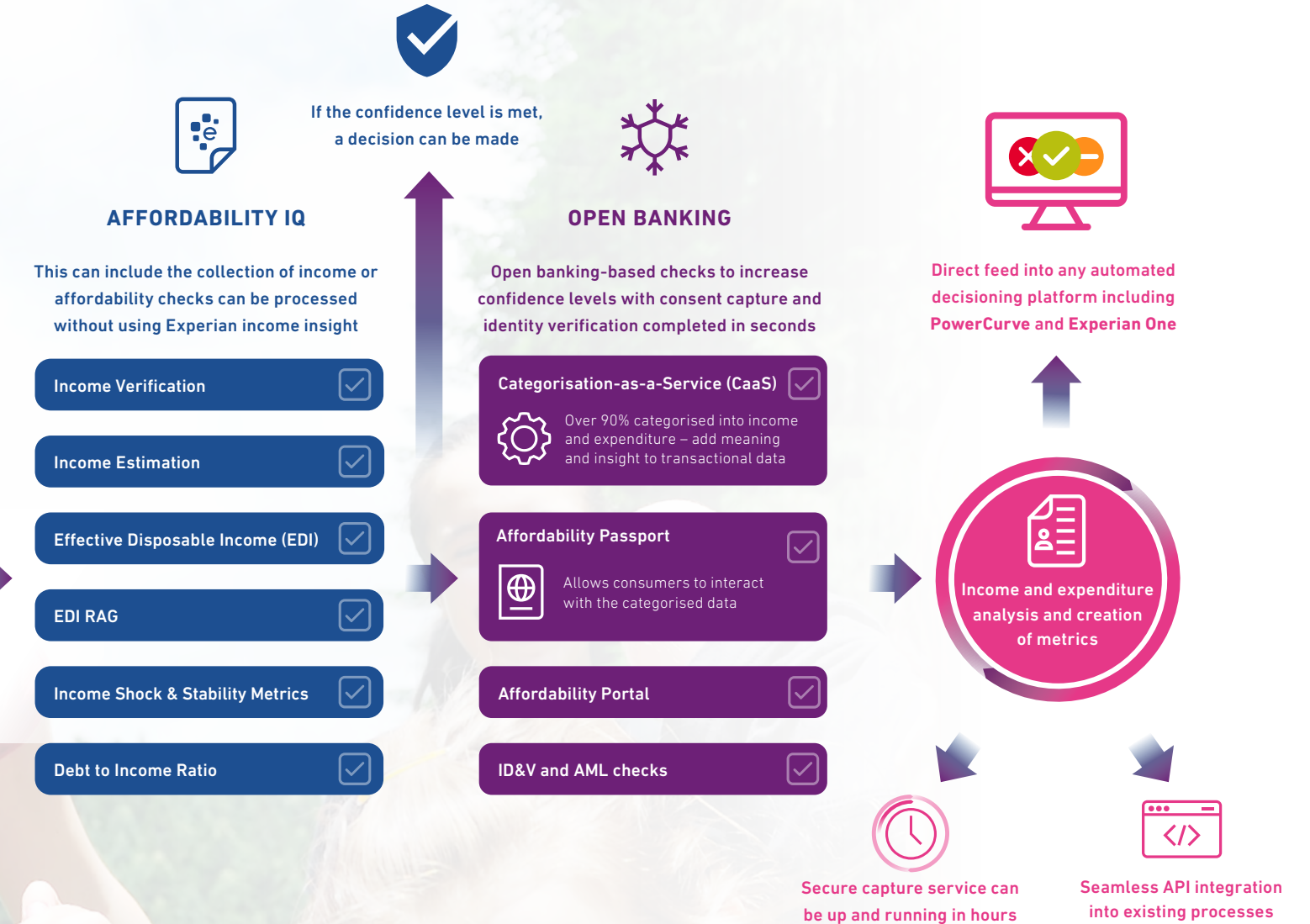
## An Affordability process to suit your business and your customers

We understand that every business is different. If your risk is relatively low, for example in retail lending, your priority is to make the application process as quick and seamless as possible, whilst meeting your compliance needs. If your risk is higher, for example mortgages or automotive finance, being able to access detailed information to properly understand your customers' affordability is key.

Experian Affordability gives you the flexibility to choose the right level of data to suit your business needs, together with detailed analytics to support your decision making.



## What Affordability data can we supply to you?





## Affordability IQ

**Affordability IQ** provides access to a range of data which can be used throughout your customer relationship, to personalise your understanding of their financial well-being, reduce risk and help to protect customers when accessing credit.

- **Income Estimation** - A friction-free way to quickly estimate an individual's income, frequently adopted where a customer is applying for credit and their income is not being captured. It ensures the application process is as streamlined as possible.
- **Income Verification** - A simple method of accurately verifying an income amount supplied by an individual in an application. It can be used for all forms of lending where customers are declaring their income amount and you need to check that its correct. It can be used to minimise fraud, as well as confirm credit terms.
- **Income Shock & Stability Metrics** - A check to see if current account turnover in the last 3 months is above or below a client's threshold. Useful for all types of credit products and for monitoring consumer behaviour, it is particularly relevant where an individual's employment results in monthly fluctuations to their income such as seasonal or contract work or during periods of economic instability.
- **Effective Disposable Income (EDI)** - Monthly estimates of a consumer or household's disposable income. When used together with a credit score, EDI can help you to automate credit applications for products such as mortgages, helping you to understand what income they have left after essential costs are taken into account for a Decision in Principle (DIP) or confirm the disposable income available for loan repayment.

- **EDI RAG** - A series of red, amber or green flags based on Current Account Turnover data (CATO) that highlight if the customer's Effective Disposable Income is enough to support the loan requested. This is a simple and effective method of assessing affordability when income is not verified or provided by a customer.
- **Debt to Income Ratios** - A measure of an individual's outstanding debt compared against their gross annual or net monthly income. It is commonly used as additional insight to understand an individual's ability to afford credit. It is also helpful if your organisation is looking to refine their credit policy rules.



80% 

Of incomes are verified automatically, saving time and money, and providing a more accurate view of what is affordable for customers, so you can treat them fairly and responsibly

## Open Banking Data

- **Affordability Passport** – A real-time, personal view of affordability that is based on an individual's income and expenditure data together with other credit information sourced from Open Banking and bureau data. Consumer identity is checked using bureau records, and we ensure they are the owner of the connected bank accounts. The solution can be used to support affordability processes where a detailed view of the consumers financial position is needed for high value lending and mortgages or for dealing with referrals where proof of income and expenditure is needed.

70% 

Of consumers on average agree to share their bank transaction data with Experian using our Open Banking service. The increased accuracy provided by this data has – in some instances – resulted in a **3-5% increase** in the number of customers accepted for credit.

## Analysing Open Banking data

Having access to Open Banking insight is one step in the journey. The ability to then analyse that insight is key to making fair and appropriate decisions.

- **Categorisation as a Service (CaaS®)** is our powerful, real-time analysis engine that looks through credit and bank transactions to identify and categorise income and expenditure all provided in an easy to use format. It is used to simplify the analysis of a customer's detailed financial behaviour to help to inform decisions that require the analysis of credit or bank transaction data including affordability.
- **Affordability Portal** is our hosted analytics dashboard that provides you with the summary analysis of a customer's credit, income and expenditure behaviour. The dashboard enables easy interpretation of a customer's financial behaviour including triggers and alerts that aid the analysis of transaction data.

**These services are delivered from our Open Data Platform using RESTful APIs or secure URLs making them simple and cost effective.**

75% 

Reduction in underwriter time in reviewing bank statements – for a mortgage provider processing 25,000 applications a year we can create a saving in FTE administration and processing costs of £6.5m p.a.



## With Experian Affordability, customers are individuals, not an average

Your customer's financial circumstances are as unique as they are. That's why our data is personalised to identify their individual financial well-being.

Experian Affordability gives you the insight about your customer's credit and affordability risk so you can make better informed decisions throughout your relationship with them.

It helps close the gap between customer experience and regulatory demands, providing businesses with an easier, more accurate way to source data and treat customers fairly and responsibly in proportion to their financial well-being without limiting an organisation's profitability.

## We improve customer experience, from on-boarding to ongoing management, to increase retention and grow revenue

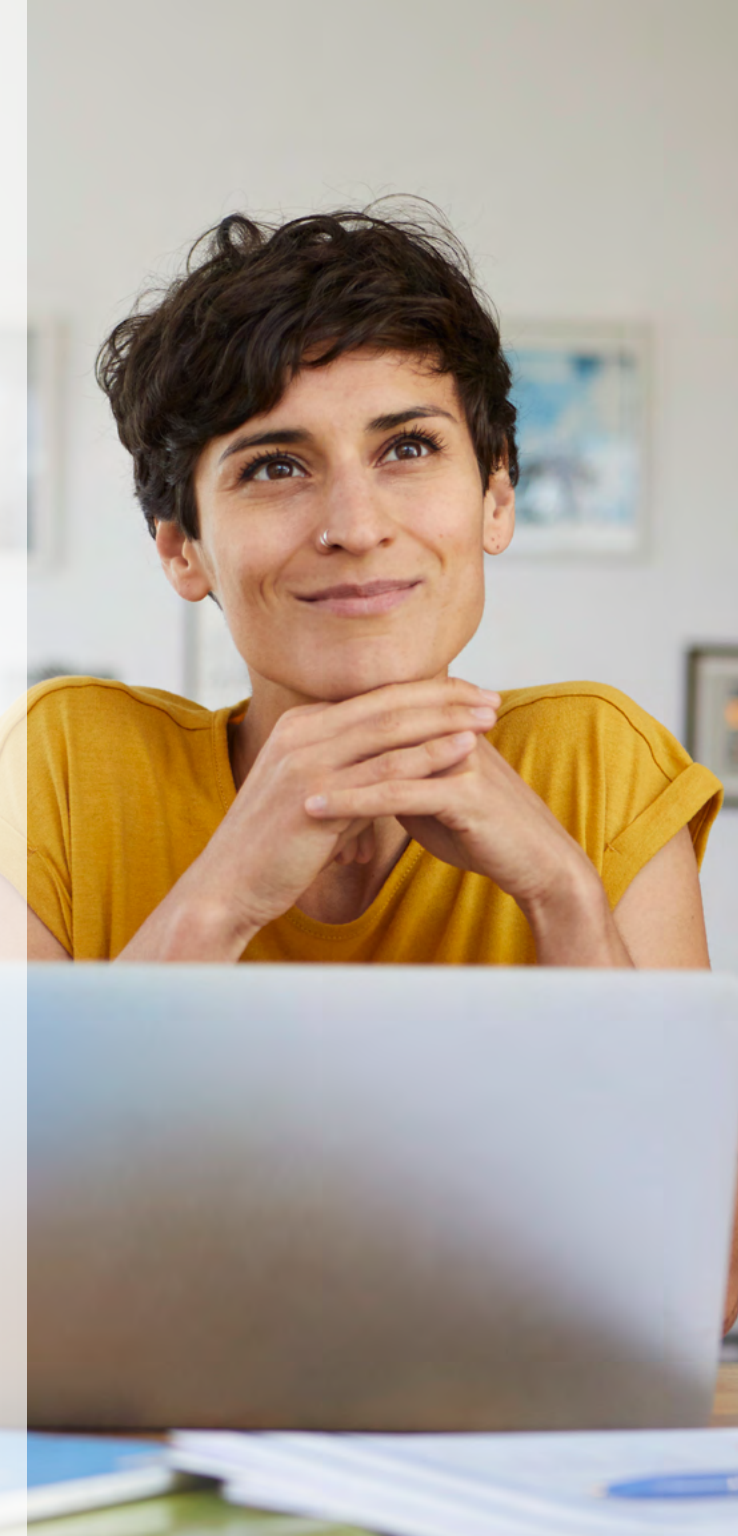
With access to personalised affordability insights, throughout the relationship with your customers, you can deliver a better experience and retain their business for longer.

You can reduce friction in the application and on-boarding process and make sure the right product is sold at the right time to the right persons, based on their true affordability.

Experian Affordability also helps improve how you manage customers over time by offering additional credit when they can afford more. Or, in the case of delinquency, re-assessing their situation to see how much they have spare each month to pay off the debt without having to borrow further.

## Benefits

- **Improve customer experience** by removing friction – making sure they complete their application with you rather than switch to a competitor
- **Deliver personalised solutions** to meet their changing expectations and encourage repeat business
- **Create loyalty** by treating customers as individuals and building trust over time as their circumstances change
- **Increase revenue** by being able to help more people/offer more services responsibly
- **Focus your time and efforts** on the most profitable customers, e.g. those with low risk but high demand for your product or service



# Affordability in Action

## Motor finance provider improves affordability decisions by automating income verification

### Challenge

This lender's target is to triple the value of its loan book over the next 3 years. However, their existing process for understanding affordability was inefficient and time consuming, often involving a manual review of income and expenditure.

To address this they invested in a new application processing system to automate decisions using a credit scorecard and bespoke lending policies. This has meant they can automatically approve loans for credit-worthy customers, whilst an underwriter can focus their efforts on higher risk customers whose applications require greater scrutiny.

The company wanted to improve the accuracy of data used to inform their decisions and meet regulatory requirements.

### Solution

After an exhaustive review of the market, they chose Experian's Effective Disposable Income (EDI RAG) solution. Used in association with a credit score, EDI RAG enables them to accurately estimate the amount of money a consumer can afford to lend. EDI RAG uses Experian's summarised current account turnover data, to automatically confirm if the customer can afford the monthly repayments on the loan. Information is returned as a simple RED (not affordable), AMBER (affordable), GREEN (easily affordable) flag that is relayed to their decisioning system to inform the underwriter and process the application.

An application can be processed in seconds. It's quick and easy to deploy and provides them with a more accurate understanding of a customer's affordability aligned to their credit risk policies. This reduces risk to the lender, whilst ensuring customers are treated fairly and responsibly and given access to loans they can afford.



### Value for the company

- 30% more customers could be automatically accepted  +30%
- Underwriting time has been reduced from 30 minutes to 30 seconds, dramatically improving customer experience and reducing time to confirm a loan   
30 mins  
30 secs
- The volume of automated acceptances gives underwriters more time to focus on applications that require greater scrutiny. This means that the total number of applications being processed has increased by more than 50% from 50 a month, to over 120
- The adoption of EDI RAG has enabled them to meet its growth targets, to meet its regulatory requirements, and ensure consumers are offered credit that they can afford



# Affordability in Action

## An award winning Building Society uses Open Banking to reduce costs to serve and streamline mortgage application

### Challenge

The current mortgage application process with the Society takes approximately 10 days from initial application to offer. This involves a manual exchange of paper-based information which is time consuming, laborious and frustrating as the Society seeks to get an accurate assessment of customer's affordability, and consumers strive to obtain the mortgage they require.

The Society acknowledged that if it was to continue to drive growth in its mortgage book it would have to invest in technology to create digitally engaging and a more joined-up process for assessing mortgage applications.

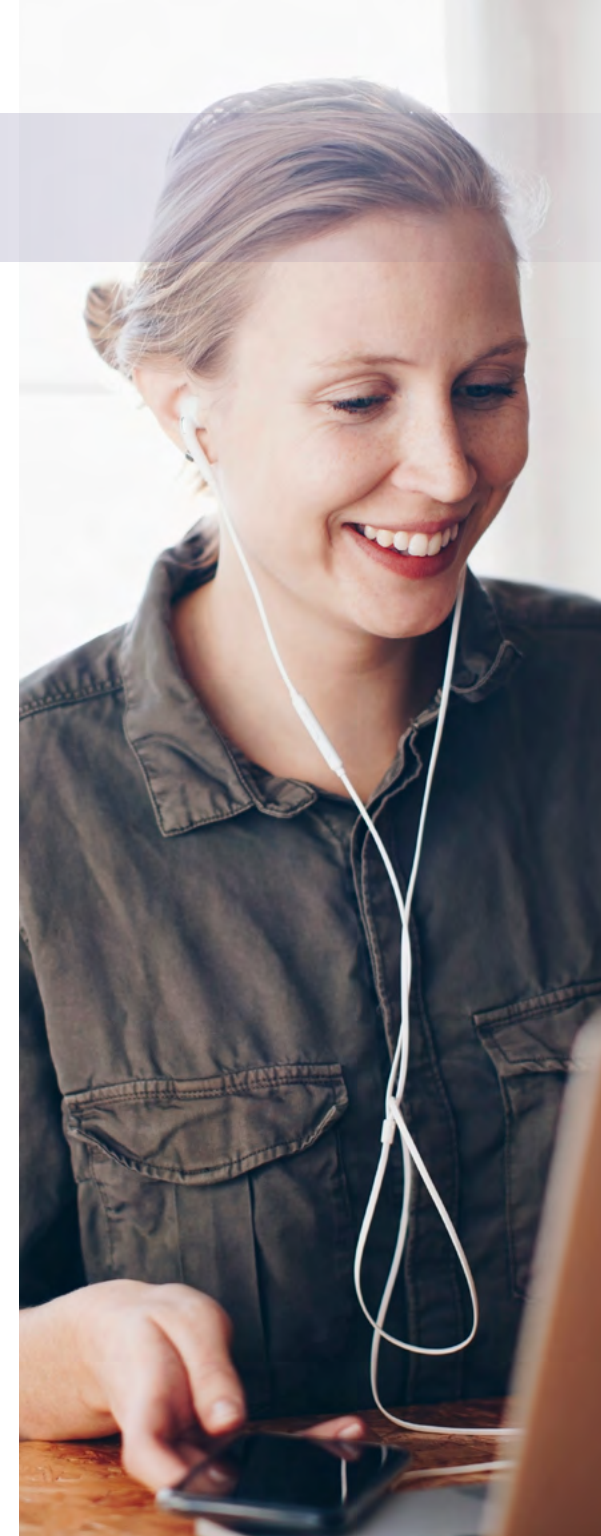
The objective was to make it easier and simpler for consumers to share their personal financial information with the Society so that it could make quicker and more informed decisions, increase the volume of customer's it can push through an application, whilst reducing costs the serve them.

### Solution

They chose to pilot Experian's Open Banking service. The service enables them to partner with Experian to access an individual's current account information – with a customer's consent – directly from the bank account. The Society then uses this to confirm an individual's income and expenditure.

It utilises Experian's Open Banking service which captures the customer's consent to share their bank statement data in real-time using the Open Banking APIs provided by UK banks. Data is categorised in seconds using Experian's automated categorisation engine and presented to an underwriter via a simple, easy-to-use dashboard that helps interpretation of the customer's transaction data.

The service was deployed through a series of secure urls – one to initiate the customer journey to share their bank statement data, and another that notifies them when the customer's statement data has been captured and is ready for review to inform the lending decision.



This removed the need for costly IT integration and meant that they could focus on positioning the benefits of the service to customers, and on understanding the value that Open Banking can provide to enhancing the customer experience and underwriting.

The service was launched in association with a new portal that allows existing customers to carry out an execution-only product switch. The upgrade gives borrowers a smoother and simpler log-in process, a clearer user interface and the ability to quickly and easily compare mortgage products.

### Value for the Building Society

Implementation of Experian's Open Banking service has reduced the time taken to process an application by over 50% to less than 5 days, enabling quicker decisions and a more streamlined customer experience.

Over half of consumer's who are given the opportunity to share their data automatically with the Society do so through the Open Banking service, with statement data being shared securely in minutes and presented to an underwriter for review and analysis.

Open Banking has also helped the Society's Credit Management team, allowing staff to make better informed decisions, including whether to allow payment holidays, reduced payments and mortgage arrears for customers. These decisions can now be made with greater accuracy with more accurate and comprehensive data.

Since its introduction, 75% of all applications using Open Banking have been offered within 5 working days with positive customer feedback about the ease of use and the intuitive customer friendly approach to sharing their personal information.

*"Our objective is to invest in technology to underpin its growth and create a digitally joined up process. We're focusing on how we get business in faster and process it behind the scenes more quickly. We're looking at which areas of the back end of the journey could be made faster by digitally joining up the credit checks,*

*ID verification, house valuation and conveyancing. We're really pleased with both the response rate and the impact Experian's Open Banking has had on our service and are exploring our next steps to expand our Open Banking usage to benefit a wider range of customers."*

**Head of Mortgage Products**

To see how Experian can help your company to put the individual at the heart of your affordability decisions contact us at [business.uk@experian.com](mailto:business.uk@experian.com)



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