How lenders can gain a competitive advantage using Open Banking via intermediaries

Survey Report 2023

In Association with

Gaining a competitive advantage

We are pleased to bring you this report exploring how Open Banking is being used in the intermediary market, based on the findings of a new survey, with key industry players also lending their insights.

Mike Coley,
Product Director
Equifax

Our joint survey asked the ecosystem for views on how financial services companies are using brokers, intermediaries and aggregator partners, and whether Open Banking will be an essential part of affordability decisions in the next five years.

The cost-of-living crisis is leaving many UK households feeling the squeeze. Consumers face the prospect of significantly higher mortgage and living expenses and with inflation remaining high, many are concerned about facing increased levels of debt.

If ever there was a time for Open Banking to become a key part of the broker journey, it's now.

94%

Believe Open Banking could provide improvements in the intermediary market?

Increasingly, brokers and intermediaries are the first stop for consumers applying for credit, so use of Open Banking in the broker journey is vital as adoption grows.

The perfect storm for Open Banking?

Increased financial pressures on households mean that Open Banking data is increasingly likely to become an essential part of lenders' decision-making.

Access to more granular transaction data via Open Banking data helps lenders build up a more informed picture of their borrowers, particularly those with 'thin' credit files. In turn, this enables them to make faster and more accurate lending decisions.

So it stands to reason that lenders which feature on broker panels are likely to miss opportunities if they are not ready to use Open Banking insights.

Credit history

Consumers who could benefit most from sharing their Open Banking data with lenders are those with little or no credit history.

"By combining credit and Open Banking data, lenders can improve the predictive power of their credit scores by as much as 20%."

Equifax Research

This applies to younger generations applying for credit for the first time, as well as people who are new to the country, and older generations who use credit infrequently.

In the past, the lack of credit information could mean these groups may have either been declined for a loan or offered the highest annual percentage rates (APRs) by lenders.

Meanwhile, those with a history of credit problems and debt, but who are now able to demonstrate more financial stability, are also likely to be beneficiaries of Open Banking.

The broker journey

Brokers are beginning to embrace the use of Open Banking data and Equifax have seen significant growth.

There is evidence – which our research revealed in this report backs up – that the majority of new credit applications start with a broker, intermediary partner, aggregator or lending platform.

This could put lenders using Open Banking through intermediaries at an advantage over those who choose not to use this data source, backed up by this new research.

Once the consumer selects their chosen lender, they are transferred to their lender's platform, where all the data already captured by the broker or intermediary is used to make the remainder of the customer journey simple to complete.

Everyone stands to benefit: the broker, the borrower and the lender.

We invite you to read on to find out more about the results of our research and additional insights from key industry players and executives from Equifax.

95%

think Open Banking will be an essential part of affordability decisions in the next 5 years

The Importance of an Open Banking First Approach

Abound believe embedding open banking at the front of the customer journey via intermediaries enables them to offer consumers much more competitive annual percentage rates.

Gerald Chapell
CEO & Co-Founder
Abound

There are millions of people across the UK who are, in effect, unfairly barred from affordable borrowing. People who are creditworthy, and responsible financially, yet are unable to access low-cost personal loans, either because there's something wrong with their credit score or they simply haven't got a credit history.

These are Britain's 'credit invisible' who we founded Abound to help.

Our hypothesis was, if we could analyse customers' bank transaction data via Open Banking, we'd be able to truly understand each person's unique financial situation. This would allow us to identify a significant proportion of near prime customers that had prime characteristics.

Open Banking data gives us the profit and loss (P&L) and cash flow of a customer and the credit bureau data gives us the balance sheet. When you combine those two things together, you get a massive uplift in credit differentiation, which makes our business model viable.

"25% of the time we are the only offer presented to customers via our largest aggregator partner and 50% of the time, we are the cheapest offer presented."

We're working to make sure these benefits, driven by our innovations, are widely accessible across the sector to improve borrowing for as many people as possible.

The majority of our loan applications come through intermediaries, so working with them to embed Open Banking into their journeys is vital. With the ongoing cost-of-living crisis affecting us all, it's more important than ever to truly understand each applicant in order to make responsible lending decisions. Open Banking allows us to do exactly that.

Access to this data at the initial quote stage, allows us to make less risky decisions. By reducing our risk, we're able to offer more competitive rates to potential customers. The initial signs are promising. If you look at our largest aggregator partner, we find that about 25% of the time we are the only offer presented to customers and actually about 50% of the time, we are the cheapest offer that's presented.

We start by using the Open Banking data to identify people with good financial behaviour before layering on credit reference agency (CRA) data, where it's available, to see if there are any additional risk factors. This allows us to expand the pool of people we can lend to. It also allows us to make more responsible decisions by identifying things like excess gambling, or recent high cost loans not visible on credit files.

For every one customer that we would reject because of adverse Open Banking information, there's six or seven customers that we wouldn't have been able to accept without that information.

We're only just starting to see the power of Open Banking, and we're excited to see how its increased adoption by consumers and intermediaries benefits customers in the long run.

Marketplace is Open to Sharing

ClearScore believes that more data helps users and lenders make better decisions, and for the last two years we've been working on helping both sides of our credit marketplace.

Matt Fenby-Taylor
Chief Product Officer
ClearScore

What we discovered was that users are open to sharing their data but only if there is a meaningful value exchange. This is crucial to drive a willingness to share into a reality. The launch of a number of ClearScore Open Finance propositions, such as ClearSaver and Affordability Score, help users see a greater range of products, secure lower interest rates and increase certainty through pre-approved rates. These propositions have exceeded our expectations in terms of both sign-ups and re-authorisation at the end of the 90-day consent window. As a result, 1.5 million people have shared their transaction data with us using Open Banking.

Want Someone To Trade?

You'd better have something good to offer in return. People want concrete benefits such as saving money, a greater range of products and a simplified application process if they are to share their financial data, and this could apply to all branches of the financial industry. If you offer something worthwhile, users are happy to do so.

Our research and results tell us that people are more likely to share their financial data with third parties, such as ourselves, than mortgage providers, loan providers, banks and insurance companies. The question of trust is a key driver of propensity to share data with a particular brand. It stands to reason that if you do not have a brand that is renowned for putting customers first, you'll struggle to get traction. We've seen this not just in Open Finance, but also with other user data such as telematics in our DriveScore product.

We have, therefore, identified two broad opportunity spaces for lenders based on the Open Finance ecosystem.

The first is for lenders to adapt their lending to incorporate Open Banking data, either to expand their footprint at their current risk levels, or to reduce risk within their current footprint. We've worked with multiple lenders and there's no doubt that Open Finance data is a risk-splitter.

"People want concrete benefits such as saving money, a greater range of products and a simplified application process."

The second opportunity is to use data in the application journey (for example by verifying income, affordability or identity) to improve conversion and reduce processing costs. This offers users a smoother checkout if they share their data before continuing their lender application journey.

The combination of a compelling value proposition, robust perceptions of trust and security, plus a delightful user experience will help unlock real value from Open Finance for both providers and users.

Growth of Open Banking in the Intermediary Market

Equifax has seen 300% growth in the use of Open Banking in the UK, largely down to adoption via intermediaries and a simplified data sharing process.

Carl Riches
Product Sales Director
Equifax

At least three-quarters of new credit applications originate via an intermediary partner for the majority of the lenders surveyed in this paper. We've seen significant growth of Open Banking across a number of use cases, in particular, an increased volume of traffic originating from lending platforms and aggregators.

From a consumer experience perspective, it's much better to share transaction data up front with an intermediary and have that data cascaded to several potential lenders than provide consent to multiple parties individually.

At Equifax we've made it easy for brokers, aggregators and lenders alike to gather, share and ingest transaction data insights sourced from consumers. We migrated our Open Banking platform to scalable, always-on cloud technology in Q3 2022 and both our Token and Raw Data solutions allow bank transaction insights to be shared seamlessly between all connected parties at speed.

How does it work?

At a high level, a customer consents to share their bank account(s) with multiple panel lenders via an intermediary platform.

Once data is collected, the intermediary can either query Equifax to generate a unique token ID specific to each consumer or share raw transaction data directly onwards to the lenders on its panel.

Lenders simply query that data upon receipt into our APIs to generate the value-added insights they need to make a real-time decision. Our clients receive data in the format they need it, either fully categorised bank transactions or transaction data insights, such as verified customer income, affordability, alerts or risk indices.

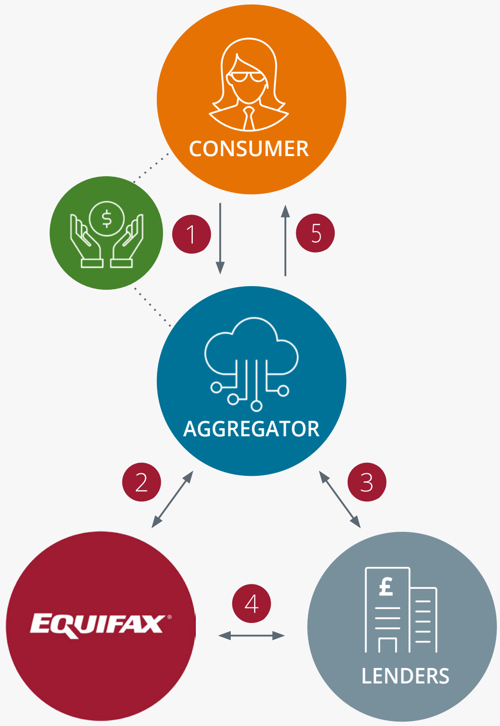
As intermediary adoption continues to grow into 2023, we're working pro-actively in the intermediary space to build out new integrations. We believe the mass-market adoption of Open Banking will be powered by innovative solutions like this within the intermediary market.

As the market continues to mature, lenders, intermediaries and, most importantly, the customer will all stand to benefit.

How equifax simplified the Open Banking journey via intermediaries

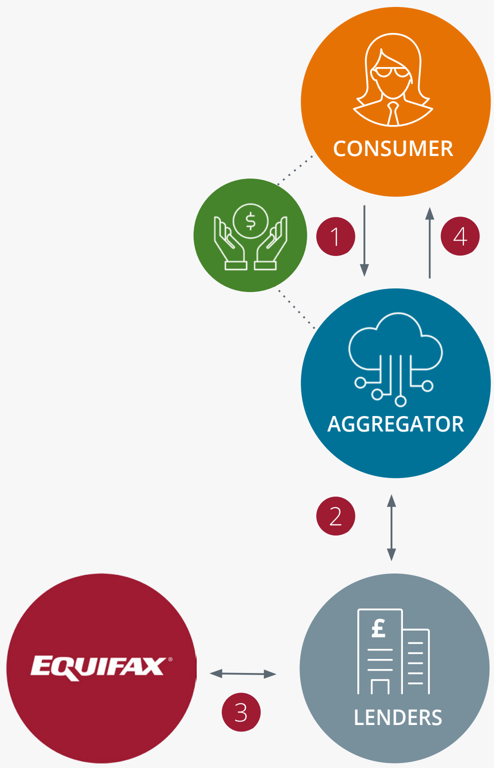
Token Journey

1. Consumer shares bank account data
2. Aggregator queries our API to generate unique token ID
3. Unique token ID shared with lender(s) as part of an eligibility search
4. Lender queries unique token ID via the Equifax API to enhance their decision
5. Consumer receives better offer vs. bureau data alone



Raw Data Journey

1. Consumer shares bank account data
2. Raw transaction data shared with lender(s) as part of an eligibility search
3. Lender queries Raw data via the Equifax API to enhance their decision
4. Consumer receives better offer vs. bureau data alone



What Customers Want Most Is Simplicity and Certainty

Oakbrook were the first UK lender to combine Open Banking with bureau and application data as part of a seamless customer journey which starts with the aggregator.

Luke Enock
CEO
Oakbrook Finance

Traditionally a consumer starting an application for a loan or credit card on a price comparison site would complete a range of questions to help identify them and work out what level of credit they can afford. They're then presented with a range of offers.

The thing customers want most in this journey is simplification and certainty of the offer. They'll base their decision on the APR terms they're offered and how likely they are to be accepted. Customers expect a relatively seamless journey as they leave the price comparison site and are directed to the lenders site and the offer they were presented with follows through.

At this point it doesn't make sense for the lender to implement an Open Banking journey, as once you've seen the Open Banking data, there may be a whole host of reasons why you would then decline the customer and this potentially conflicts with what the consumer is expecting.

So there's an obvious barrier that Open Banking presents from a consumer perspective, unless this is presented at the start of the customer journey.

For Oakbrook, a significant number of our credit applications start with an intermediary, so getting this journey right for the lender, consumer and the aggregator is important to us.

In partnership with Equifax, we've been at the forefront of creating a seamless journey which allows the consumer to share their transaction data via Open Banking just once, at the point of application on their chosen aggregator site. And this partnership was recognised at the 2022 Credit Awards winning the 'Excellence in Open Banking' award.

We're proud to have been the first UK lender to combine Open Banking with bureau and application data as part of a seamless customer journey which starts with the aggregator capturing consent.

This enabled us to return a decision within 10 seconds, having computed all application information to give a personalised, pre-approved decision.

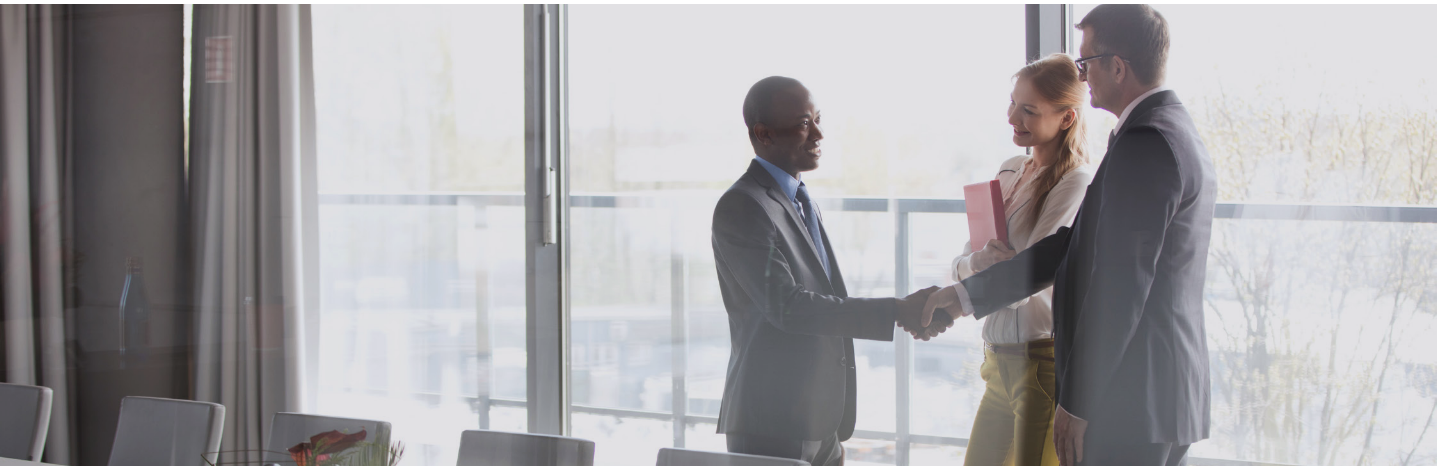
Using Open Banking data has enabled us to transform the lending journey, including offering to applicants that were previously declined and creating a slick customer journey.

"We've been able to return a lending decision within 10 seconds having computed all application information to give a personalised, pre-approved decision via our largest aggregator partner."

Access to Open Banking has offered us a number of key benefits:

- More competitive APR pricing
- Pre-approve more customers
- Lend responsibly to underserved customer segments
- Reduce delinquency rates.

For me, the game changer is giving consumers the simplification and certainty they want, whilst making sure the Open Banking data has been taken into consideration in your lending decision.



The Future of Open Banking in the Commercial Market

Small and mid-sized companies represent 90% of businesses and more than 50% of employment worldwide. The World Bank estimates "600 million jobs will be needed by 2030 to absorb the growing global workforce".

Simon Cureton
CEO
Funding Options

Yet a funding gap exists globally. In the UK alone, this was estimated to be £56 billion. 40% of formal, micro, small and medium enterprises (SMEs) in developing countries have an unmet financing need, according to the International Finance Corporation (IFC).

So, the problem is not in the numbers. Demand exists. Alternative lending has provided choice and Open Banking has given commercial lenders greater visibility of the state of SMEs' finances. However, with the cheapest credit lines not universally available, business confidence has been severely dented.

Open Banking remains integral to the provision of a workable solution in the broker and intermediary market as accessing capital needs to be as frictionless as possible. Helping to solve funding concerns for SME owners will in turn reduce anxiety and help to maintain a healthy small business community.

Funding Options sees £1 billion of demand for business finance from SMEs every month and, last year alone, facilitated close to £140 million of funding for more than 1,600 customers.

> *"Open Banking remains integral to the provision of a workable solution in the broker and intermediary market."*

As the largest business finance marketplace, we have recognised that auto-decisioning, made possible by Open Banking and AI, supported by third-party verification (AML - anti-money laundering; KYC - know your customer) is required globally to ensure the ready flow of capital from proactive lenders into deserving businesses.

Data-driven decision making and the removal of manual intervention and human bias will lead to fair and fast delivery of vital – but ultimately commodifiable – funding to SMEs. Open Banking is a critical part of the innovative infrastructure required to access multi-lender applications, end-to-end application visibility and see automatic client referrals happen in an archaic sector. Streamlining the end-to-end process, while equipping intermediaries with the ability to create additional revenue channels, will ultimately benefit SMEs, which has to remain the mission.

Katrin Herrling
CEO & Co-Founder
Funding Xchange

As a lending platform, Funding Xchange works with many lenders. We need to have the capability of sharing Open Banking data that customers bring to us in a safe, secure way with our lenders.

By using the broker tokens that Equifax provides, we can ingest the data and then pass it on to our funders in the right way.

Demonstrating that we're authorised to hold this data and pass it on, certain that the data gets to the right lender in a safe and secure way.

For our customers, it works because Equifax is building a journey for our customers that is as simple and easy for them to provide the permissions necessary as possible.

> *By using the Equifax tokens, we can ingest the data and pass it on to our funders in a format that suits them.*

What the Research Reveals

The results of this Open Banking Expo survey, conducted in association with Equifax, shed more light on the relationship between lenders and brokers when it comes to using Open Banking data to offer credit to consumers.

Ellie Duncan, *Head of Editorial & Broadcast****, Open Banking Expo***

It's a part of the market where, we believe, there is an enormous opportunity to capitalise on Open Banking data, but one that is very much unexplored.

During an Open Banking Expo live panel debate with Equifax in May this year, titled 'Is broker integration the next big opportunity in Open Banking?', Equifax described brokers as "the facilitators" who are able to "unlock the door for consumers" to engage with the credit process.

To find out if that was true, we kicked off the survey by asking respondents about the proportion of new credit applications that begin with a broker, intermediary partner, aggregator or lending platform.

We found that 90% of those who responded said the majority of their new credit applications start with an intermediary partner. A resounding 94% of those surveyed believe Open Banking could provide improvements in the intermediary market.

We followed this up by asking, if an existing intermediary partner implemented an Open Banking journey, whether the lender would want to use the data as part of their scorecard assessment, as long as it could be shared seamlessly. It was unsurprising – given the answers to the previous question – that 78% answered 'yes', while 16% remained 'undecided'.

Perhaps those who have not yet decided are yet to be convinced of the advantages to be gained from doing so.

After all, when we posed the question, 'how much advantage do you believe lenders that use Open Banking through intermediaries will have over those who choose not to use this data source?', 35% believe only "a little". However, the majority – at 59% – believes this puts lenders at "a great advantage".

When asked about how lenders think their organisation could benefit from using Open Banking data shared via their intermediary partner, the recurring themes were competitiveness, speed and accuracy, and regulation.

a resounding

94%

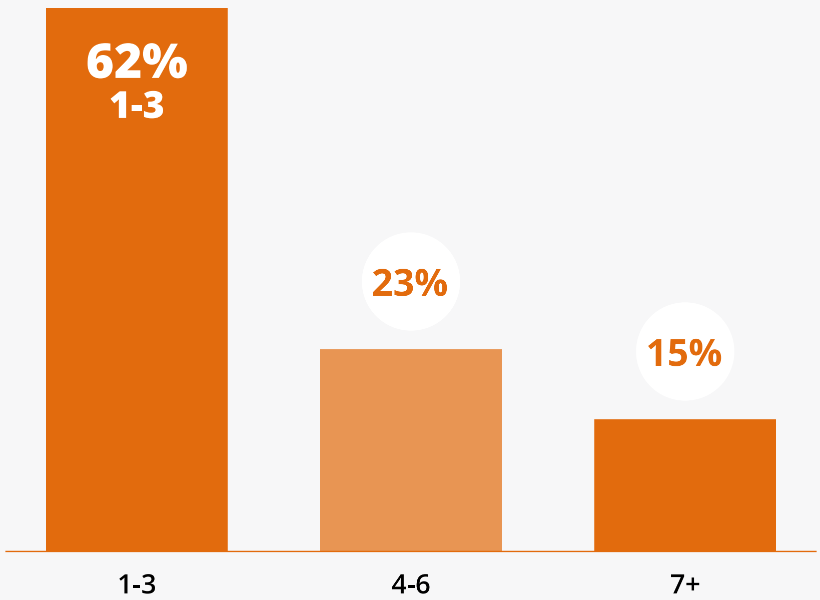
of those surveyed believe Open Banking could provide improvements in the intermediary market.

Notably, the largest percentage, at 63%, reasoned that it would help pre-approve more customers, while 60% of respondents suggested it could help lenders provide competitive annual percentage rate (APR) pricing. Improving the accuracy of lending decisions was top of mind for 59%, compared to only 37% who believe the data could be used to better serve underserved customer segments.

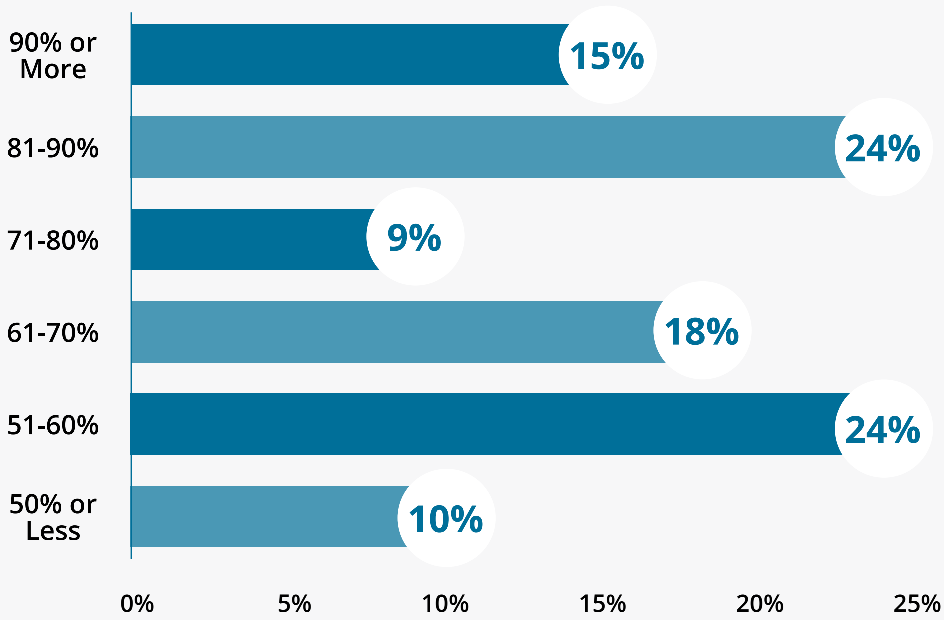
Read on to find out more about the key findings and how the research was conducted.

Survey Results

Q1 How many intermediaries do you currently partner with as a source of credit applications?

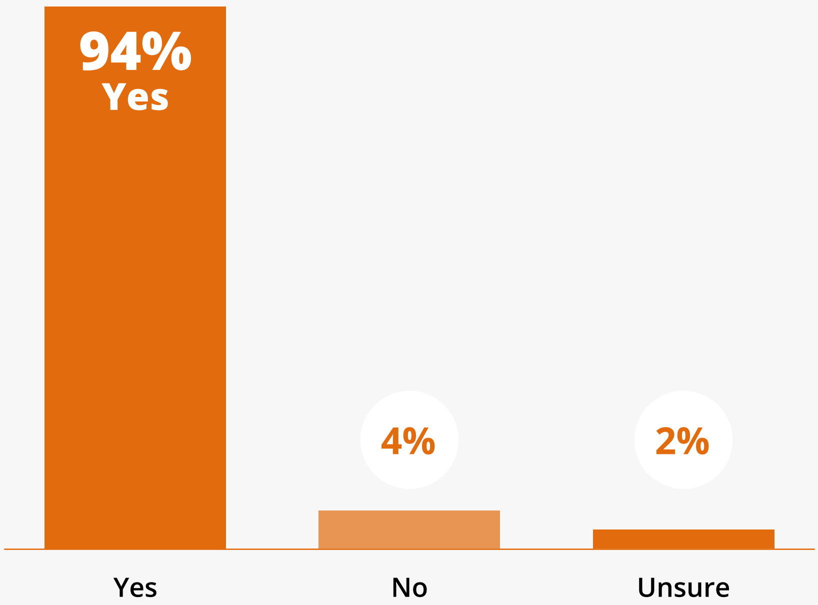


Q2 What proportion of your new credit applications start with a broker, intermediary partner, aggregator or lending platform?

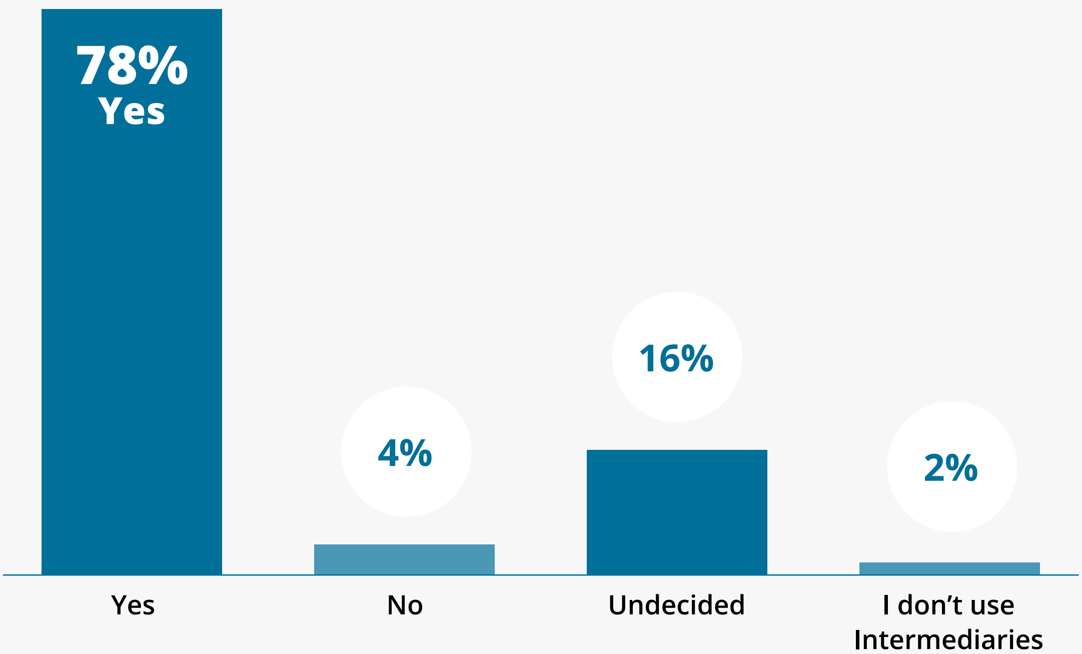


Survey Results

Q3 Do you believe Open Banking could provide improvements in the intermediary market?

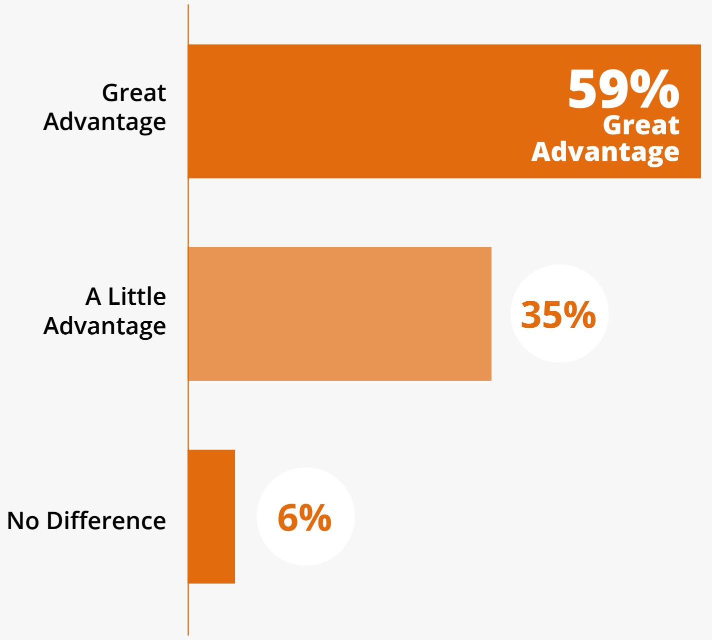


Q4 If your existing intermediary partner(s) implemented an Open Banking journey, would you want to use the data as part of your scorecard assessment if it could be shared seamlessly with you?

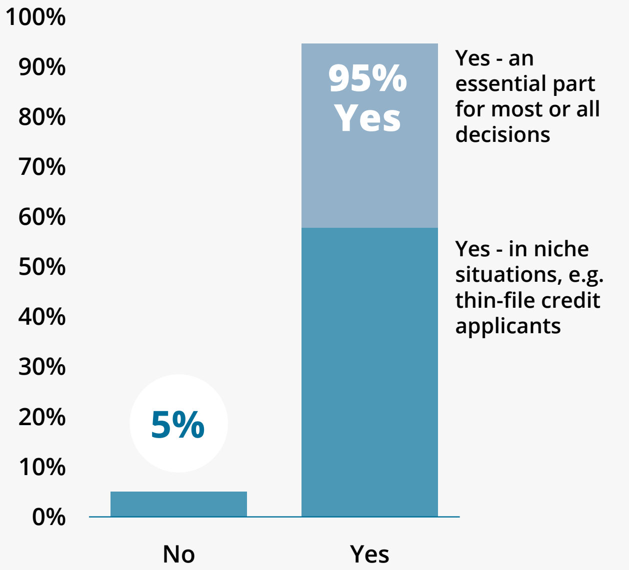


Survey Results

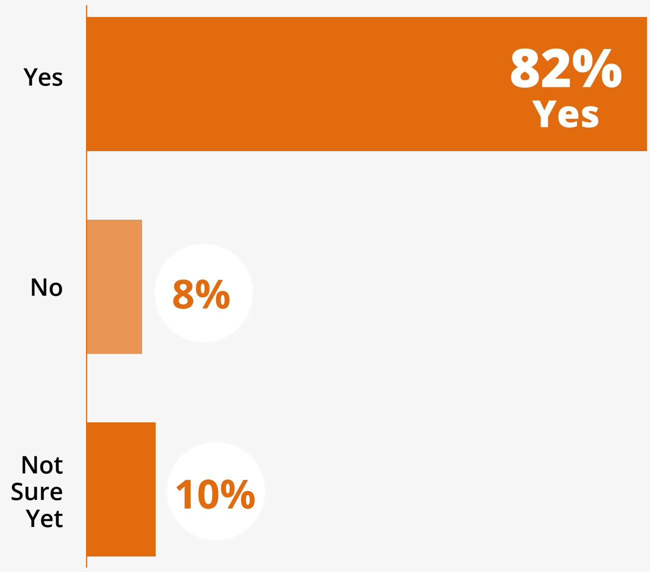
Q5 How much advantage do you believe lenders that use Open Banking through intermediaries will have over those who choose not to use this data source?



Q6 Do you think Open Banking will be an essential part of affordability decisions in the next 5 years?



Q7 Are you planning to enhance your existing affordability assessments as part of your plans to be 'Consumer Duty ready' in 2023?



Survey Results

Q8 How do you think your Organisation could benefit by using Open Banking data shared via your intermediary partner?

60%
Help you provide competitive APR pricing

63%
Help You Pre-Approve More Customers

54%
Affordability assessments, in line with FCA regulations

38%
ID verification

59%
Improve decision accuracy

37%
Better serve underserved customer segments

5%
I'm not sure of the benefits

2%
Other

Discover more about Equifax Open Banking solutions

Contact us or visit our website for more information
www.equifax.co.uk/openbanking

Contact Us

Research carried out for Equifax by Open Banking Expo was conducted between 14 July and 5 September 2022. Total sample represents 127 senior decision makers from UK financial services companies.