

OPEN
BANKING
EXPO

HOW OPEN BANKING IS TRANSFORMING LENDING AND CREDIT RISK

SURVEY REPORT 2023

IN ASSOCIATION WITH

EQUIFAX[®]

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INTRODUCTION



Ellie Duncan
Head of Editorial &
Broadcast
Open Banking Expo

OPEN BANKING EXPO AND EQUIFAX ARE PLEASED TO BRING YOU THIS REPORT, WHICH TAKES A DEEPER DIVE INTO HOW OPEN BANKING JOURNEYS ARE BEING IMPLEMENTED IN THE LENDING AND CREDIT RISK MARKETS, AND PRESENT THE FINDINGS OF A NEW JOINT SURVEY.

“With living costs on the rise, accurately assessing whether credit is affordable is more difficult than ever.”

66%

OF RESPONDENTS SAID THEIR ORGANISATION INTENDS TO IMPLEMENT A NEW OPEN BANKING JOURNEY WITHIN THE NEXT 12 TO 18 MONTHS.

Our survey helped us discover how financial services organisations are planning to use Open Banking and we captured industry views on the benefits and challenges of implementing a new Open Banking journey, as well as the issues organisations are dealing with in assessing affordability.

We last took the temperature of the lending market and its approach to using Open Banking data back in 2021, as the UK was beginning to emerge from the worst of the pandemic. Since then, the industry has certainly changed – the UK’s Open Banking ecosystem has matured and adoption among SMEs and consumers has grown.

Yet, the wider economic environment has become somewhat more turbulent and uncertain.

Lenders and borrowers face headwinds, such as higher rates of inflation and a rapid rise in interest rates. With living costs on the rise, accurately assessing whether credit is affordable is more important than ever.

With Open Banking data at lenders’ fingertips, that is not necessarily the case. Lenders can draw on a mix of complementary datasets – both traditional and alternative – to inform their decision making.

The Financial Conduct Authority’s new Consumer Duty regulations will

require firms to demonstrate they are “delivering good customer outcomes and protecting consumers from harm”, according to Sheldon Mills, executive director, consumers and competition. It’s likely Open Banking could help organisations achieve this.

Our survey found that 66% of respondents said their organisation intends to implement a new Open Banking journey within the next 12 to 18 months. There are myriad reasons lenders should be considering the use of Open Banking-enabled data in their customer journeys, as explored in this report.

We invite you to read on to find out more about the results of our research and hear from Equifax executives in a series of articles. Additional insights are provided by key industry players, including Emma Steeley, Chief Executive Officer of Aro, Mike Roberts, Head of Credit Risk Unsecured Lending at HSBC and Evolution Money’s Chief Digital Officer Matt Meecham.

We hope you find the report as informative and insightful as it was to research and write. ■



OPEN BANKING – A GROWING PART OF THE DATA MIX

OUR JOINT SURVEY HELPED SHED LIGHT ON THE PLANS OF FINANCIAL SERVICES ORGANISATIONS TO LEVERAGE OPEN BANKING AND THE BENEFITS THEY ANTICIPATE, WHILE ALSO UNCOVERING THE CHALLENGES THEY FACE IN IMPLEMENTING NEW OPEN BANKING JOURNEYS.



Mike Coley
Product Director
Equifax

It's clear as its value becomes increasingly recognised, that Open Banking data is becoming an integral part of the data mix, complementing traditional credit bureau data and other data sources.

Significant growth

Here at Equifax, we've seen significant growth – our Open Banking API calls are up 500% since 2020 as we support an increasing number of clients from a variety of sectors.

We're also seeing the adoption curve accelerating among the consumer market as bigger players in the credit broking and intermediary space adopt Open Banking technology. Around a third of Equifax monthly Open Banking API volume is now coming from brokers and intermediaries.

This is largely due to the majority of consumer traffic coming from these platforms. But, also, from a consumer user experience point of view, it's better to do one Open Banking share upfront for multiple potential lenders, rather than having to authenticate multiple times.

We've already written a separate whitepaper on this topic, which can be downloaded [here](#).

Affordability remains the key focus

The overwhelming consensus points to affordability as the key focus, given the impending regulatory changes. With Open Banking's ability to offer real-time insights and comprehensive financial data, lenders can provide more inclusive access to credit, promote responsible lending, and ultimately deliver improved customer outcomes.

“Given income is only one half of the affordability story, shouldn't the same apply to expenditure too?”

As in 2021, the most popular use case in terms of commercial impact was still 'More accurate lending decisions through improved credit risk and affordability assessments'. A third of respondents to our survey cited the rising cost of living as the key challenge they face, while more than a quarter told us that accurately defining discretionary or essential expenditure was an issue too.

There's significant reliance on a customer's self-declaration to assess expenditure, but I suspect this is likely to be used in combination with other data sets in most cases.

Companies relying solely on self-declaration have to accept there will be discrepancies. The rising cost of living is making this even more difficult for both consumers and lenders alike.





In their CONC rules, the FCA states "it's not generally sufficient to rely solely on a statement of current income made by the customer without independent evidence". Given income is only one half of the affordability story, shouldn't the same apply to expenditure too?

This would enable organisations to confirm the accuracy of what a customer has declared and compare automatically through transaction data.

Regulatory impact

The businesses we speak to every day are looking to digitise all their processes – not just from an improved performance or risk mitigation perspective, but increasingly from a regulatory perspective too.

The Financial Conduct Authority's Consumer Duty regulations have placed a spotlight on the significance of Open Banking in achieving higher standards of consumer protection. Organisations are eagerly adopting Open Banking to meet the Consumer Duty requirements and build trust

with customers through increased transparency and accountability.

You can read more about this in the article from Emma Steeley, chief executive officer of Aro on page 10.

Importance of categorisation accuracy

Data categorisation accuracy emerged as a top priority for financial services organisations when choosing an Open Banking solutions provider. Ensuring precise categorisation enables lenders to make well-informed credit risk decisions, reducing the risk of misrepresenting customer circumstances.

You can read more about this in the article from Equifax's Carl Riches on page 8.

Getting ahead of the curve

It's clear there's been significant progress in how Open Banking data is being used.

On page 11 of this report, Equifax's Brad Davies talks about the key innovations coming up, while we hear from both HSBC and Evolution Money

on pages 13–14 and 23–24 with real-life examples of how Open Banking is reshaping how lenders are evaluating creditworthiness and verifying applicants' financial situations.

Credit providers like these are ahead of the curve having harnessed real-time Open Banking for a more accurate view of affordability – allowing them to continue to lend when it was needed most and then to assist with debt management.

Moreover, many clients have implemented Open Banking to improve customer journeys, with call times cut by half, and to reduce internal operations costs.

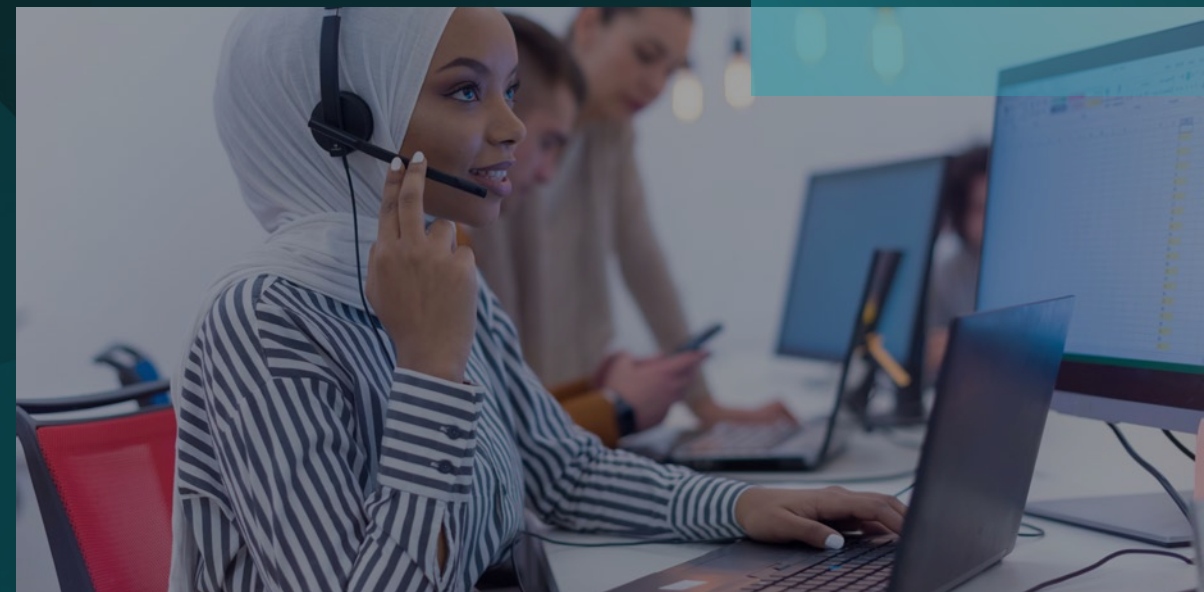
Those that aren't already planning to implement Open Banking are at risk of lagging behind. Whether that be struggling to support existing customers, missing a large portion of the market with 'thin files', or the costs of lengthy ID verification processes.

I hope you enjoy reading insights and articles we've published in this report, which highlights how Open

Banking is driving financial inclusion, improving affordability assessments, and delivering better outcomes for customers.

Feel free to get in touch with the [Equifax Open Banking team](#) if you'd like to find out more. ■

"Many clients have implemented Open Banking to improve customer journeys, with call times cut by half, and to reduce internal operations costs."



WHY AFFORDABILITY, SQUEEZED FINANCES AND CONSUMER DUTY ALL POINT TO INCREASED USE OF OPEN BANKING DATA

Ellie Duncan, Head of Editorial & Broadcast, [Open Banking Expo](#)

OPEN BANKING DATA IS BEING WIDELY USED TO MAKE LENDING AND CREDIT DECISIONS IN THE UK, AS LENDERS AND BANKS HAVE COME TO RECOGNISE ITS VALUE.

Other data sources remain relevant and part of the mix, including credit bureau data and official figures from the Office for National Statistics (ONS). However, Open Banking's ability to offer real-time insights and up-to-the-minute information about individuals' spending, income, transactions and borrowing is making it an increasingly important part of the data mix.

At the same time, the macroeconomic environment in the UK has grown to be challenging – both for lenders and borrowers.

Over the past 12 to 18 months, the Bank of England has attempted to quash higher inflation which, at one point, topped 10%, by raising interest rates.

Despite its efforts, consumers are paying more for goods and services, while small and medium-sized businesses (SMEs) are struggling to stay afloat, having been continually squeezed by increasing costs.

Easing financial pressure

In such an environment, individuals' and SMEs' financial circumstances can change rapidly and abruptly, leaving them in economic hardship.

It stands to reason, households and businesses seek to use credit to plug financial gaps.

Data from [Equifax's Financial Health Report 2023](#) shows that UK households took on an extra £72 billion of personal debt in 2022. The report also predicts that household

disposable income will continue falling in 2023, and that consumers will switch to cheaper products to manage their outgoings, while drawing from their savings and using credit to make ends meet.

In May, this was borne out in figures released by the Bank of England, which revealed bank and building society customers withdrew £4.6 billion more than they paid in, during the month.

So, how can lenders accurately assess affordability against this backdrop?

This is where Open Banking comes in.

The financial services industry is rapidly adopting Open Banking and

75%

OF APPLICANTS ARE NOW MORE LIKELY TO CHOOSE OPEN BANKING OVER TRADITIONAL, AND TYPICALLY MANUAL, METHODS TO SHARE ADDITIONAL DATA FOR AFFORDABILITY.¹

this is expanding out to include the mortgage, auto and business lending markets, too.

There are now 6.5 million Open Banking users across the UK and Equifax lender data also reveals that 75% of applicants are now more likely to choose Open Banking over traditional, and typically manual, methods to share additional data for affordability.

Informing credit risk decisions

Lenders are using Open Banking to improve their ability to approve customers who would traditionally have been considered thin file or credit invisible, and therefore, expand access to affordable loans/credit.

This was the topic of discussion during an Open Banking Expo and Equifax Live Panel Debate, involving speakers from Abound and Evolution Money, as well as Equifax.



¹ Source: Equifax 2021 tier 1 banking client



68%

OF OUR WEBINAR AUDIENCE TOLD US THEY BELIEVED OPEN BANKING COULD PROVIDE THE HIGHER STANDARD OF CARE THE FCA ARE LOOKING FOR IN THE CONSUMER DUTY REGULATIONS



Michelle He, co-founder and chief operating officer at Abound said: "People with thin or no credit files are unable to borrow at good rates. There are millions of people in the UK with a thin file. We, at Abound, took an Open Banking-first approach to our underwriting.

"We focus on how much the customers can afford, as opposed to only looking at their credit score."

Evolution Money's chief digital officer Matt Meecham noted that Open Banking has been "integral in helping us assess creditworthiness and helping us make better informed credit risk decisions".

"My focus, as chief digital officer, is to get customers to provide Open Banking data as early on as possible in that journey, which assists with our decisioning logic," Meecham added.

He also emphasised that Open Banking is not only limited to customers with thin or impaired credit files.

"It actually helps our decisioning logic and affordability assessments for customers with strong credit profiles as well," said Meecham.

Consumer Duty

The UK's regulator has said: "The Consumer Duty will set higher and clearer standards of consumer protection across financial services and require firms to act to deliver good outcomes for customers."

Sheldon Mills, executive director of consumers and competition at the FCA, has previously said that the Duty will "bring about a step change in the way financial services firms treat their customers".

Last year, in an Open Banking Expo and Equifax Live Panel Debate, 68% of our webinar audience told us they believed Open Banking could provide the higher standard of care the FCA are looking for in the Consumer Duty regulations².

It seems that respondents to our latest survey agree. When asked

"Figures released by the Bank of England revealed bank and building society customers withdrew £4.6 billion more than they paid in, during May."

which new Open Banking use case organisations are most interested in implementing in the next 12 to 18 months, 12% chose 'helping to make my business Consumer Duty ready'.

What's next for Open Banking use cases?

Beyond helping lenders to improve the accuracy of their credit decisions, there are many more use cases emerging. Using Open Banking in consumer collections and recoveries looks set to be a priority for lenders in the coming months, while Open Banking to inform identity verification is likely to also be a key use case, particularly amid increasingly sophisticated scams and fraud in the UK.

It seems clear that the more challenging economic environment and new regulatory reforms are making the use of Open Banking an increasingly valuable source of data for lenders. ■

THE IMPORTANCE OF CATEGORISATION ACCURACY

CATEGORISATION ACCURACY IS THE MOST IMPORTANT FACTOR WHEN CHOOSING AN OPEN BANKING SOLUTIONS PROVIDER, ACCORDING TO OUR INDUSTRY SURVEY.



Carl Riches
Open Banking Sales Director
Equifax

"They want to be able to say 'yes' to more people with confidence, who are no more likely to default than the wider population of applicants."

This isn't a surprise, most of our clients adopting Open Banking operate in highly-regulated environments where consumer outcomes are heavily scrutinised.

Open Banking is a great way to uncover a wealth of consumer insight, but in its native raw format it's really hard to work with.

I think it's fair to say that many companies have struggled to get on top of the categorisation accuracy challenge with AI alone. We are fortunate that the business we acquired, AccountScore, started building out a rules-based approach to categorisation using screen scraping several years before Open Banking arrived.

In addition to accurately categorised data, our clients also need trended,

time series attributes and consumer insights to drive automated decision strategies. Our mature, rules based engine is explainable and accurate, and when our clients run head-to-head evaluations of our service, they tend to find they prefer our approach as it gives them more granularity and greater confidence in the overall solution.

Categorisation accuracy enables accurate decisions. Our clients want to say 'yes' to more people with confidence, to people with good affordability and who are no more likely to default than the wider population of applicants. Inaccurate decisions caused by categorisation inaccuracy can hit their bottom line. That's why we monitor the performance of our categorisation, which currently sits at 97% accuracy.



Just like the FCA expects, our clients want to help consumers achieve their financial objectives. Using Open Banking to do so is great, but that's only possible when the insights used to make decisions are accurate. ■



It's not just his first car. It's the road to freedom

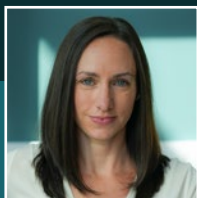
For the consumer, a new car is so much more than just four wheels that gets them from A to B. That's why Equifax helps businesses use Open Banking data to gain a better understanding of a customer's current financial circumstances, so they can make more informed decisions about what's affordable.

Discover how Equifax can help use Open Banking to make better decisions equifax.co.uk/openbanking.

A world beyond yes and no.



CONSUMER DUTY: ACCELERATING OPEN BANKING FOR FINANCIAL INCLUSION AND IMPROVED CUSTOMER OUTCOMES



Emma Steeley
Chief Executive Officer
Aro

Open Banking has revolutionised the financial services industry by granting customers greater control over their financial data and fostering competition among service providers. Consumer Duty regulation aims to enhance consumer protection and drive better outcomes for customers. This article explores how the Consumer Duty regulation will act as a catalyst for lenders to adopt Open Banking, leading to increased financial inclusion, improved affordability assessments, and ultimately, more favourable outcomes for customers.

Traditionally, lenders have relied purely on credit bureau data when assessing an individual's creditworthiness and affordability. This approach often led to a significant number of rejections for applicants, particularly those who lacked an extensive credit history or faced unique financial circumstances. Open Banking has the potential to transform this status quo by allowing lenders to access real-time, comprehensive financial data directly from customers' bank accounts.

The Consumer Duty regulation places a fundamental requirement

on delivering the best outcomes for customers. By adopting Open Banking, lenders can gain access to a broader range of customer data, allowing them to assess creditworthiness and affordability more accurately. This increased visibility into customers' financial situations enables lenders to offer products and services to a wider pool of individuals who may have been previously underserved or excluded from the traditional credit system. As a result, Open Banking has the potential to empower marginalised communities and contribute to a more inclusive financial landscape.

Real-time insights

One of the key opportunities for lenders is to monitor customers' affordability throughout the lifecycle of their loans via recurring access to the data. Open Banking facilitates this process by providing real-time insights into customers' income, expenditure, and financial commitments. Lenders can utilise this data to conduct comprehensive affordability assessments, ensuring that customers are not overburdened with debt and can sustain their loan repayments. By actively monitoring affordability,

lenders can reduce the risk of irresponsible lending practices, fostering greater financial stability for customers.

The integration of Open Banking into lenders' processes can deliver substantial benefits for customers. By leveraging real-time financial data, lenders can provide personalised and tailored products that align with customers' specific needs and circumstances. This shift from a one-size-fits-all approach to a more individualised lending experience enables customers to access credit on fair and transparent terms. Furthermore, the utilisation of Open Banking data allows lenders to offer more accurate pricing, taking into account a customer's actual financial situation. This ultimately leads to improved outcomes for customers, fostering greater trust and satisfaction in the lending process.

Instilling confidence in lenders

Implementation of Open Banking into organisations requires industry-wide collaboration and cooperation among regulators, lenders, and technology providers. Regulatory frameworks provide

clear guidelines and standards for data sharing, encouraging innovation while ensuring customer protection. Moreover, lenders must invest in the necessary infrastructure and technology to securely handle and ingest vast amounts of data efficiently and most importantly, have the confidence to use the data to say 'yes' more of the time to deliver financial inclusion. Currently, most lenders who are using the data in some way are using it to say 'no' to customers.

The Financial Conduct Authority's Consumer Duty represents an opportunity to reshape the lending landscape by encouraging the adoption of Open Banking. By leveraging real-time financial data, lenders can enhance financial inclusion, monitor customers' affordability, and deliver better outcomes for customers. This shift away from a restrictive and limited approach to credit assessments will empower individuals who were previously excluded from the financial system, promote responsible lending practices, and foster a more equitable and customer-centric lending environment. ■

WHICH OPEN BANKING INNOVATIONS ARE LIKELY TO ADD MOST VALUE?



Brad Davies
Open Banking
Product Manager
Equifax

I head up the product side for Open Banking at Equifax and I'm at the forefront of identifying the new innovations coming down the line.

For me, the best innovations are those which enable consumers to seamlessly maximise the benefits of using their bank account data, and often they're the simplest ideas too.

For instance, we've been working with utility and telecoms clients to help them automate how they assess eligibility for reduced bills. Ensuring they're able to help low-income households access cheaper deals from their service providers. All based on simple income verification.

Innovations which combine data sets are likely to offer the most value.

Lenders already use a combination of different data sets to assess customer affordability, and working out which data to use and where Open Banking fits into this mix can be difficult. This is why we created Individual Affordability, to combine datasets to help lenders make faster and more accurate lending decisions.

Innovation is often just a case of coming up with new and exciting straightforward ways to use the data.

For example, we've been developing ways to simplify customer onboarding across a number of different sectors. Our new Apply+ solution uses Open Banking as an authentication method, using the extensive range of current account data Equifax holds to allow somebody to open an account within a matter of seconds without having to enter pages and pages of personal details, such as names, addresses, and dates of birth.

Any innovation which helps identify those who could be financially vulnerable is likely to be top of the agenda for most organisations, to ensure they're able to offer the

right support for customers during difficult circumstances.

We've been working on a solution which will help firms to flag vulnerability, as well as partnering with third parties to offer additional support to customers through periods of vulnerability, to try and stop them from experiencing further financial difficulty, or even prevent them from hitting it in the first place.

Opening up access to credit is going to remain the number one use case for a while. There are lots of people who still can't get access to credit but should, so the thin file angle will continue to be important from an Account Information Service Provider (AISP) point of view.

There's been significant innovation on the payment side too, with Variable Recurring Payments now in use. Meanwhile, HMRC has done a great job in implementing a seamless payments journey using Open Banking.

In the next few years that's going to start taking off, so when I go to a restaurant I'll be able to scan the QR code on a table and pay by Open Banking. ■



“Innovation is often just a case of coming up with new and exciting straightforward ways to use the data.”

Open Banking with Equifax

Our suite of Open Banking solutions convert consented transaction data into actionable insights to help you make better customer decisions



Affordability assessment

Providing a more detailed and insightful view of your customers' finances enables more accurate affordability decisions



Credit risk decisioning

Combining bank account insights with bureau data to improve your credit risk scorecard effectiveness by up to 20%*



Income verification

Allows creditors to quickly and accurately get bank evidenced verification of a consumers salary and other regular monthly income



Collections management

Improve and automate the way you assess income and expenditure to create better customer outcomes



ID Verification

Enables organisations to perform an anti-impersonation check and help to authenticate the consumer's identity

Contact us to arrange a demo and discover how Open Banking can work for you:
equifax.co.uk/openbanking

EQUIFAX[®]

*Source: Equifax 2022. Based on our own analysis comparing how a combination of Financial Health Index and Equifax's RN4 score performs against using CRA data alone on a thin file sample (based on an improvement in gini coefficient).

Q&A:

MIKE ROBERTS, HEAD OF CREDIT RISK UNSECURED LENDING AT HSBC



Mike Roberts
Head of Credit Risk
Unsecured Lending
HSBC

Q.

Can you explain your role at HSBC?

I am currently the head of unsecured credit risk, responsible for the management of credit risk across all unsecured products i.e. cards, current accounts and loans. This role involves ensuring our credit risk policy and strategies deliver good outcomes for our customers and that our products provide sustainable and safe lending within HSBC UK's risk appetite.

To achieve this, it's essential we use all our available data to assess a customer's affordability before lending. We use traditional forms of information, such as credit bureau information, internal bank account data, but we also use enhanced affordability data derived internally or externally to make our decisions.

Q.

In the current environment, what are the main barriers consumers face when applying for credit, typically?

There are two main barriers:

1. The rising cost of living and base rate rises mean the level of affordability of a customer reduces and they will find it more challenging to access credit, as lenders have a responsibility to ensure their customers can afford to repay the loans they are providing for a given period. Are they making sure they adjust their expenditure to take account of these future risks to afford the lending we're being asked to provide to them?
2. Balancing the expectation of a customer in terms of speed of decision versus providing sufficient information in their credit and affordability profile to support the lending. This is where automated sources of data, such as credit bureau and Open Banking, start to become essential, alongside the ability to develop and operate sophisticated models that assess and control both credit and affordability risk. The ability to do that is because of developments in our modelling processes. We're using techniques, like

Machine Learning, and we also have the computational ability to use transactional data.

Q.

How are you using Open Banking data at HSBC to more accurately assess affordability?

Due to the wealth of information we already have on our existing customers at HSBC, Open Banking is used in a limited way to complement this information. Alongside credit bureau information, it is currently used in two areas:

1. To support underwriters in verifying income as part of lending applications.
2. And to support operational processes within collections, to help customers with budget planning.

Where Open Banking will add value is around the margins. Further areas are under consideration to support niche areas of lending where our existing data sources are not sufficient, but this work is being prioritised for the future.





Q. What are the biggest challenges in implementing Open Banking data in an organisation such as yours? And how have you overcome these?

The challenges are the same as those experienced by many companies and include:

1. Integrating Open Banking seamlessly into, or alongside, your existing journeys and in a way that minimises friction, so that customers are more likely to take advantage of the benefits of Open Banking.
2. For an existing bank to ask one of their customers to connect to another bank for information has not yet been normalised, so it is something we need to work on with our customers.

As a result of these two points, it then comes down to prioritising use of our existing data and the improvements that can provide, versus the benefits of implementing Open Banking.



Q. Our survey shows there are still organisations relying on self-declared customer information and solely on credit bureau data to make lending decisions. However, use of Open Banking data is also growing – so, what does this mean for the future of lending in the UK?

I think where existing customer information, combined with credit information, is available and sufficient for approving lending, then this will continue, as it does satisfy lending needs for the majority of the UK.

Where Open Banking and integrating other data sources, such as student loans, will help is around the margins, where a more

detailed assessment is required. Those customers entering the credit market for the first time, such as young people who don't have an established credit file, is where Open Banking may be an advantage. This is where new-to-bank lenders will start to develop the process as their needs and business model will require it to succeed, and to make robust credit and affordability decisions.

Added data elements can be used in a positive way. We have the data, we just need to be able to pull it in and use it. ■

“Those customers entering the credit market for the first time, such as young people who don't have an established credit file, is where Open Banking may be an advantage.”

WHAT THE RESEARCH REVEALS

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

THE RESULTS OF THIS OPEN BANKING EXPO SURVEY, CONDUCTED IN ASSOCIATION WITH EQUIFAX, REVEAL THE MAIN OPEN BANKING USE CASES AMONG UK LENDERS, AGAINST A BACKDROP OF RISING LIVING COSTS FOR CONSUMERS AND SMES, ALIKE.

The findings also paint a picture of organisations' relationships with their current Open Banking providers, the challenges they face in implementing Open Banking data, and where they see the biggest benefits for their business in the adoption of Open Banking.

A clear majority, at 71% of respondents, said their organisation has already adopted Open Banking, and 66% intend to implement a new Open Banking journey within the next 12 to 18 months.

Two use cases stand out among those lenders already using Open Banking: payment initiation and more accurate consumer lending decisions. Not far behind, at 24%, are organisations that are using Open Banking to improve estimation or verification of consumer income.

These use cases are hardly surprising, given that 33% of those surveyed cited the increasing cost of living as one of the main obstacles they face in assessing affordability within their organisation. This was followed by 27% who identified 'accurately defining discretionary or essential expenditure' as a hurdle.

The results reveal that Open Banking data is one of several data sources being used by organisations to assess expenditure, alongside more traditional data such as credit bureau and ONS datasets.

"Two use cases stand out among those lenders already using Open Banking: payment initiation and more accurate consumer lending decisions."

A CLEAR MAJORITY 71%

OF RESPONDENTS, SAID THEIR ORGANISATION HAS ALREADY ADOPTED OPEN BANKING

Of greatest concern is continued reliance on customers' self-declared expenditure, which is likely to be inaccurate.

Fortunately, the survey also indicated that the majority of respondents, at 85%, believe Open Banking will provide a more accurate view of expenditure than ONS, MIS and self-declared data alone.

The survey provides insight into why some organisations are still reluctant to implement their own Open Banking journey – half of respondents cited the difficulty in integrating Open Banking with legacy or existing systems, and 43% remain concerned about subsequent customer adoption levels.

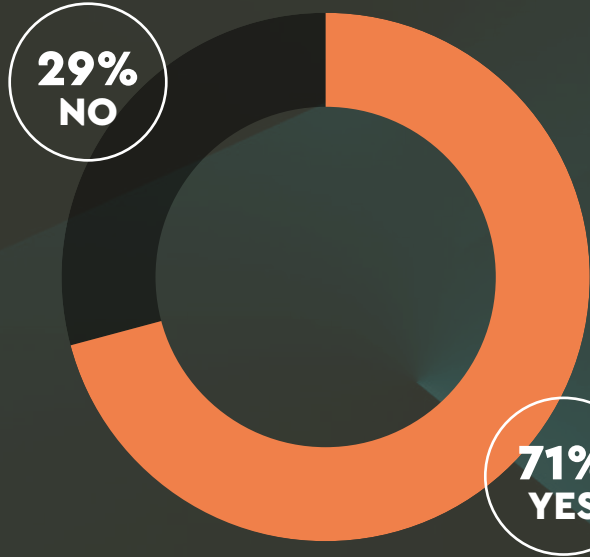
The Open Banking ecosystem has some more work to do in portraying the myriad benefits to lenders and their customers.

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

SURVEY RESULTS

Q1

HAS YOUR ORGANISATION ALREADY ADOPTED OPEN BANKING?



Q2

IF YOU'RE ALREADY USING OPEN BANKING, WHICH USE CASE(S) MOST CLOSELY FITS HOW YOU'RE CURRENTLY USING IT WITHIN YOUR ORGANISATION?

LISTED IN ORDER OF RANKING (BASED ON COMMERCIAL IMPACT)

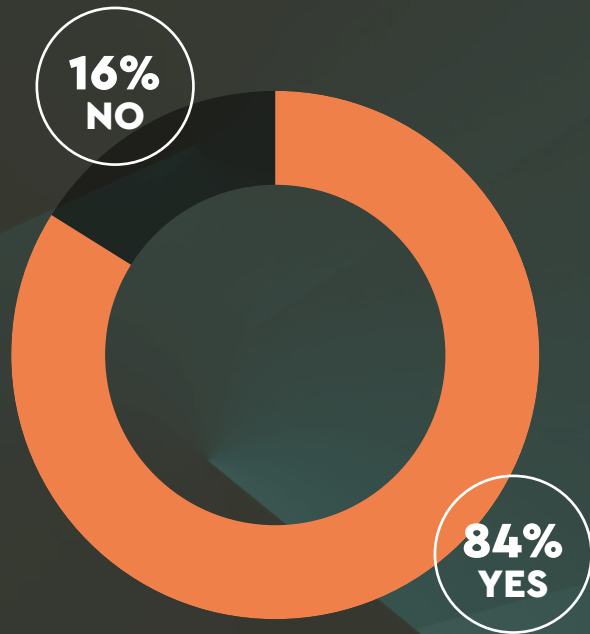


- | | | | | |
|--|--|---|--|--|
| <p>1</p> <p>MORE ACCURATE CONSUMER LENDING DECISIONS (IMPROVED CREDIT RISK / AFFORDABILITY)</p> | <p>2</p> <p>IMPROVED ESTIMATION / VERIFICATION OF CONSUMER INCOME</p> | <p>3</p> <p>PAYMENT INITIATION</p> | <p>4</p> <p>ACCOUNT OPENING / CUSTOMER ON-BOARDING</p> | <p>5</p> <p>BETTER COMMERCIAL LENDING DECISIONS</p> |
| <p>6</p> <p>PERSONAL FINANCE MANAGEMENT (PFM)</p> | <p>7</p> <p>BROKER INTEGRATED SOLUTIONS TO ONBOARD NEW CUSTOMERS</p> | <p>8</p> <p>ID VERIFICATION</p> | <p>9</p> <p>HELPING TO MAKE MY BUSINESS CONSUMER DUTY READY</p> | <p>10</p> <p>CONSUMER COLLECTIONS & RECOVERIES (INCOME AND EXPENDITURE ASSESSMENTS)</p> |

SURVEY RESULTS

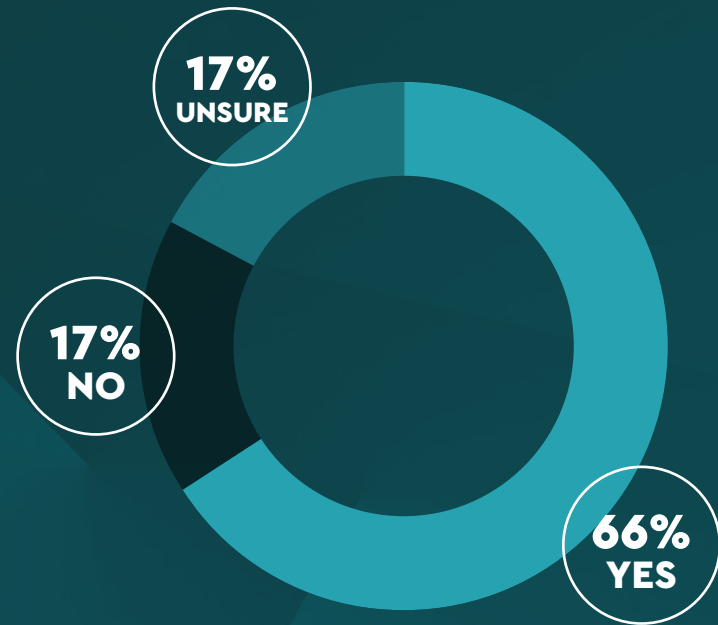
Q3

ARE YOU HAPPY WITH THE USER JOURNEY PROVIDED BY YOUR CURRENT OPEN BANKING SOLUTION PROVIDER?



Q4

ARE YOU PLANNING TO IMPLEMENT A NEW OPEN BANKING JOURNEY WITHIN THE NEXT 12-18 MONTHS?



SURVEY RESULTS

Q5

WHICH NEW OPEN BANKING USE CASE WOULD YOU BE MOST INTERESTED IN IMPLEMENTING WITHIN THE NEXT 12-18 MONTHS?



18%



CONSUMER COLLECTIONS & RECOVERIES (INCOME AND EXPENDITURE ASSESSMENTS)

17%



ID VERIFICATION

16%



ACCOUNT OPENING / CUSTOMER ON-BOARDING

15%



MORE ACCURATE CONSUMER LENDING DECISIONS (IMPROVED CREDIT RISK / AFFORDABILITY)

14%



IMPROVED ESTIMATION / VERIFICATION OF CONSUMER INCOME

13%



PAYMENT INITIATION

12%



HELPING TO MAKE MY BUSINESS CONSUMER DUTY READY

10%



BROKER INTEGRATED SOLUTIONS TO ONBOARD NEW CUSTOMERS

10%



BETTER COMMERCIAL LENDING DECISIONS

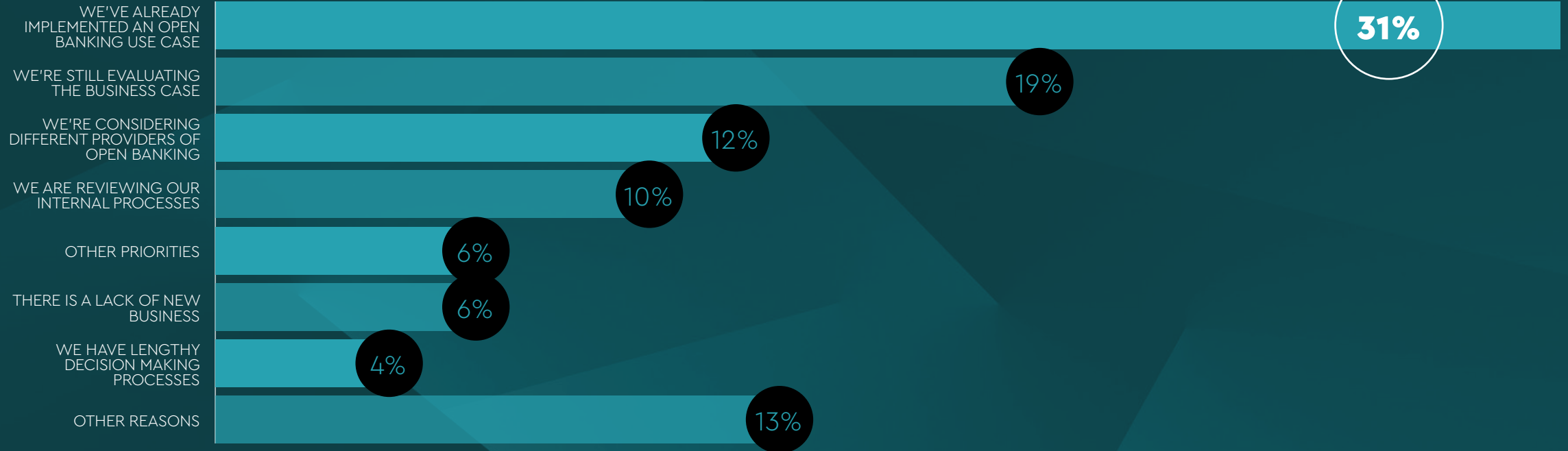
7%



PERSONAL FINANCE MANAGEMENT (PFM)

Q6

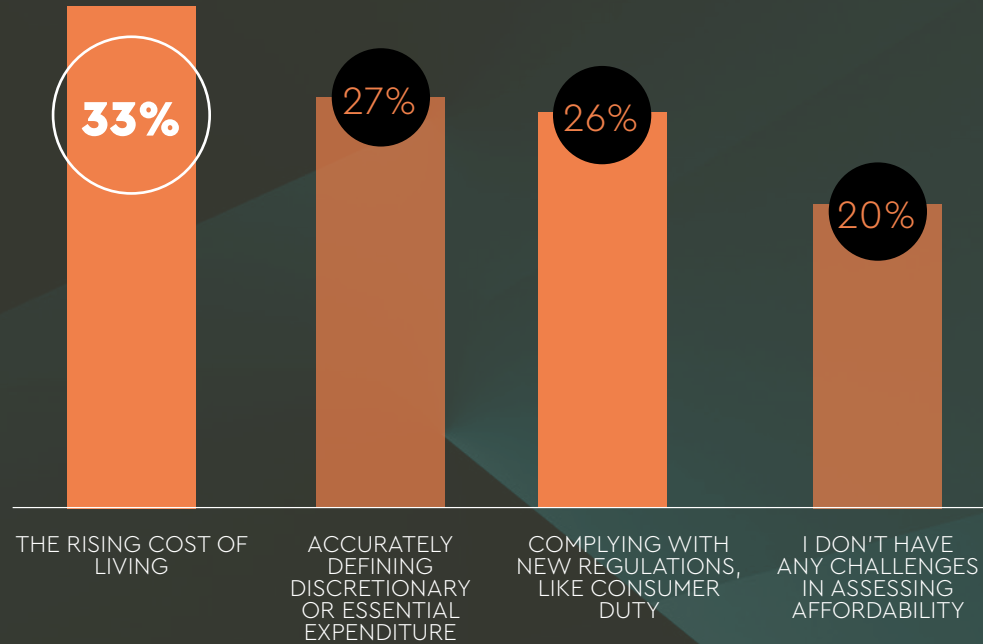
ARE YOU ABLE TO EXPAND ON REASONS WHY YOU'RE NOT PLANNING TO IMPLEMENT A NEW OPEN BANKING JOURNEY (OR ARE STILL UNDECIDED)?



SURVEY RESULTS

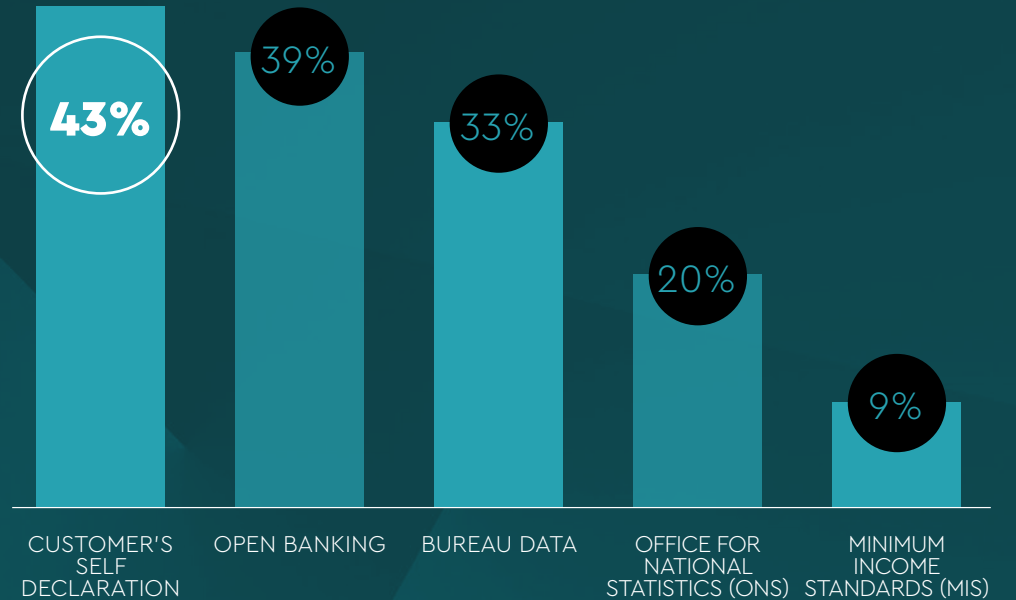
Q7

WHAT ARE THE KEY CHALLENGES YOU FACE IN ASSESSING AFFORDABILITY WITHIN YOUR ORGANISATION?



Q8

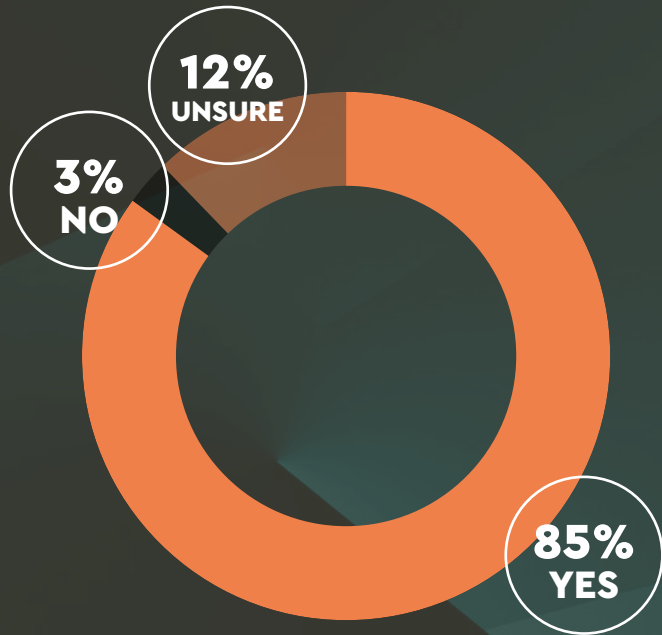
WHICH DATA SOURCES DO YOU CURRENTLY USE TO ASSESS YOUR CUSTOMER'S LEVEL OF EXPENDITURE?
(SELECT ALL THAT APPLY)



SURVEY RESULTS

Q9

DO YOU THINK OPEN BANKING COULD PROVIDE A MORE ACCURATE VIEW OF EXPENDITURE OVER ONS/MIS DATA OR A CUSTOMER'S SELF-DECLARATION?



Q10

WHAT DO YOU THINK ARE THE MOST IMPORTANT BENEFITS OF OPEN BANKING TO YOUR ORGANISATION? (LISTED IN ORDER OF RANKING)



1
MORE DETAILED DATA SET TO ENABLE US A BETTER CREDIT RISK / AFFORDABILITY DECISIONS



2
FASTER DECISION-MAKING AND REDUCING DROP OFFS ON CUSTOMER ON-BOARDING



3
REMOVING MANUAL PROCESSES



4
ACCESS TO THIN FILE CREDIT CUSTOMERS, TO INCREASE ACCEPTED CREDIT APPLICATIONS



5
OTHER

SURVEY RESULTS

Q11

WHICH OF THE FOLLOWING FACTORS ARE MOST IMPORTANT TO YOU WHEN CHOOSING AN OPEN BANKING SOLUTION PROVIDER? (LISTED IN ORDER OF RANKING)



1
ACCURACY OF CATEGORISATION OF DATA TO IMPROVE DECISIONS



2
EASE/SPEED OF ACCESS TO THE DATA



3
API AUTOMATION VIA A DECISION PLATFORM



4
EASY TO USE INTERFACE FOR BOTH YOU AND YOUR CUSTOMERS



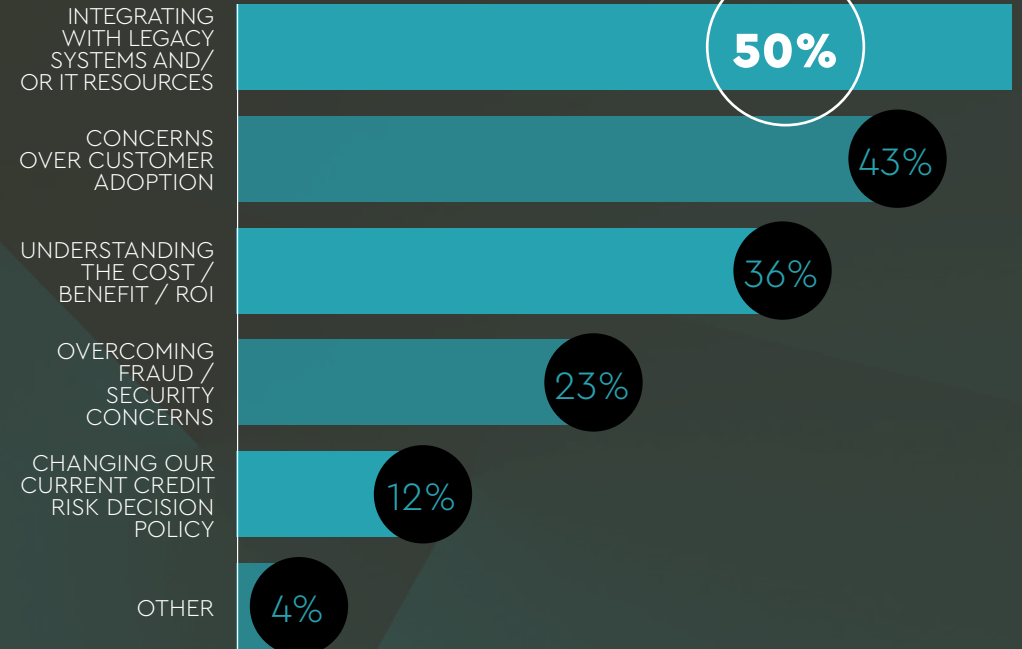
5
TRUST IN OVERCOMING COMPLIANCE AND SECURITY RISKS



6
THE ABILITY TO COMBINE BUREAU AND OPEN BANKING DATA

Q12

WHAT IS THE BIGGEST CHALLENGE YOU FACE WHEN CONSIDERING THE IMPLEMENTATION OF OPEN BANKING? (SELECT ALL THAT APPLY)



HOW OPEN BANKING IS RESHAPING THE SECURED LOAN MARKET

WE ARE STARTING TO SEE THE INCREASED USE OF OPEN BANKING IN THE SECOND-CHARGE MORTGAGE MARKET TRANSFORM THE WAY LENDERS ASSESS AND VERIFY APPLICANTS' CREDITWORTHINESS.



Matt Meecham
Chief Digital Officer
Evolution Money

Assessing whether a prospective borrower has the ability to repay their loan forms the basis of all lending decisions and up until relatively recently, most lenders ascertained this from a borrower's credit score.

Open Banking allows lenders to delve deeper into a borrower's finances and assess them in real-time. This not only produces a more informed and accurate lending decision, but also a speedier and more efficient application process for clients.

Why Open Banking is needed

You might think that having the ability to dissect an applicant's income and expenditure through Open Banking would work against them in the context of their eligibility for a loan. In reality, it can be quite the contrary.

The historical method of basing affordability solely on a credit score runs the risk of a lender only seeing a partial picture of a borrower's finances.

A client may have recently been unemployed, for example, and as a result, defaulted on a credit card payment which, in turn, has negatively impacted their credit score. They may now, however, be in full-time employment and back on track financially.

Using Open Banking alongside a borrower's credit score provides a much more detailed and accurate picture of a borrower's overall, and current, financial health.

It also allows lenders to potentially pre-empt future spending habits and a borrower's ability to repay the loan by looking for patterns in historic and current spending habits – unlike a credit file, which only looks at past behaviour.

The benefits of Open Banking are of particular importance to second-charge mortgage customers, the majority of whom are seeking a loan in order to consolidate existing debt. They may also have some form of bad credit, for example, a missed

payment on a loan or utility bill. In the past, a borrower may well have been declined outright based on a negative credit score or due to insufficient credit data on file.

Importantly, Open Banking can also help highlight any red flags and characteristics of vulnerability – such as gambling, 'buy now, pay later' borrowing and inconsistent spending habits.



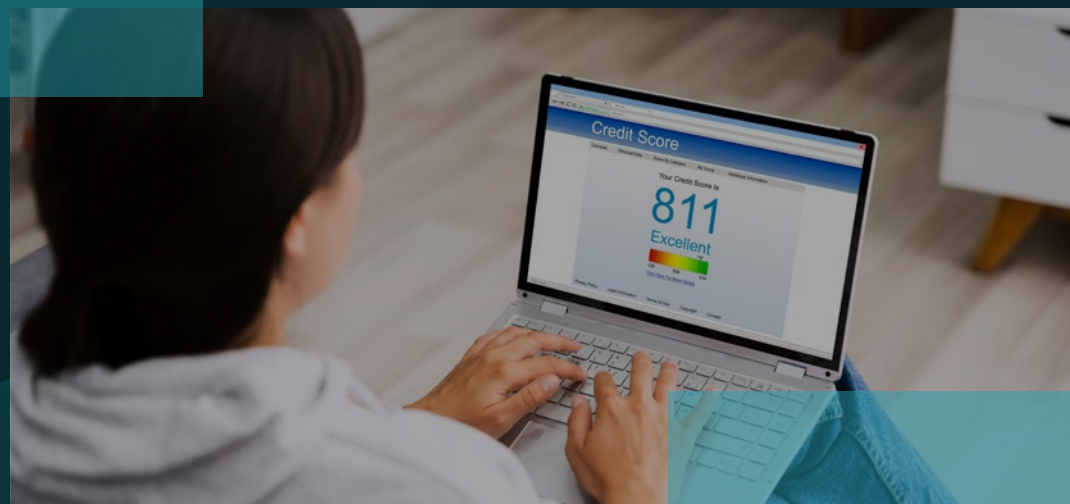


A speedier and more secure journey

We live in a digital age and as in all other aspects of their life, second-charge mortgage clients expect speedy service.

Speed may be of the essence for some clients who are incurring daily interest building up on expensive loans and credit and, as such, need to consolidate debt sooner rather than later.

Once permission has been granted, Open Banking allows us to view, download and store an applicant's financial transaction data in real-time. We can then use this to populate our income and expenditure assessment, allowing us to make quicker and better-informed credit risk decisions. No longer do we need to wait for the



customer – or their adviser – to send across their bank statements.

Crucially, Open Banking also helps reduce attempted fraudulent applications through the digital verification of a client's identity and financial data.

“Using Open Banking alongside a borrower's credit score provides a much more detailed and accurate picture of a borrower's overall, and current, financial health.”

Looking ahead

The second-charge mortgage market has not always been at the forefront of digital innovation, with a number of lenders' systems still featuring paper-based and manual processes. I do, however, believe the market is on the precipice of great change in terms of its use of Open Banking.

The FCA actively encourages firms to demonstrate and evidence the effectiveness of their affordability assessments and the new Consumer Duty amplifies those expectations further – something I believe will

make Open Banking a must for mortgage advice firms.

Secondly, in the current economic setting, affordability continues to present a challenge for many borrowers, due to rising interest rates on loans and mortgages, and the increased cost of living.

Against this backdrop, I believe the speed at which Open Banking is being adopted by mortgage and loan providers will pick up pace, as lenders look to gain a competitive edge and help more borrowers. ■

THE CHALLENGES OF IMPLEMENTING AN OPEN BANKING JOURNEY

WE KNOW FROM OUR JOINT SURVEY THAT THE BIGGEST CHALLENGES ORGANISATIONS FACE IN IMPLEMENTING OPEN BANKING IS OFTEN LEGACY TECH/SYSTEMS. THIS IS ALWAYS GOING TO BE A CHALLENGE FOR BIGGER ORGANISATIONS COMPARED TO SMALLER, MORE AGILE LENDERS WHO CAN MOVE AND INNOVATE QUICKLY.



Joe Welford
Open Banking Product Manager
Equifax

The underlying challenge is how to integrate Open Banking seamlessly into, or alongside, existing journeys and in a way that minimises friction, so customers are more likely to take advantage of the benefits of Open Banking.

But it's possible to overcome this challenge by compiling an incremental business case proposal that highlights how Open Banking can be integrated over time. Most of our clients tend to start with simpler use cases, like enhanced income verification or use the

data to help them assess marginal cases, which would normally be deferred for a manual review from an underwriter.

Organisations need an Open Banking provider that makes it easy for them to get to the point where they're going to get the return on investment that's required to make it worthwhile to justify buying into this kind of data asset.

That's why a lot of our clients – even the ones that aren't encumbered by legacy systems – choose to initially

“It's important to work with a partner that can help you understand the data points that matter to you based on your products and on what you're offering those customers.”

adopt our turnkey, fully-hosted Open Banking solution, which can be implemented without significant IT resources. This enables our clients to dip their toes into Open Banking without the constraints of full system integration.

The goal here is simply to learn and demonstrate some of the benefits that using Open Banking data can bring to different areas of a business.

There can be a steep learning curve with the onboarding of Open Banking data for some clients, because for many, bank transaction data is a brand new data source that takes time to learn and get comfortable with. This is why it's important to work with a partner that can help you understand the data points that matter to you based on your products and on what you're offering those customers.

Because it's a consent-driven data source, you can't click your fingers and have access to that information via a retro, as you would do with credit data. You need to spend time building up that sample.

This is why we've built Open Banking synthetic data packs to help organisations better understand the data structure and key properties of transaction data, to help them build a business case.

For really powerful, high-volume Open Banking use cases like pre-approval eligibility decisioning using transaction data, we soon find that ingesting data via API becomes a fast follower from a turnkey deployment, as the business case benefit to drive automation far outweighs the hurdles put in place by legacy infrastructure. ■


**OPEN
BANKING
EXPO**


Open Banking Expo is a global community of Open Banking and Open Finance executives responsible for digital transformation across the financial services sector. The brand organises face-to-face and virtual events in the UK, North America and Europe, which includes its flagship Expo and live panel debates, throughout the year.

Open Banking Expo also hosts a leading industry podcast 'Open Banking Expo Unplugged' and online news resource dedicated to Open Banking and Open Finance, as well as the latest developments in payments and data.

The company curates the Global Open Banking Hub showcasing industry expertise from around the world. In addition, it regularly collaborates with international thought leaders on surveys and reports to harness and evaluate the latest sector developments, and to offer industry analysis and overview of the biggest hot topics across the globe.

For more information visit www.openbankingexpo.com

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 Open Banking Expo



Equifax is a global information solutions company. We work closely with our clients and industry associations to develop Open Banking solutions which help consumers and businesses share their transaction data quickly, reliably and securely.

We give our clients the tools they need to create an Open Banking journey that is right for their business, provides a better customer experience and helps them use the most accurate transaction data insights to make better decisions.

**Discover more about
Equifax Open Banking solutions**

For more information visit www.equifax.co.uk/openbanking



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