Tink's guide to

improving income verification

How common income verification methods work (or don't) – and how you can improve this process.

tink

In this guide

An impossible choice between facts and friction?

Today's customers have very high expectations – and little time to waste. They want smooth and speedy digital experiences, and a good first impression is key. But when it comes to financial services, a Signicat study finds that almost two thirds of applicants drop out in the onboarding process. And 20% of abandonments are due to lengthy and complicated onboarding processes.

The speed and seamlessness of today's technology has led people to expect quick and intuitive experiences for any digital service. On face value, the way to meet these expectations is simple: remove barriers wherever you can.

This can be much more easily done for services like booking a taxi or joining a fitness program – but **when it comes to loan applications, that friction is there for a reason.**

The regulatory need for affordability checks, or the business need for credit risk decisioning, mean that verifying the income of an applicant isn't a barrier that can simply be removed.

That's the seemingly impossible choice of income verification: business need, or consumer expectation? Getting the facts has until now demanded some degree of friction. But what if you could get all the facts, with none of the friction?

In this guide, we'll go through the most common income verification methods used today, how well they meet the expectations of both your customers and your business – and how you can get a solution that works for everyone.

Income verification: the basics

What is income verification?

Most commonly as part of a loan application, businesses may need to know exactly how much money someone takes home each month.

To do that, they can use external credit bureaus, or request applicants submit proof of income such as payslips and tax return statements. (In some cases, they'll skip the actual verifying and just take the applicant at their word.)

Why is it necessary?

The specific legislation may vary, but since the financial crisis of 2008, all European countries have regulatory requirements to ensure responsible lending and consumer protection.

Affordability checks for almost all types of loan are mandatory in some way, and even beyond just the necessary regulatory compliance, it's simply sustainable business practice and good customer service to ensure you are lending to those who are able to repay.

When else is it used?

Besides lenders, other businesses and industries can benefit from knowing a customer's income streams (or are required by regulations to do so). Landlords and property rental services, for instance, often require proof of income to determine if a tenant will be able to pay rent.

In financial services, having an accurate picture of someone's income, and how it varies over time, can also help investment brokers and pension advisors provide the best advice to their customers.

What's the problem with it?

Although it helps businesses meet regulatory requirements and mitigate risk, the most common income verification methods used today aren't that great. They cause friction and delay in the application process (negatively impacting conversion), they're often costly (as they require manual processing) – and they're not even giving you all the information you want.

What you should expect from an income verification method

So a potential customer wants to do business with you, and you need to verify their income. How can you address both parties' needs without creating hassles and headaches for everyone involved?

To give – and get – a good experience, income verification processes should be:

→ **Convenient**

Everyone wants a digital and instant process. Consumers will increasingly accept nothing less than getting fast results with minimum effort.

You can also improve business efficiency by speeding up and streamlining your operations – not just for the verification, but also the subsequent loan processing.

→ **Reliable**

Reliability isn't just a matter of 'will it work, and can I trust it?' – when it comes to affordability checks and compliance, the information has to be 100% verifiable and secure.

Beyond that, you also need to know that you can rely on the information being up-to-date and a true reflection of the current circumstances of the applicant.

→ **Complete**

With the ever-evolving labour market (think gig economy, decreasing lengths of tenure, furlough schemes) and the advances in data processing and risk modelling, when it comes to applicant information, the more the better.

Look for more than just last year's salary. Look for variance over time, on a monthly level and if other income streams such as benefits, pensions or regular cash deposits exist.

Get to know the most common income verification methods

– and how they match up to expectations

There are a number of different ways you can tick the box 'income verified'.
But are they all actually doing their job as well as you need? And what are the side-effects and trade-offs for your business operations and customer experience?

Here are the most common verification methods used to date:

- **Credit bureaus**
- **Salary records analysis**
- **Manual user statement**

Let's take a closer look at each one.

Credit bureaus

How it works

Applicants give permission for a business to retrieve info from a credit bureau – an external agency that lets you validate an applicant's reported income against information on file at the tax authorities.

The steps are usually as follows:

→ **The user is informed that the application will include fetching a report from a credit bureau in order to assess creditworthiness.**

→ **The report is fetched instantly via API and the user is normally sent a confirmation, either physically or digitally, that a credit lookup has been performed.**

→ **The information on the report that is required to ascertain current level income is processed by the lender.**

→ **Income verified** ✓
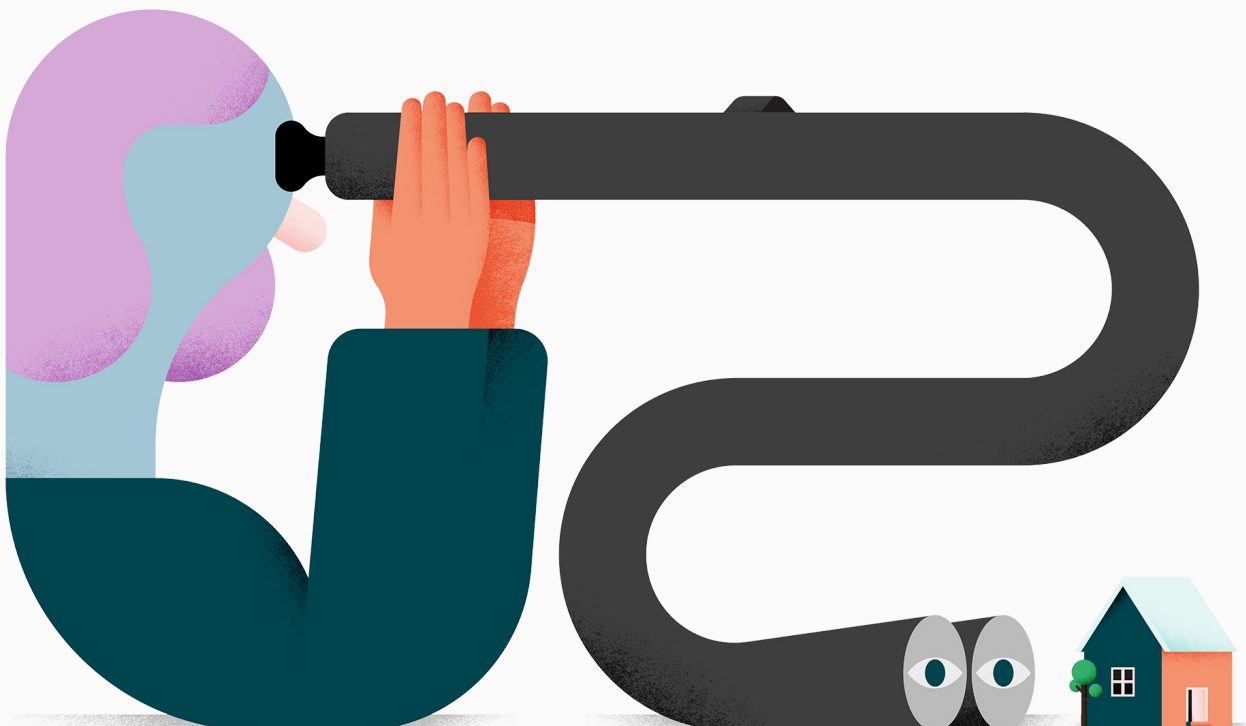
How does it measure up to expectations?

Credit bureaus are well established, and in some markets offer a completely digital and paperless service, so it can be a pretty convenient way to verify income.

But it's worth looking more closely before giving this method high scores on convenience. Could informing customers you'll run a credit check affect their willingness to complete the application? (In many countries, requesting information from a bureau can negatively affect a consumer's credit rating.) And how long will it take to process the information? Consumer expectation is now measured in seconds, not days, when it comes to getting a decision.

Using credit bureaus, or other lookups based on historical tax records, has always been seen as a reliable way to verify someone's income. But it's worth questioning if you're really getting the full, accurate, picture.

Instead of knowing for sure what the current income level of your applicant is, you'll only get details on what their taxable income was at the end of the previous tax year. If you wanted to know if I'm healthy now, would you ask me what my blood pressure was 18 months ago?

In short

This method has its merits. It's been well established for years, and has mostly served its purpose, for most people at least. Credit bureaus tick a very important box – compliance. But with an ever-changing employment landscape, businesses shouldn't be counting on years-old data if they want to make well-informed decisions, particularly when it comes to risk.

Convenient:

Medium

Reliable:

Strong

Complete:

Weak

Salary records analysis

How it works

This verification method is based on customers sending in copies of their payslips or salary statements, usually covering the last 3 months, as a way to prove their current income is stable. Some businesses require sending in physical documents, while some let customers upload digital versions (or photos) of these documents.

It goes like this:

→ **The customer fills in a form or selects from a drop down during the application to state their level of income.**

→ **The customer mails in their payslips or other statement or earnings to the company needing to verify their income.**

or **The customer uploads a digital version of their statement of earnings, assuming they either have a digital copy, or can scan/photograph the paper copy.**

→ **The company receives the documentation, and manually verifies if the information on the documents checks out.**

→ **Income verified** ✓

Convenient:

Weak

Reliable:

Weak

Complete:

Strong

How does it measure up to expectations?

'Convenient' is not a word most would use to describe this method. The effort of having to find and send in copies of payslips and salary statements can discourage a lot of people from completing the process. Then there's a long wait – typically 3-4 business days when handling digital copies, and 7-10 for paper.

Verifying income this way can be a good way of getting a complete picture. Basically, if your applicant can, and will, share it with you, you can have information about all aspects of their income. Payslips from different employers, benefits and pension statements. Any income with a recognisable statement can be included in your decision making and affordability checks (legislation allowing).

As for reliability, with today's photo editing tools, changing numbers or names in a document can be done quite easily. This leaves a lot of room for potential fraud.

In short

Once upon a time, this verification method was probably very reliable. But ever since digital editing tools have been widely available, printed documents or screenshots don't have the same 'integrity' they once did.

The effort required of customers is also quite out of touch with the speedy and breezy experiences expected today – resulting in high customer abandonment rates.

Manual user statement*

How it works

Many businesses collect income information directly from the customer and skip the verifying. Of course, this method might be a complete non-starter if the credit regulation applicable to your business requires you to have the actual documents upon which you base your decision.

However, if you either have a verification step later in the user journey, or have a business model that factors in the risk of unverified information, then it could be enough. With manual entry, customers need only state their current income level. Then everyone just needs to hope for the best.

It takes very little:

→ **The user fills in a form field in the application, or selects an income band from a dropdown list.**

→ **The business accepts the information and moves forward on the assumption that it's true.**
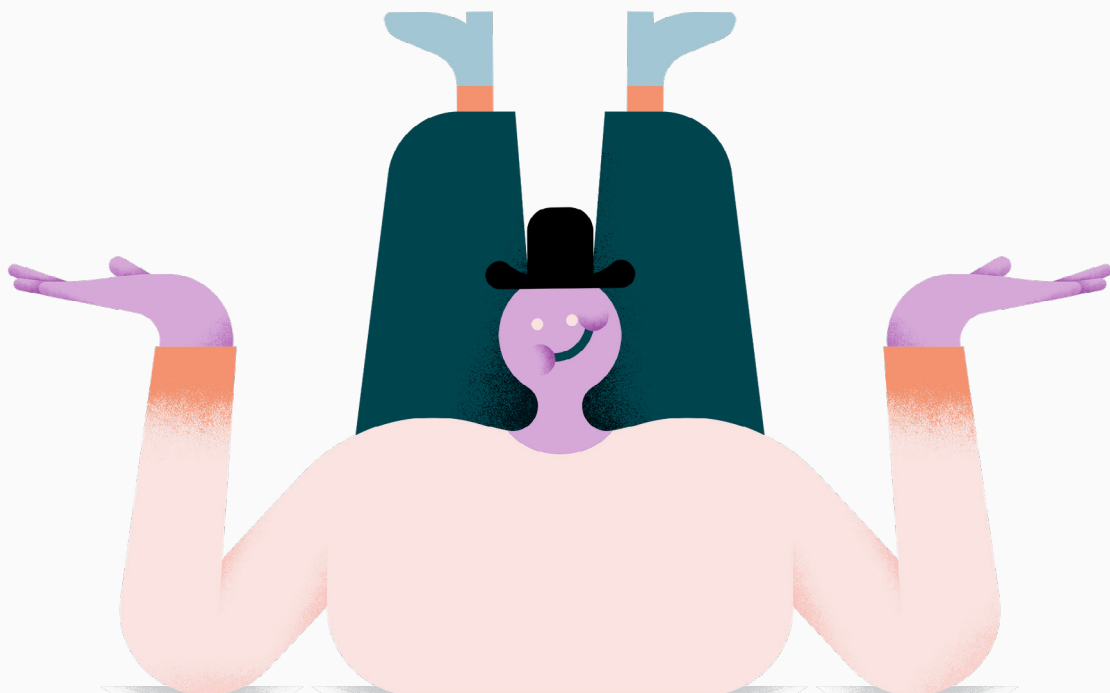
How does it measure up to expectations?

Well, let's address the obvious problem first – it's not actually verifying anything. If you need income information to meet the requirements of an affordability check, or to satisfy credit legislation, then this is not going to be a reliable option.

And assuming that the information provided is 100% correct, it still places all the responsibility on the applicant to actually know the true level of their income. For those who are paid hourly on flexible contracts, are self-employed, or have an income mix made up of wages and benefits – it can be hard to know exactly what the income actually is.

While it could be seen as convenient for the applicant, if you need to verify the stated income later, then you're really just delaying the friction, not removing it.

As for complete – while it could capture the overall level of income, it won't give you the granularity you actually want to make informed decisions.

Convenient:

Medium

Reliable:

Weak

Complete:

Weak

In short

As mentioned, this is more of a non-verification method. It's based on blindly trusting the user to give the right information – and on them knowing what that information actually is.

And while this process means less effort or impact for the customer (at least compared to credit bureaus and providing salary records) – it's not really solving a problem, just putting it off until later, as the income will in most cases need verifying later in the process.
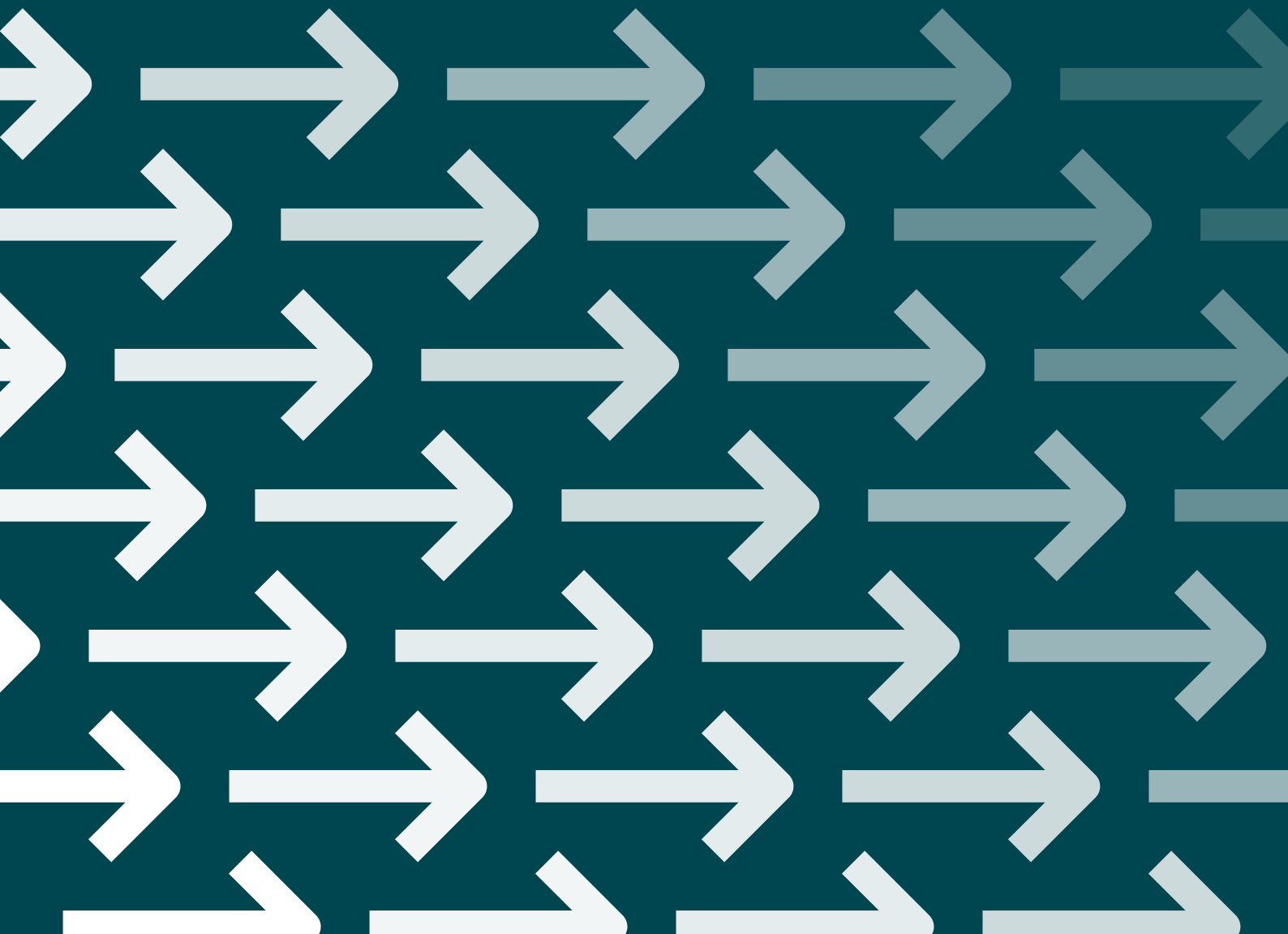
Here's a new way of doing things

There's a faster and easier solution, more aligned with today's expectations for digital services. And it removes the trade-offs.

Using open banking to verify income

Banks have always had the data needed to verify income – it just hasn't been easily accessible until now. But with new capabilities made possible by open banking, income verification can finally catch up with the digital age.

With the new technology available today, income verification can be completed in an instant. And with just a few clicks.

Customers can give access to their transactions by connecting to their banks – and from these transactions you can receive a full and aggregated view of an applicant's income streams.

The result is a convenient and reliable process for verifying a complete income. **You get the facts, without the friction.**
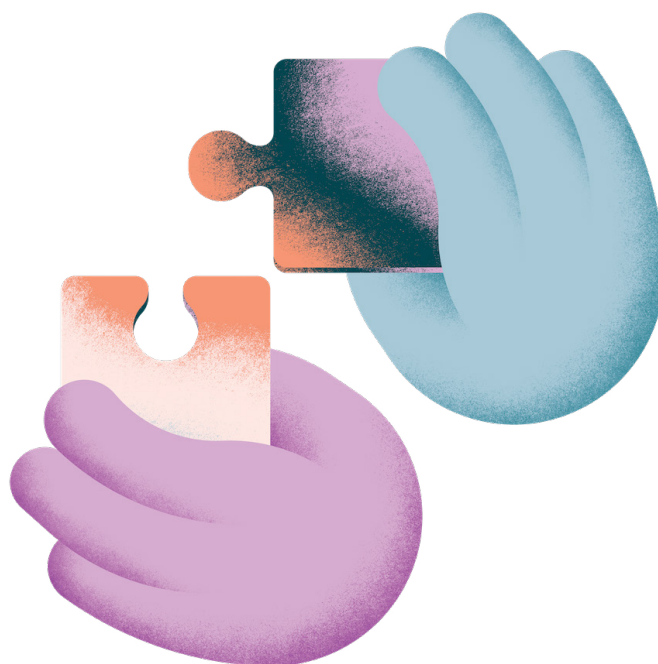
Income Check

Tink's income verification solution – powered by open banking
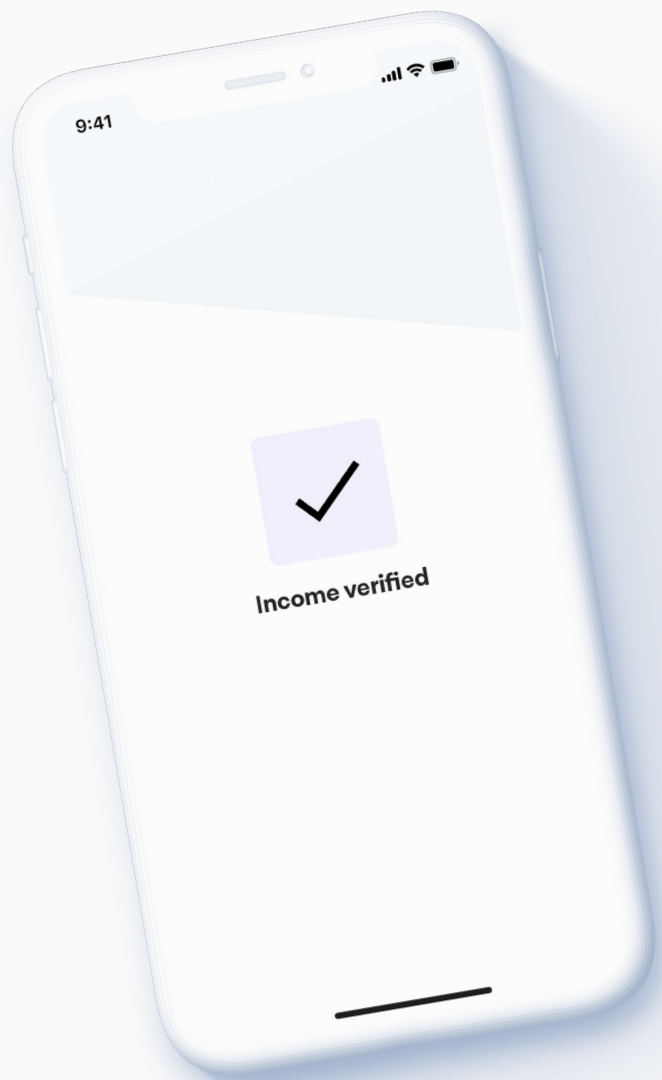
How it works

Tink's Income Check allows businesses to instantly verify a person's income with secure, real-time data directly from their bank account.

With the help of pattern recognition, incoming transactions can be grouped and filtered by recurrence and other criteria to extract only the ones that constitute income streams. Each stream is classified and labelled with the type of either salary, pension, benefits, cash deposit or other.

This allows for better assessments of creditworthiness and repayment ability.

Here's what it looks like:

→ **The applicant connects with their bank and consents to sharing their data so Tink can fetch their transaction details.**

→ **In the background, Tink analyses the data to identify recurring income and immediately provides the information you need.**

→ **Income verified** ✓

When all is verified, the applicant can be given an instant offer or proceed on their application – and businesses get a report with the information gathered by Tink automatically delivered.

How it works – the tech side

Income Check can easily be integrated with one line of code by using Tink Link, our front-end SDK. By implementing Income Check into your flows, your user will be asked to share their data and authenticate with their bank.

If the user consents, their transaction history will be fetched and analysed to determine their income streams, and you'll get an automated JSON or PDF report with the required data. This process can be completed in under a minute.

The Income Check authentication flows also pass Strong Customer Authentication (SCA) requirements, so it's a very secure process.

Convenient:

Strong

Reliable:

Strong

Complete:

Strong

How does it measure up to expectations?

Income Check isn't just simple and instant for your customers – it's complete and compliant for your business.

No need to rely on outdated credit bureau data, deal with endless paperwork, and struggle with applicant drop-off. It takes as little as a finger tap on a phone screen and face recognition to provide you with granular, complete and up-to-date income information.

The fastest way to get accurate and up to date income data to digitalise onboarding and handling flows.

In short

Income Check doesn't just provide a couple of benefits over the alternative income verification methods. It's the only one that removes the trade-offs they force you to make. Whether you use it to fill the gaps of another method, or to verify income where you haven't been able to before, by taking advantage of open banking, you get the maximum output from the minimum input. All fact, no friction.

To recap

	Credit bureaus	Salary records analysis	Manual user statement	Tink's Income Check
	Requesting taxable income information.	Sending in payslips or salary statements.	Manually entering income level.	Connecting to your bank to share income data.
Convenient	🟠 Medium	🔴 Weak	🟠 Medium	🟢 Strong
Reliable	🟢 Strong	🔴 Weak	🔴 Weak	🟢 Strong
Complete	🔴 Weak	🟢 Strong	🔴 Weak	🟢 Strong

🟢 Strong   🟠 Medium   🔴 Weak

Is Income Check right for you?

If you've experienced your own struggles with income verification, the good news is: it doesn't have to be a pain. At least not anymore.

By taking advantage of open banking technology, you can remove barriers for your customers and simplify verification processes for your business.

Want to learn more? You can find out more about the tech of it all in our getting started guide, or read about why American Express is partnering with Tink to instantly verify income (among other things).

If you want to get right down to business – reach out for a chat:

partnerships@tink.com

About Tink

Tink was founded in 2012 with the aim of changing the banking industry for the better. We've built Europe's most robust open banking platform – with the broadest, deepest connectivity and powerful services that create value from financial data. Our tools are helping all sorts of businesses – from big banks, to fintechs and startups – build the future of financial services.

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Markets covered

10k+

Developers on our platform

3,4k+

Integrated banks and financial institutions

10bn+

Transactions processes per year

250m+

European consumers reached

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