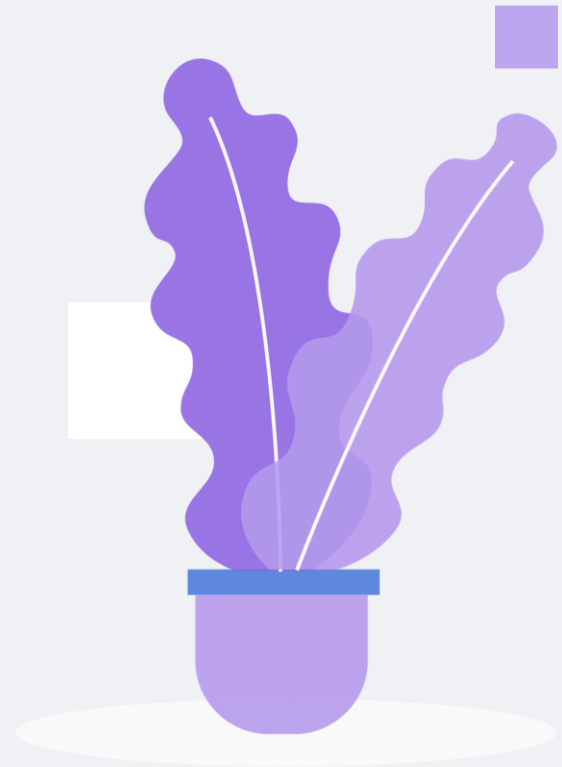
The promise of employment data in the gig economy

2022



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Setting the stage

Picture this. You're fresh out of college, you just landed your first job at a fairly large company, and now you're devoting 40 hours or more of your week to a single corporate entity that doles out your monthly paycheck. It is reasonable to expect that you could be there for your entire career — for better or worse.

That was a generation ago. More people are self-employed today than they have been in 20 years, with the trend expected to continue. What's more, independent workers are pulling income from multiple, often diverse, gigs, largely due to rapid technological advancements and lightning bolt global events. As such, modern work models no longer neatly fit traditional worker archetypes.

But there's a problem. Our legacy financial infrastructures cater to traditional W2 workers with single, full-time jobs (W2 income, in tax terms.) The industry inadvertently marginalizes self-employed, 1099 workers, who struggle to access financial products like credit cards and loans. Argyle's 2021 survey of this worker segment revealed that nearly half were denied access to loans and credit products that they could afford.

Financial institutions typically rely on traditional data like credit scores to finance loan products. We believe employment data is a much better indicator of a worker's ability to pay back loans. Using data aggregation technologies, lenders can incorporate employment data into their underwriting models to better assess a borrower's ability to meet a payment schedule. Lenders can make better-informed lending decisions that could increase borrowers' access to loans and other financial products.

In this whitepaper, we explore the opportunities presented by new employment trends and how financial services can prepare with the help of employment data.

"Employment data is the bedrock of somebody's financial picture. It is one of, if not the most important indicator of somebody's financial health. Because of an inability for consumers to access this information, it makes it very hard for them to get loans or access to insurance products."

Billy Marsden
COO & Founder, Argyle

Today’s worker is a **multi-income** earner

In 2003, 10.3 million workers were self-employed. That figure grew to 59 million people by 2020. One-third of the workforce is self-employed in some capacity, with two or more income streams via freelance, contract, or gig work, and 55% report that independent earnings serve as their primary source of income.

Today, the 1099 workers are growing more diverse in job type, earning income through multiple, diversified streams of revenue. These 1099 workers might be employed part-time at a startup, have a consulting business on the side, or occasionally pick up Uber shifts. Someone might earn money off their YouTube videos, take tips on Twitch, and sell their merchandise through their Shopify store.

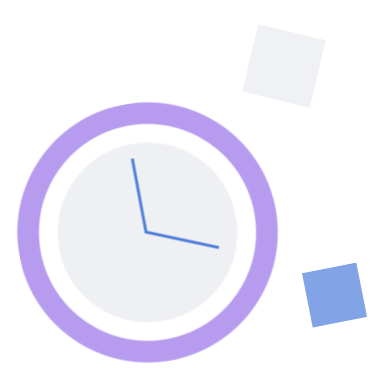
Sustainable and profitable gig work with technology

The radical speed at which technology has developed over the last 20 years has created more opportunities for people to engage in gig work in a sustainable, profitable way. The migration to gig work between 2005 and 2015 coincided with the growth of online platforms like Upwork and Fiverr, which connect businesses to independent workers, and e-commerce platforms like Amazon, eBay, Shopify, and Etsy, which enable entrepreneurs to set up online stores. Content creation platforms like Instagram, YouTube, and Twitch, allow creators to monetize their content and transform side hustles into primary sources of income. People are also making money by providing asset-sharing and transportation-based services through companies like Uber, DoorDash, and Airbnb.

Volatile world events facilitated full-time to freelance transitions

The financial crisis of 2008 decimated the job market and put 9 million American workers out of jobs. Unable to find full-time work, many were compelled to migrate to freelance and contract jobs. When the job market improved, some workers found enough flexibility and profitability in their freelance roles to continue.

More recently, COVID-19 propelled the gig economy to the stratosphere. Once again, millions of people across different industries lost work and once again, many turned to freelance work.



While the overall sum of freelance workers did not change all that much, the pool's composition changed significantly, shifting from low-skilled, in-person workers to full-time, high-skilled remote workers. The skilled independent work segment grew faster than all other segments last year.

Companies also went remote, and more than a quarter of the workforce is expected to remain fully remote. Because work-from-home cuts down commutes and offers more flexibility, it naturally affords workers more time to work on side hustles and gig work to generate extra income.

Financial institutions are failing self-employed workers

Although gig workers and freelancers account for 36% of the labor force today, they struggle to access financial products like credit cards and loans. Some of the reasons independent workers are rejected include.

- **Legacy infrastructures.** Financial institutions primarily operate on legacy infrastructures that are not designed to recognize short-term, multi-revenue streams as predictable income. In Argyle's gig work survey, 49% of 1099 workers reported that they were rejected for a financial product they knew they could afford.

- **Low or inaccurate credit scores.** Credit scores are typically used to assess credit requests and underwrite loans, but there's little consumer understanding of the way credit scores are generated, maintained, and improved. Lack of knowledge can prevent workers from understanding and improving their scores, which can lead to a perpetual cycle of financial inequity.

- **Complex loan processes.** Applying for a loan can be unnecessarily complicated if you're an independent worker. Take mortgage lending for 1099 workers, which requires two years of business tax returns, YTD P&L and balance sheets, a business license, and a signed letter from a Certified Public Accountant (CPA). Procuring these documents across multiple platforms and work types can be exhaustive and exhausting for workers — as well as lenders who have to process these documents.

- **Proof of income.** Lenders often have trouble verifying income through standard verification methods – employment letters, phone calls and faxes to employers, and Social Security numbers. In fact, Argyle's gig work survey also indicated 36% of 1099 workers had trouble getting their earnings and employment verified. Without income verification, lenders are more likely to deny loans.

The 1099 worker pool is likely to grow and earn on par with traditional workers

Independent workers are expected to account for 50% of the labor force by 2027, and younger people are more inclined towards independent work than older ones. 50% of Gen Z workers are self-employed compared to 26% of boomers. Similarly, 80% of teenagers between 13 and 18 said that they wanted to be self-employed and would rather earn a non-traditional income. Self-employment as the preferred work model will likely increase as the younger generation enters the job market.

Though earnings vary across all self-employment, close to two-thirds report that they earn more as freelancers than they did as full-time employees, and many are generating income on par with traditional employment. For example, freelancers with at least three years of experience earn a median annual salary of $70,000.

Financial institutions will need to adapt to this modern labor force to serve a growing segment that's hungry for financial products. Those who don't risk losing out on an opportunity to grow their businesses and outperform competitors as the self-employed workforce grows in size and value.

49% of **1099 workers**

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Open finance and **data democratization** at large

New changes in work trends coincide with the data democratization movement in the private and public sectors. Data democratization empowers consumers by advocating for consumer ownership and control of data, which includes rights to data access, correction, erasure, portability, and more. It's a shift away from traditional thinking that suggested the agency collecting the data — be that a telecom, a hospital, or a bank — owned the data.

Because there are no federal data protection laws, the data democratization movement is largely industry-led in the U.S. In the financial industry, it is taking shape through open banking, which refers to the ways consumers can share their banking data with other financial institutions and consumer-approved third-party providers (TTP), made possible by consumer-approved APIs and data aggregators, who move the data between entities. More broadly, open finance includes other financial data sets like mortgages, savings, pensions, insurance, and accounting. It also includes non-traditional data like social media data, rent and utility payments, and employment data.

By giving consumers agency over their data, we're opening the doors to new possibilities. Traditionally, businesses have bought and sold consumer data from other parties without active participation from consumers. With open finance, consumers can decide what data to share with what entity and how that information is used to better serve their interests and needs — and they can opt out if they want. From a business perspective, having access to different sets of consumer data fosters a space where financial institutions can design services and products that are better suited to consumers.

The **promise** of employment data

Employment data is critically important to understand how consumers earn, to evaluate consumers' ability to pay for financial products and services. Employment data includes your base salary, job title, work hours, number of shifts, promotions, and tenure. It can also include your behavioral data within employment, like how often you were late to work and when you took time off.

New trends in employment have produced more quantitative employment and work information. Data aggregators like Argyle have isolated as many as 140 data points for the financial industry to use. For freelancers, contractors, and gig workers, this information can be incredibly varied from gig to gig, month to month — but it can paint a much more comprehensive picture of their revenue streams, income patterns, and behaviors. 70% of gig workers feel their employment records better indicate the state of their finances than credit scores.

Digitization has made it so that employers and consumers have a much easier time tracking and maintaining employment records. Whether you work full-time at Morgan Stanley or take occasional shifts with Uber, both companies have a record of your work history and its associated behavioral characteristics. How many contract jobs did you complete in the past month and how much income did you generate? Upwork has the answer if you use their platform to find jobs.

However, there are no federal standards for storing employment data. Employers and payroll providers store it however they see fit — and tech-enabled platforms are no different. For employment data to be used efficiently, it needs to be standardized. Data aggregators are up to the task, normalizing employment data and building the "railway network" that transfers real-time employment data between employers, platforms, payroll providers, and TPPs, so it's easier to access and use.

70% of **gig workers**

feel that their employment records better indicate their financial health than credit scores.

Looking forward:
solutions and opportunities

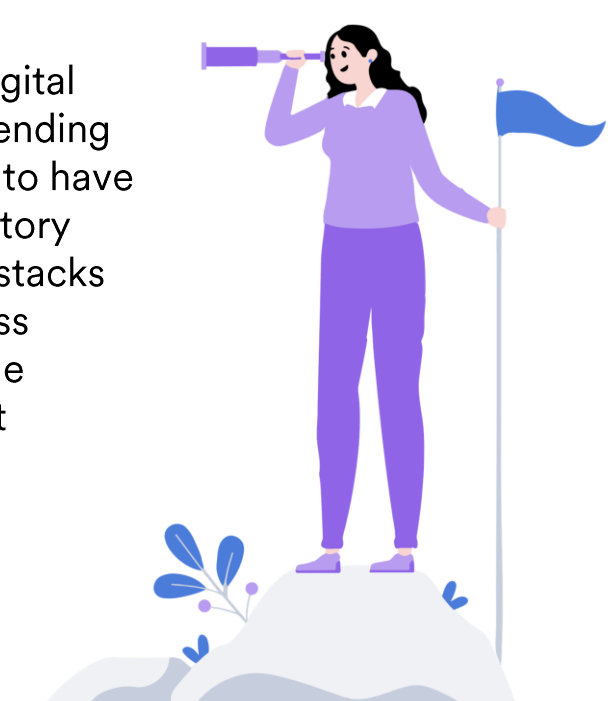
Working with employers and gig platforms, banks and lenders can access and incorporate consumer-approved employment data into their loan underwriting processes to generate a holistic diagnosis of a borrower's financial health. Employment data can help lenders lower their risks and maximize growth through:

- **Fuller insights.** Historical data like credit scores have long been criticized as an incomplete measure of a person's finances that gatekeep financial products from unbanked and poor-credit consumers. Employment data can reveal richer insights that may supplement, enhance, and maybe even disprove what lenders know about someone through their credit scores. A borrower may have a low credit score but consistent income streams that may help them prove they can manage a loan or credit product.

- **Real-time data, real-time decisions.** Having visibility into a borrower's employment and payroll data can help lenders monitor and track borrower performance at work — including gigs worked, money made, and frequency of work — to keep up with real-time changes and make real-time decisions. It also offers transparency into pay cycles and rhythms, which can better inform lending decisions.

- **Tailor-made services and products.** Having insight into a consumer's paycheck, paycheck frequency and behavioral characteristics around employment can help lenders tailor products and services specific to borrowers.

- **Digital employment and income verification.** Digital verifications can help improve the efficiency of lending processes. Lenders can connect with employers to have direct visibility into a borrower's employment history and save themselves the trouble of dealing with stacks of records that could potentially span years across multiple jobs. Direct access could reduce the time it takes to process loans because it flows straight into automated underwriting.



- **Decreased fraud risk.** Dedicated bad actors can fake income and employment paper trails. Lenders are at risk of a faulty or bad loan if the fraud isn't caught during the loan origination process. Having employment data direct from employers significantly reduces the risk of foul play.

- **Work-linked lending.** Work-linked lending allows borrowers to repay loans automatically by authorizing preset distributions directly from their paycheck. Work-linked lending can lead to more frequent, reliable repayments and quicker, low-risk lending decisions. Lenders who approve work-linked lending experience fewer defaults — by two-thirds — than traditional ACH debits.

Final thoughts

By rendering more comprehensive analyses of borrowers' finances, lenders can better assess their ability to meet a payment schedule and consequently lower default risks. This way, lenders cover themselves as well as offer safer, lower-cost loan options for borrowers. Lenders that can adapt to these new worker trends and pivot to incorporate non-traditional data like employment data will grow faster than those stuck in their old models.

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