

Lenders face increasing young borrower demand for open banking in credit underwriting

Article

The UK's under-35s are 21% more likely to want to share bank data to prove their creditworthiness than in May 2020, [per](#) a Credit Kudos report. Credit Kudos is a challenger

credit reference agency that aggregates borrowers' transaction data to help lenders assess their creditworthiness. It surveyed 2,000 consumers in the UK from March 12-16, 2021.

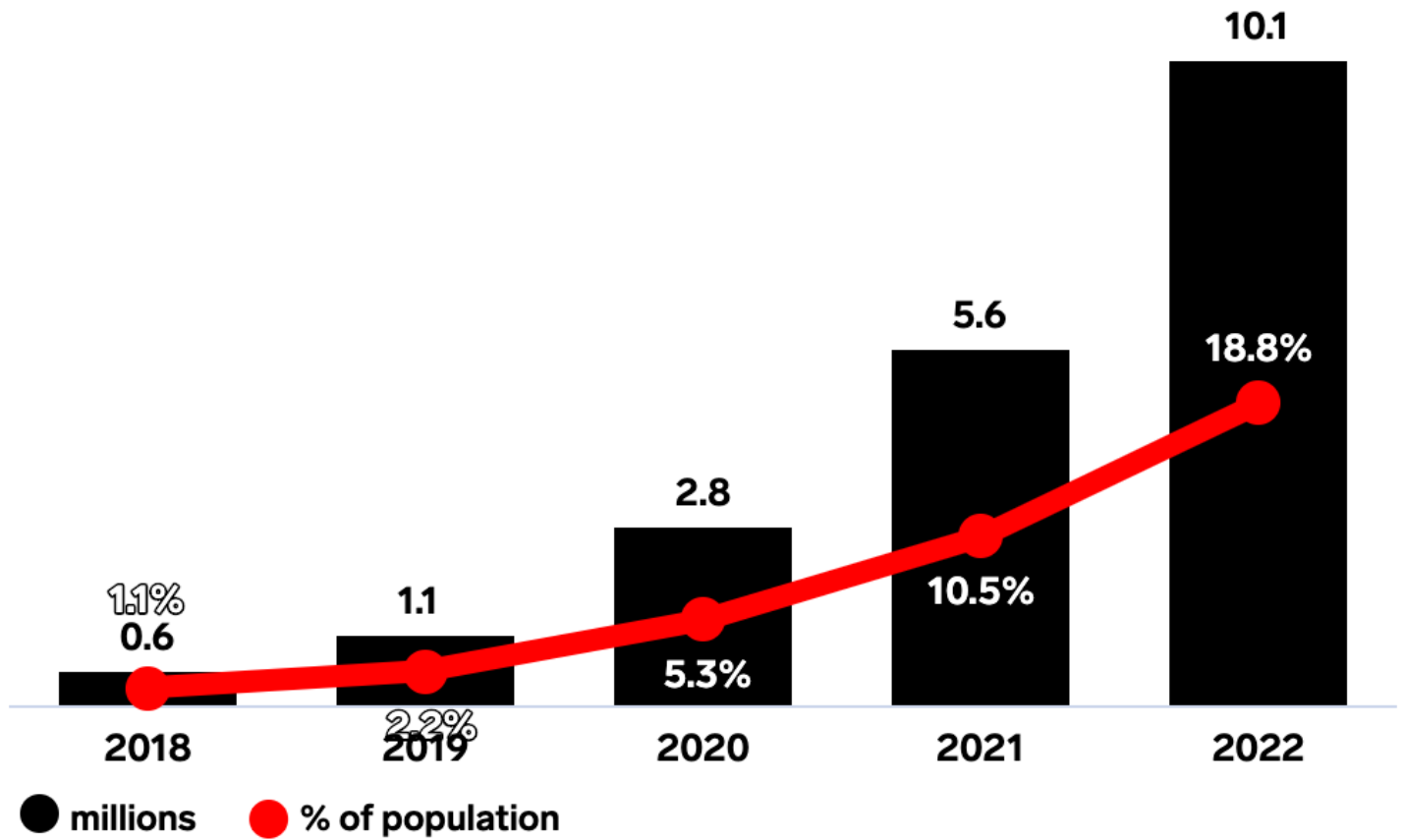
The younger demographic is placing its hopes in open banking to better inform lenders of borrowers' finances.

- **The pandemic has made it harder for under-35s to access credit—despite needing it the most.** Thirty-six percent of young adults saw their income hurt by the crisis, compared with 13% of over-55s, per the report. This makes younger borrowers less likely to secure a loan, with 18% of under-35s being turned down for credit since March 2020, compared with 2% of over-55s.
- **Lenders can use open banking to identify and help more borrowers while boosting their loan distribution.** The youths' fluctuating income during the pandemic has made it challenging for lenders to verify creditworthiness with the limited data sources they typically use, including existing debt, repayment history, and employment. By contrast, open banking gives lenders a better overview of a borrowers' finances by accessing their bank account data in real time, helping lenders identify more eligible customers. Lenders can also use this data to offer non-eligible borrowers tailored recommendations on how they can boost their creditworthiness: Fifty-eight percent of the under-35s who were rejected were not told why or how to improve their chances of being accepted.

The findings underscore the partnership opportunities for fintechs that facilitate lenders' use of open banking, and the UK's transition to open finance will further improve credit underwriting. Under-35s will flock to lenders that offer open banking capabilities because that's where they will be more likely to access credit. A number of lenders are already moving forward with open banking, presenting partnership opportunities for fintechs: Incumbent [Admiral Financial Services Limited](#) partnered with Credit Kudos in December to help verify borrowers' income, and alt lender [Oakbrook Finance](#) teamed up with fintechs ClearScore and AccountScore. The UK government is now planning to expand its Open Banking regulatory framework—which requires that banks share account data with customers' consent via secure APIs—in the coming years to cover other types of financial data, like pensions, investments, loans, and insurance. The transition from open banking to open finance will give lenders an even more holistic view of borrower finances to inform their underwriting.

Open Banking Users

UK, 2018-2022



Source: eMarketer, December 2020

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