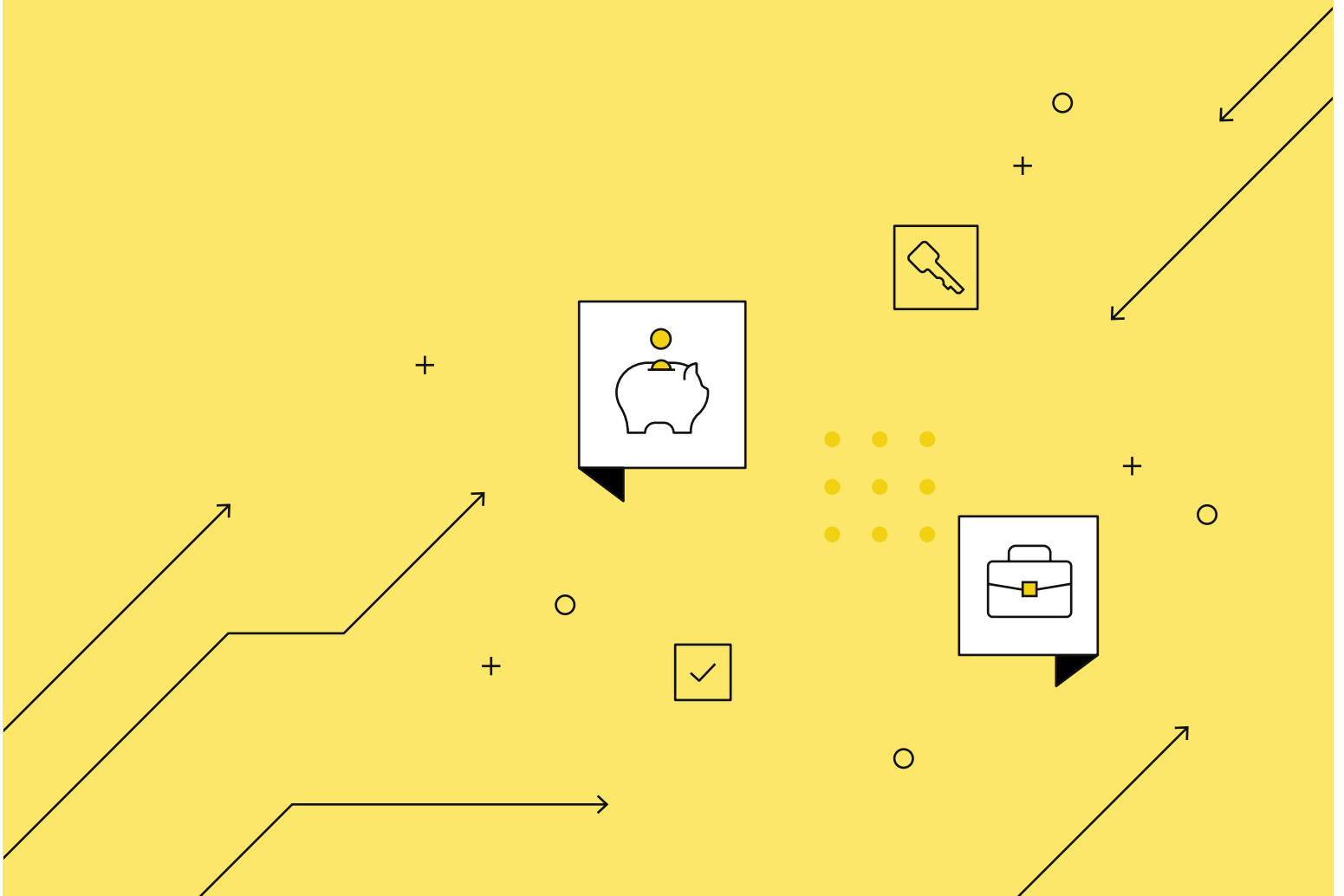


# Payroll data: The next frontier for **open finance**



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# A note from Plaid

## We're here to help consumers control their payroll data.

Plaid pioneered the revolution in consumers controlling their financial data. Now we're expanding consumers' ability to share their payroll data, to provide even more financial control.

For most Americans, our financial lives begin where we receive our income: at our employers, often through payroll providers. That's where we see the full picture of our earnings and make significant financial decisions around retirement savings, healthcare spending, and benefits like transportation and charitable giving.

Over the past decade, consumers have seen benefits from safely sharing their financial institution and investment accounts data with fintech providers who build them customized solutions. Eight in ten consumers say fintech improves their financial lives, for example.<sup>1</sup> Giving consumers control over their payroll data would expand that horizon both for fintech companies looking to offer better products, and for consumers looking to improve their financial lives.

At Plaid, we're committed to giving consumers control over their financial data. Since our founding nearly 8 years ago, we've focused on developing user-friendly tools and building relationships with major financial institutions in order to give consumers that control. Now we're investing resources and expertise to provide consumers control of their payroll data.

As fintech adoption continues to rise, especially as a result of the COVID-19 pandemic (73% of consumers say fintech is their new normal after COVID),<sup>2</sup> consumers are recognizing the value digital tools bring to their financial well-being. Convenience is just one part of the equation. Choice and personalization are the new table stakes in digital finance. To meet expectations, companies of all sizes are incorporating consumer-permissioned data into their digital products and services. Access to payroll data can help expand the range of digital tools that consumers can use to improve their financial well-being.

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<sup>1</sup> <https://plaid.com/the-fintech-effect-2020-consumer-report/>

<sup>2</sup> <https://plaid.com/documents/the-fintech-effect-spotlight-on-covid.pdf>

## Payroll data can be difficult for consumers to share

Consumers and payroll providers share a unique relationship. They engage directly with one another, when a payroll provider deposits a consumer's paycheck, or a consumer diverts earnings to a 401k. But neither one typically thinks of their relationship with the other as direct. This is because employers, not consumers, choose their payroll provider and manage that relationship on their employees' behalf.

In practice, this means consumers tend to view their payroll providers differently than the financial institutions (such as their bank) they typically interact with. But the information a payroll company stores about a consumer is just as critical to their finances as the data in their bank account. For example, payroll companies store important information about a consumer's gross earnings, retirement and health savings contributions, tax withholdings, employment status, identity information, and even government benefits. This data ultimately belongs to the consumer, who should be able to share it for their benefit.

Because consumers and payroll providers generally do not view their relationship as a customer-provider relationship, there typically aren't the same methods of interaction that exist in the banking space that allow consumers to easily share their payroll data.

As a result, consumers often face friction when they need to share their payroll data. For example, if a consumer wants to share their paystubs with their local bank when applying for a mortgage, they may need to download or email PDF files of their paystubs, or print each paystub and carry them to their local bank.

Digitizing these types of manual processes for banking data was data aggregators' first innovation. They replaced the "shoebox" of monthly bank statements consumers used to carry to the bank when applying for a loan with a one-click data share. Aggregators did this first with bank account data. We think it's clear that payroll data deserves the same treatment. Payroll companies are beginning to see the value of allowing consumers to share their data externally,<sup>3</sup> and are building infrastructure and APIs to enable that sharing. This momentum will continue as consumers grow familiar with controlling their payroll data and see the pain points it solves for.

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<sup>3</sup> Forbes, "What You Need To Know About Workday's Blockchain-powered Credentialing Technology"

## Payroll data solves consumer pain points

Fintech companies use consumer-permissioned financial data to solve pain points in two ways: digitizing manual processes and providing customized solutions. Payroll data solves pain points across these two categories.



### Digitizing manual processes:

- **Identity Verification:** Consumers need to verify their identity when engaging with a range of financial services, including opening a bank account, applying for credit cards and loans, and even applying for another job.
- **Income Verification:** Consumers need to verify their gross incomes when applying for auto loans and mortgages. Having gross income data accessible also improves a consumers' visibility into their full financial lives, allowing them to make better decisions with regards to retirement savings, tax decisions, and benefits.
- **Employment Verification:** Consumers need to verify their employment when applying for credit products, government benefits, other jobs, and, in case they've lost work, unemployment insurance.



### Customized solutions:

- **Lending:** Credit underwriting is increasingly relying on the use of alternative data,<sup>4</sup> meaning data beyond what is typically found on a credit report. Adding payroll data to this picture could help credit underwriters have a better view of a consumer's overall financial picture, helping them better price credit to a consumer's financial situation. It can also help mitigate fraud and better assess and control for risk by gathering additional verifying information.
- **Direct Deposit Switching:** Banks seeking to acquire customers can incorporate deposit switching functionality to allow a consumer to redirect their paycheck. Consumers generally treat the account that receives their payroll deposit as their primary account, which allows banks to become their primary provider.

<sup>4</sup> <https://www.consumerfinance.gov/about-us/blog/update-credit-access-and-no-action-letter/>

## How payroll data can provide innovative consumer financial products



Steady is a company focused on the future of work, where multiple streams of income is the new normal. Steady's users there frequently have one job where they're paid through a payroll provider, and another job where they're paid directly, perhaps via an online payment platform like PayPal. In order to better understand how users earn through their multiple income streams and, more importantly, how users can optimize those earnings, Steady needs to be able to see their full financial picture. Gross income data would fill out this picture.

## Petal

Petal is a fintech with a mission—to expand access to honest, simple and responsible credit. Around 45 million U.S. consumers lack sufficient credit history to be scored by credit reporting agencies, and tens of millions more have thin credit files. These individuals are routinely denied when applying for mainstream credit cards, loans and other forms of financing, but Petal's proprietary "Cash Scoring" technology enables these consumers to leverage their own bank account data to establish creditworthiness for a range of safe and responsible credit card products together with modern personal financial management tools. For Petal, payroll data could help to better illuminate consumers' full financial pictures and deliver on their mission to expand credit access.

*"By quickly verifying employment and income, electronic access to portable payroll data can help consumers establish their creditworthiness, unlock better financial products and services, and save time and money. Maybe even more exciting, this kind of payroll data access could power new financial products and services that could improve consumers' lives in ways we haven't even thought of yet."*

— Jason Gross, CEO of Petal



OppLoans is a financial technology platform whose mission is to provide financial inclusion to the middle income, credit-challenged consumer. For the millions of credit-challenged Americans, OppLoans powers banks to facilitate credit for consumers who may be turned away by traditional lending options. OppLoans, through its bank partners, leverages consumer-permissioned data as part of the underwriting process to create a more comprehensive credit profile of the consumer.<sup>5</sup> Consumers could benefit from sharing additional payroll data, which can provide an expanded and more detailed picture of their financial profile.

*"Ensuring a superior customer experience starts with making the process easy and simple for the consumer. For example, improving the consumer's access to payroll information quickly but securely through the use of API, benefits both borrowers and financial institutions. It can streamline the process for the consumer, speed up the time to funding, and enable the financial services partner to focus on the customer experience, as well as its service and support."*

— Matthew Gomes, Senior Director of Marketing, OppLoans

<sup>5</sup> InsideSources, "Embracing Alternative Data in Loan Underwriting Would Provide Win-Win for Credit Access in Pandemic"

# Payroll data and open finance: Better together

Open Finance describes an expansion of the fintech ecosystem to one where consumers control all their financial data. The growth of fintech into other sectors highlights not only the importance of consumers controlling their data, but also the benefits consumers derive when providers integrate fintech into their services.

Payroll data is no exception to the open finance trend. In the past decade, payroll providers began incorporating fintech products to help their customers' employees manage their finances.<sup>6</sup> As consumers benefited, payroll companies constructed marketplaces expanding these third-party offerings,<sup>7</sup> and some went so far as to build their own in-house financial wellness platforms.<sup>8</sup>

While payroll companies were integrating fintech into their offerings, fintech companies continued to build standalone products that could benefit from incorporating payroll data. To power many of these fintech use cases, however, payroll data is necessary but insufficient. In lending, for example, credit underwriting can require not only verification of income and employment, but also transactional data for a true picture of a consumer's ability to repay. Mortgage applications may wish to see the full picture of a consumer's finances, and therefore seek liabilities and investments data alongside payroll information.

Ensuring consumers have the ability to share their financial data is increasingly topical in the policy space. For example, the OCC's Project REACH is designed to help bring the credit invisible into the mainstream,<sup>9</sup> and the Consumer Financial Protection Bureau recently announced its Advanced Notice of Proposed Rulemaking on consumer financial data access.<sup>10</sup>

Plaid's vision is to drive towards open finance by acting as a full-service provider for consumers seeking to control their financial data. We aim to provide consumers with control over their entire financial lives, so that they can access and utilize the products and services made possible by the fintech ecosystem. Payroll data is the next step on that journey.

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**In the past decade, payroll providers began incorporating fintech products to help their customers' employees manage their finances.**

<sup>6</sup> Aspen Institute, "The Workplace is the Frontier of Financial Wellness"

<sup>7</sup> PayActiv/ADP Press Release

<sup>8</sup> TechCrunch, "Gusto is expanding from payroll into a full suite financial wellness platform"

<sup>9</sup> OCC, "Project REACH"

<sup>10</sup> CFPB, "Advanced Notice of Proposed Rulemaking on Section 1033 of the Dodd-Frank Act"

# Appendix: The evolution of payroll

The use of payroll data can be sorted into three historical generations, each new one absorbing and carrying forward the previous:

## First generation: Taxes

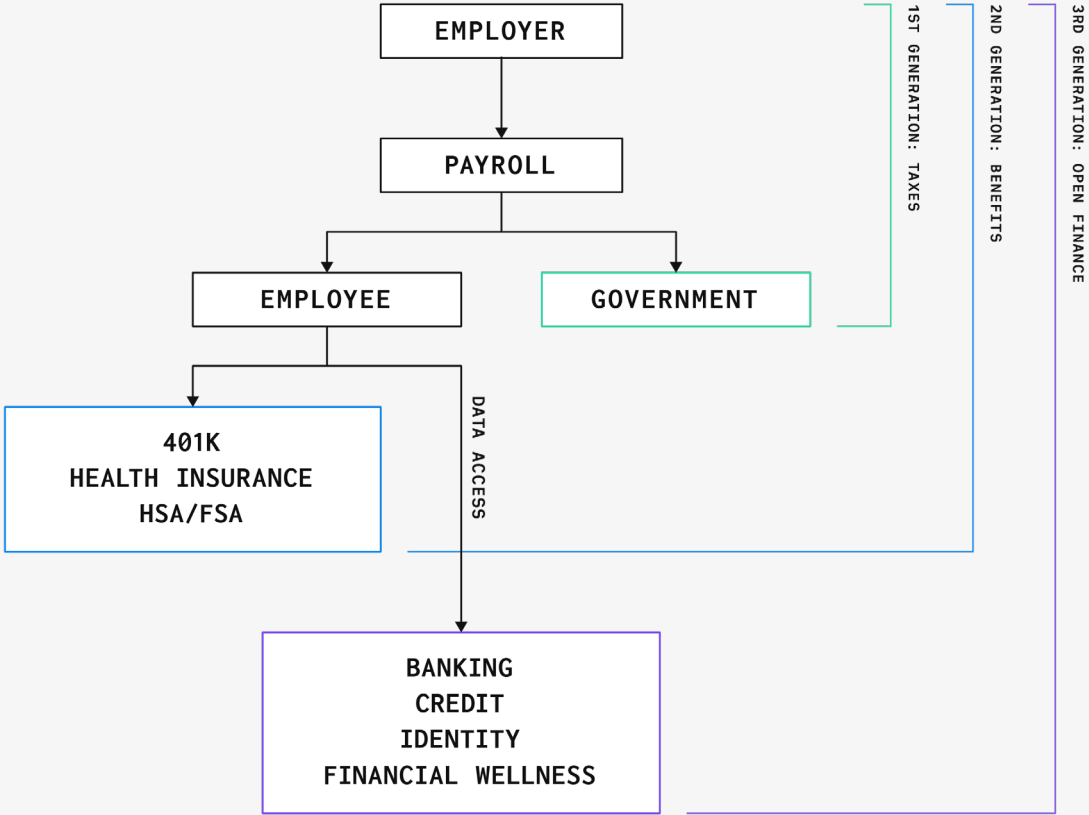
Payroll providers would provide company and employee data to the government in order to pay the payroll and income taxes.

## Second generation: Benefits

Companies began offering their employees private benefits like 401ks and health insurance, so payroll providers shared data with 401k recordkeepers and asset managers, and health insurers.

## Third generation: Open finance

Payroll companies are recognizing the central role they play in consumers' financial lives, and offering fintech services. Enabling consumers to control their payroll data expands consumers' access to the fintech ecosystem.





*Plaid is a fintech company which builds the technical API infrastructure that connects individuals, financial institutions, and fintech developers – giving consumers power over their own financial data.*

*Launched in 2013 and headquartered in San Francisco, a quarter of US bank accounts are now linked by Plaid to a range of fintech apps that can help consumers carry out essential financial tasks such as save for retirement, make a budget or transfer money.*