

Affordability – Past, Present and Future

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The launch in January 2018 of Open Banking in the UK presents an opportunity for consumers to benefit by consenting to share their bank transaction data with approved third parties in return for a wide variety of new and innovative products and services.

One of the key use cases of Open Banking that is proving attractive to lenders is the potential use of bank transaction data to improve affordability assessments in credit applications, ongoing customer management and in collections and recoveries. Open Banking can reduce the time taken to source bank statements as part of a mortgage application from weeks to minutes by enabling the secure and digital transfer of a consumer's bank statement and providing consumers with a faster and smoother customer journey.

This presentation explores the next stage of the application process, what do lenders do when they receive the bank transaction data? How do they assess and automate affordability assessments using this new data? How does this new assessment compare versus current methods of evaluating affordability?

Based on analytical research and development undertaken on bank account transaction data, the key points addressed in the presentation will include:

- How income is defined, by the regulator, lenders and the consumer. Are we all talking the same language?
- Comparison of different methods of verifying income available to lenders today, from manual to automated, Current Account Turnover to Open Banking
- Looking beyond salary, what are the other components of income and how do you identify them in transaction data?
- Assessment of the accuracy of different methods of estimating income
- Complications in calculating income from different datasets
- How predictive of credit risk is income?
- How consumer and household expenditures are calculated - which expenditures can you obtain from bank account data, which are you missing?
- Validation of expenditure estimates
- Does the sharing of transaction data through consent result in biased samples of income and expenditure?