



SALAD

MONEY

CREDIT WHERE IT'S DUE

Comparing the value of Credit Reference Agency data with Open Banking when serving financially excluded people

MORE THAN YOUR SCORE™

July 2023



At least **1 in 3 adults** (and between 11 and 20 million people¹) may have difficulty accessing affordable credit from mainstream lenders, a **50% increase** since 2016.²

Around **3 million people** are now estimated to be borrowing from illegal moneylenders / loan sharks.³



A quarter of UK adults have **less than £100 in savings**. 1 in 6 have no money put away.⁴

Between **7 and 9 million people** are at risk of exclusion from affordable financial services because of flaws in credit scoring.⁵

The gap in provision of appropriate, fair and affordable credit to people in financially vulnerable circumstances is predicted to rise to **at least £3bn by 2025**.⁶

“We have also found aspects of the market that are not working well...market failures and inherent difficulties in matching new credit information can lead to poor outcomes...”

Financial Conduct Authority (FCA),
Credit Information Market Study Interim Report and Discussion Paper.

“The Credit Information Market in its current form harms access to affordable credit, contributes to the poverty premium and results in poor consumer outcomes.”

Theodora Hadjimichael,
Chief Executive, Responsible Finance.

¹Responsible Finance, 2023

²PwC and Totally Money, 2021

³Research by IPSOS for Fair4All Finance, June 2023

⁴Money and Pensions Service, November 2022

⁵Lexis Nexis data quoted in the Financial Times, 2022

⁶Fair4All Finance, 2023

A fit-for-purpose credit information market should represent all consumers, including those financially under-served, vulnerable or with low financial resilience.

But, as the Financial Conduct Authority has acknowledged, the traditional approach to credit information fails many consumers. At a time when more and more people are excluded from mainstream financial services, can we be confident that Credit Reference Agencies' (CRAs') data is accurate? Does it present a fair picture of whether an applicant for credit can afford it? Or does it exacerbate the 'poverty premium', lock people out of affordable options and contribute to cycles of indebtedness?

The Salad Projects Oversight Body exists to work in the interests of all applicants to Salad Money, a social enterprise fighting financial exclusion and exploitation of NHS and public sector workers by providing an alternative to high-cost lending.

As its joint chairs we campaign for policy and industry changes that will protect consumer credit users, and applicants who are declined for credit because they are financially vulnerable.

This report is based on a retrospective analysis by one of the UK's three main credit reference agencies into 50,000 Salad Money applicants' loan records. It sought to establish any value to be gained by using CRA data – but demonstrates how a fundamental weakness in CRA data is contributing to poor outcomes for people who are financially under-served, vulnerable or have low financial resilience.



Lord McNicol
Baroness Evans
Salad Money Oversight Body
July 2023

ABOUT THIS REPORT

Salad Money is a social purpose lender. Our customers work in the NHS and public sector, can afford to repay credit, but cannot access it on fair terms elsewhere. We use Open Banking rather than credit scores to assess affordability for a loan. We are

a social enterprise and Responsible Finance member. We have built a powerful and fair credit affordability process using Open Banking data. On average each applicant has 1,600 individual transactions spanning the previous 12 months which we

categorise and can analyse not only to make an approval decision but to generate unique insights into applicants' financial health.

THE JUDGEMENT PARADOX

Too often, people are locked out from affordable financial products, then castigated for making the only choices available to them

- **13 million adults have “low financial resilience”** according to the Financial Conduct Authority – a near 20% jump since 2020.
- The number of UK consumers who are struggling to meet bills and credit repayments **has jumped 40%, or 3.1 million, to 10.9 million from a year ago.**
- The impact of the cost of living has led to **around half of UK adults, or 28.4 million people, saying they feel “more anxious or stressed” about paying bills** than six months ago⁷.

Credit doesn't have to be harmful. It's a tool which 9 out of 10 people use to get by, to spread costs over time, to budget. When credit is offered responsibly by lenders and used appropriately by customers it is valued.

Open Banking gives us visibility. More and more people are excluded from mainstream financial services: the overdrafts, cheap credit cards and loans which many in society take for granted. If we accept that someone on a 'good' salary might need to use credit, is it such a stretch to understand that people surviving on much lower household incomes may?

'Financially vulnerable' and 'financially excluded' people, and people with 'low financial resilience' aren't stupid. People borrowing from high-interest lenders and loan sharks aren't doing so because they haven't bothered to find a cheaper rate. Often, people locked out of mainstream financial services are exceptional at managing their budgets, getting by on small, variable incomes, and making every penny count.

We've woken up to the inequity that people who use prepayment meters for their gas and electricity have been charged much more for the same utilities than others on direct debits. Other examples of the 'poverty premium' – the extra costs people on low incomes pay for essential products and services – include higher insurance premiums, paying to access cash, and higher cost credit.

If someone can afford the repayments, and wishes to use credit, they deserve a fair lending market. But traditional credit scoring, which serves 'prime' credit markets well, fails and harms people who are 'credit invisibles' along with the financially vulnerable and excluded, as the FCA acknowledged in 2022⁸ and we and other social purpose lenders explored in a 2023 paper⁹.

⁷ Financial Conduct Authority: *Financial Lives Surveys, 2022 and 2020*

⁸ FCA: *Credit Information Market Study Interim Report, 2022*

⁹ *Salad Projects and Responsible Finance: Building Financial Inclusion with a Better Approach to Credit Scores, 2023*

WHY WE UNDERTOOK A RETROSPECTIVE ANALYSIS

Challenged ‘what value would CRA data have, over and above that of Open Banking?’ we investigated – and were shocked

Salad Money is a social enterprise specialising in affordable credit for NHS and public sector workers. Salad launched in 2019 to address a severe lack of affordable credit for people with impaired, poor or thin credit scores and the millions of credit invisibles. Our mission is to develop a sustainable mid-cost credit market and give borrowers an alternative to high-cost lending. We lend up to £1,500 over 12 to 24 months. To do so we use Open Banking data and our own proprietary credit decisioning software for affordability assessments, rather than credit scoring.

Open Banking gives us visibility of all key determinants for a comprehensive assessment of creditworthiness and affordability, including income from employment and from benefit payments; all current credit repayment liabilities; regular non-discretionary expenses such as housing, utilities and groceries; current and historic difficulties with credit; signs of financial stress and signs of vulnerability. We see at least twelve months of data so we can assess applicants’ financial trajectory and any changes.

To date, we have lent more than £4m to more than 3,100 customers with no credit score and who would otherwise be excluded by lenders which rely on CRA data (we’ve lent more than £40m through over 46,000 loans in total, to more than 13,000 NHS employees and over 18,000 other key workers in the public sector).

We have saved customers (46% of whom have children in their households) millions of pounds in interest compared with borrowing from the only alternative providers available to them.

Beyond lending, Salad’s free financial support tool, Salad Money Mind, helps Salad applicants (not only customers) build financial resilience.

In 2022, Salad was challenged to understand what value CRA data would have, over and above that of Open Banking. Salad engaged with one of the UK’s three main credit reference agencies to complete a retrospective analytical exercise, which would provide Salad with a copy of the customer’s credit file at the point they applied for a loan.

As part of this review, Salad attempted to address three key areas:

1. What can CRA data tell us about our customers that we don’t already know?
2. What impact would CRA data have on our underwriting process?
3. Would CRA data improve our decision-making capability sufficiently to justify using it?

Our retrospective analysis covered 50,000 loan records as described on page 6.

METHODOLOGY

Salad provided the CRA with customer records covering all previously funded loans (as at the end of October 2022) and a random sample of recent applications. This file of 50,000 loan records was divided into three key cohorts:

Segment	Number of records
a. All Salad Money disbursed loans	29,405
b. All eligibility pre-screen passes from the previous 28 days, excluding any already in segment a	5,638
c. Random sample of eligibility pre-screen fails from the previous 28 days	14,957
TOTAL	50,000

The CRA was requested to provide a retrospective view (also referred to as a 'retro') of the customer's credit file at the point they applied for a loan with Salad.

We commissioned (and paid) the CRA to provide the retrospective data files for analysis.

The CRA returned multiple files containing more than 2,750 data points for each customer.

KEY FINDINGS

Since Salad Money has never previously performed a CRA check for its customers, our priority was to understand the type of credit data held by the CRA and how this differed between accepted and declined customers. The headlines from this initial review were:

- More than 10% of Salad customers do not have a credit score.
- Customers with no credit score perform no worse than a typical Salad customer.
- CRA score is no better at identifying risk than Crouton (our own, internally developed machine learning system, see page 10).
- CRA data is a weak indicator of vulnerability indicators such as gambling (we have also covered how credit exacerbates problem gambling in our February 2023 report, Harmful Gambling¹⁰).

¹⁰ <https://www.saladmoney.co.uk/news/salad-money-release-report-into-harmful-gambling-in-2023>

CUSTOMERS WITH DEFAULTS, WITH CCJS, AND WITH NO CREDIT SCORE

Lenders which rely on CRA data would typically view a CCJ or default as a 'credit impairment event' and therefore may decline the customer's application.

However, the analysis revealed:

- The percentages of **accepted** and **declined** customers with an insolvency or CCJ were identical (35%).
- **More accepted** customers (80%) than **declined** customers (75%) had at least one default registered in the previous six years.
- 10-11% of customers **do not have a credit score.**

Having no score may be a fatal policy decline reason for many lenders that rely upon CRA data (as having no CRA score would usually mean that they are unable to determine the level of credit risk associated with the application), leading to an automatic rejection.

But analysis of the arrears rates and payment data revealed customers with no score perform no worse than Salad Money's typical customer.

This suggests that these customers may be being excluded unnecessarily by other lenders that rely upon CRA data to make their lending decisions.

The retro analysis also considered repayment performance and enabled Salad to compare Crouton (our proprietary machine learning system) with the credit score from the CRA.

Crouton uses each applicant's bank transactions (accessed via Open Banking) and application form data to determine their likelihood to repay. It revealed:

- Open Banking and CRA data are very well correlated in many aspects.
- Crouton is more effective at identifying high/low risk loans.
- Open Banking is a superior way of underwriting Salad's customers, with CRA data offering little additional information which could not be calculated from Open Banking access.

- Open Banking also provides information that would not be available on a credit file: EG, many Salad customers are private tenants, with rent payments not reported to CRAs.
- More than 10% of customers do not have a credit score.
- **Open Banking unlocks the ability to lend affordably to these customers; Salad has lent over £4m to customers who would otherwise be excluded by lenders that rely upon CRA data, and these loans perform no worse than a typical Salad customer, suggesting they are being excluded by other lenders unnecessarily.**

“

I found Salad and it seemed to make sense – if they could look at my income and outgoings, they should be able to see I could afford to borrow what I needed.

”

FIONA, 38, STAFF NURSE, GUILDFORD



Fiona joined the NHS in 2018 bringing 16 years of experience as a staff nurse in Guyana. She enjoys her job: “caring for and spending time with patients makes a real difference in people’s lives” she says, “and I love working in a team to look after people.”

She joined the NHS at the start of one of its most challenging periods in history. “I came to the UK in 2018 and two years later the COVID-19 pandemic struck. It was horrible to see patients and their families suffer, and terribly hard for all my colleagues.”

In 2022, Fiona was planning her dream wedding. “We wanted to travel to Guyana to get married,” she says, “and although I had saved as much as I could, I needed to borrow £1,000. I didn’t really know a great deal about how lenders work in the UK, but I applied to a high-street bank

for a loan or an overdraft. I’ve been working here for four years and I knew I could afford the repayments so I was shocked when they turned me down.”

Fiona searched online for lenders who specialise in working with people who don’t have a perfect credit score or a limited credit history:

“I found Salad and it seemed to make sense – if they could look at my income and outgoings, they should be able to see I could afford to borrow what I needed.” She applied and was surprised, “it was a pretty easy process and the very next day I was told I’d been approved.”

Her £1,000 Salad loan helped Fiona and her now-husband enjoy the wedding of their dreams with their families. “We’ll always remember it,” she says. Since returning from her honeymoon, Fiona has found her repayments, “easy to manage, and I realised I could actually pay it off earlier than I had originally thought, so I have done, which saved me a bit of money too.”

EXCESSIVE GAMBLING / VULNERABILITY

One of the key identifiers for potential vulnerability is excessive levels of gambling. Salad applies a strict tolerance for gambling within its pre-screening criteria. All applications where the consumer spends meaningful amounts on gambling, frequently and over a sustained period are declined.

Part of the retrospective analysis involved assessing whether credit score/risk segment was an effective measure of excessive gambling. It revealed a weak correlation between credit score and the likelihood for the customer to be gambling excessively.

This highlights that lenders which rely solely upon CRA data to make their lending decisions are not effectively identifying potential vulnerability due to excessive gambling.

Using Open Banking is a superior way of identifying and mitigating potential customer vulnerability.

Please read our February 2023 paper, **HARMFUL GAMBLING:** Using financial data to understand patterns of problem gambling.

It demonstrated that:

- Gambling is common among financially vulnerable people seeking a loan.
- Addictive and problem gambling is increasing, is prevalent across all demographics, and is not being addressed by the gambling industry.
- Worryingly many in the traditional consumer credit industry are making poor lending decisions for vulnerable consumers.

UNDERSTANDING APPLICANT DEBT: A COMPARISON BETWEEN OPEN BANKING AND CRA DATA

A traditional CRA will (if its data is accurate) show how much a customer currently owes to other creditors such as credit cards, loans, car finance, and their mortgage.

Some industry insiders have expressed a concern that Open Banking does not show the total outstanding balance for each credit account that the customer holds.

However, Open Banking allows Salad to see exactly what credit commitments the customer is repaying each month and any new loans taken out (which can be

identified via the loan credit being paid into the customer's bank account). Open Banking also shows credit commitments which are not reported to CRAs (e.g. BNPL).

We compared the credit outgoings data available using Open Banking against the outstanding debt information and monthly repayment information returned by the CRA. The data comparison revealed that:

- For the lowest deciles, CRA data is significantly underestimating how much a customer owes / is repaying.

- Open Banking offers a more accurate assessment of the customer's credit commitments compared to CRA data.
- Open Banking will cover any recent credit taken out, which may not yet be reported by the CRA, and captures actual repayments being made – with no issues on reporting lags, or account types which are not fully reported (such as Buy Now Pay Later).

OPEN BANKING AND CROUTON – WHAT AND WHY?

“Everything we do comes down to affordability – we have no interest in overburdening someone with a loan they can’t afford to repay – and fairness, our reason to exist. An applicant with a five year-old CCJ which they have settled would be rejected by many lenders. But for us, that satisfied CCJ, or in fact a CCJ of two to six years old, often paints a useful part of the picture of financial reliability and responsibility.”

Tim Rooney, CEO, Salad Money

Salad Money has built a powerful and fair credit affordability process using Open Banking data. Applicants understand that this means we can access information about their income and expenditure to make a fair decision about whether they can afford to repay the loan they want.

It means we can often lend money to people excluded by CRA-powered lenders for having no credit record, a thin file, or a poor score. But with each applicant having an average of 1,600 individual transactions spanning the previous 12 months, how do we categorise and analyse that data to make a loan approval decision quickly and accurately?

Salad’s in-house data team built our machine learning model, Crouton, which is bespoke to our social enterprise. It’s been fine-tuned with input from our customer service

team, and is a powerful, ever-evolving categorisation, modelling and decision-making engine. Crouton also enables many of our social purpose activities: helping applicants (not only customers) access social tariffs or access benefits they were due but not claiming.

Tim Rooney, Salad CEO, says:

“Thousands of people delivering frontline public services are excluded by lenders using unfair, credit score-based assessment. So they often turn to toxic, high-cost or illegal lenders, with figures showing a huge rise in use of loan sharks even before the cost of living crisis.

“But people are ‘more than their score’ which is why we launched Salad. Our use of Open Banking and machine learning enables us to assess whether people can afford the loan they apply for.

“Many credit options are simply not-fit-for-purpose, which traps NHS and public sector workers in harmful debt cycles. Being able to say “yes” to someone who needs a loan and can afford to repay it means they’re not going to a loan shark or a high cost lender.

“Whether we say yes or no to an applicant, Open Banking also means we’re helping people identify the benefits they were due but not claiming, can highlight the social tariffs they should be on and even provide statistical insights to journalists, academics and financial inclusion campaigners.”

WHAT NEXT?

This retrospective analysis, comparing data from one of the UK's largest Credit Reference Agencies (CRAs) with Salad applicants and customers, demonstrates:

- The enormous power within Open Banking data to give accurate insights into applicants' financial wellbeing, propensity to pay, and affordability for credit – with many of these insights completely missed by the binary or imperfect nature of traditional credit scoring.
- Credit reference agency data can be out-of-date or contain negative data which acts like a millstone around customers' necks, restricting their access to affordable credit.
- This is especially true for Salad customers, 88% of whom already have some form of impaired credit histories.
- The CRA model does not work for customers in our sector and leads to a restriction in accessible and affordable credit.

Credit scores (and CRAs' operating models) serve prime and near prime consumers well, enabling competition and choice in consumer credit markets. But they do not improve the ability for firms to provide affordable loans to under-served customers. They can be harmful to financially vulnerable customers and even disadvantage the social purpose and not-for-profit lenders which seek to help them.

Alongside other social purpose lenders we have already engaged with the FCA to call for appropriate changes¹¹ within the credit information market and among existing CRAs, which would catalyse better outcomes for consumers.

We need:

- Consideration of the 'Social Credit Score' concept championed by a group of CDFIs.
- Clear regulatory or governmental intervention to drive change.
- The widespread adoption of insights unlocked through Open Banking into CRA scoring.
- New CRAs which focus on supporting the financially vulnerable.

A fit-for-purpose credit information market should represent all consumers, including those financially under-served, vulnerable or with low financial resilience.

¹¹Salad Projects, *Responsible Finance and a group of CDFIs*, April 2023



SALAD

MONEY

CONTACT US

Email: press@saladmoney.co.uk

Telephone: **0203 092 0896**

Website: www.saladmoney.co.uk

Registered Office

Salad Finance

49 Greek Street London

United Kingdom W1D 4EG

MORE THAN YOUR SCORE™