

UNDERWRITING & CREDIT RISK

The employer is the shock the customer's credit history cannot see

Job loss is among the best-evidenced causes of consumer default. In the Gulf it reaches beyond income, and it arrives through the employer, often for many borrowers at once. Most lenders manage the employer at the door. The value lies after it.

OCTOBER 2026 DUBAI & RIYADH

01 Our position

Paper II argued that the bureau tells a lender where a customer stands, and cash flow tells it what is changing. This paper is about the event that does not start with the customer at all.

Job loss is one of the most reliably documented drivers of consumer default. It is exogenous to the borrower's conduct, it is large, and it converts to default in proportion to how long the income stays gone. In the Gulf, the consequences reach further than they do in the markets where that research was done. Employment and the legal basis for residence are linked, so losing a job can threaten both the income and the borrower's right to stay. And because salaried borrowers are concentrated in a limited number of employers, a single employer event can become a correlated event across a lender's book.

Many lenders in the region treat the employer as an eligibility variable. They approve the employer, then manage the borrower. We think the more valuable question comes after the loan is booked: whether deterioration at the employer can be seen before the income stops. If it can, the lender gains something it did not have at origination. It gains time. The value of an employer signal is not the score. It is the time it buys to act.

We are explicit about what is known and what is ours.

Job loss increases default	Employer-level events create correlated risk across borrowers
Persistent income loss increases severity	Gulf residence rules make income loss unusually persistent
Mass layoffs raise default among the borrowers affected	Employer concentration carries the shock across a book
Earnings losses after a mass layoff are more persistent than after a small redundancy	The cluster shock is the more severe one for a Gulf lender
Financial strain can show in credit behaviour before the job is lost	Monitoring the employer gives a lender usable lead time

Nobody has published the Gulf effect, and we do not claim to have measured it. We claim that the mechanism is established, that Gulf conditions magnify it, and that the question is tractable enough to answer on a lender's own book that leaving it unanswered is a choice.

WHAT THE SIGNAL IS FOR

The value of an employer signal is not the score. It is the **time** it buys to act.

02 An exogenous shock to cash flow

A repayment fails in one of four ways. The income stops, the obligations outgrow it, the pattern becomes unreliable, or the reserve runs out. Paper II built its constructs around those four.

Job loss is the first of them in its purest form. The income does not erode; it stops. And it is the one a lender is least able to see coming from the customer's side, because it originates outside the customer. A bureau file describes someone who has been paying. So does a transaction history. Both are accurate, and neither can forecast a decision taken in someone else's boardroom.

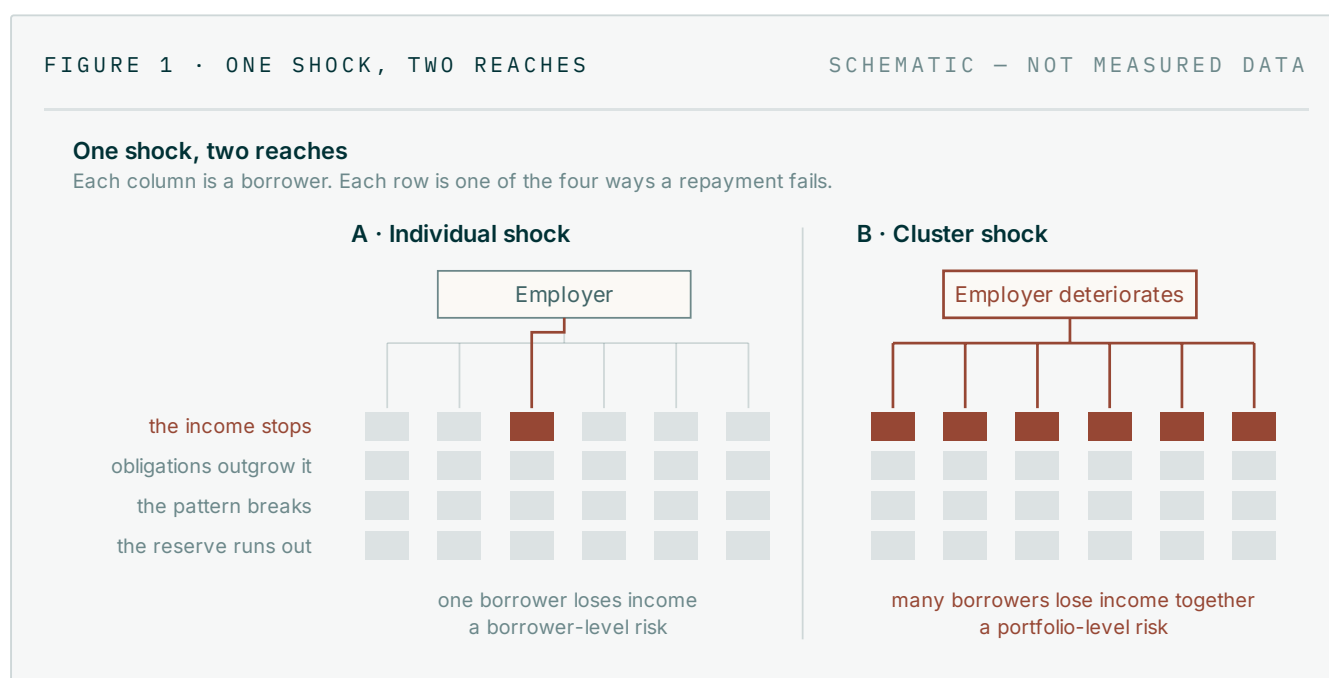
Two mechanisms need to be kept apart.

The first is the **individual shock**. The employer lets one borrower go; income stops; repayment comes under strain. This is the case the research measures, and it is a borrower-level risk.

The second is the **cluster shock**. The employer deteriorates or fails, many borrowers lose income at the same time, and repayment stress arrives across the book together. This is a portfolio-level risk, and it is the one that should concern a chief risk officer. A book of individually sound borrowers can carry a concentrated exposure that no borrower-level measure reports.

The cluster shock is not simply the individual shock multiplied. The evidence suggests that the employment consequences can also be more persistent for workers caught in a mass displacement.

Cash flow does see employer strain. A salary that arrives late, or short, shows up in the account. But it shows up one account at a time, after the fact, and only for the customers whose accounts the lender holds. The employer sits one layer above the customer in the signal stack. It answers the question cash flow cannot: whether the income will continue.



The four ways a repayment fails, from Paper II, for six borrowers who share an employer. On the left, the employer lets one borrower go: one income stops, and the risk is the borrower's. On the right, the employer deteriorates: the same row fails across every borrower it pays, at once. Nothing in any single borrower's record distinguishes the two until the income has already stopped.

Paper II set out the decision chain: data, signal, decision, action, economics. An employer view used only at approval stops two links short. It informs one decision, once, and then drops out of view.

03 What the research shows

The evidence comes from different markets, products and identification strategies, but it points in the same direction: losing employment materially changes repayment outcomes.

The most useful study for a Gulf lender comes from Mexico. Castellanos and colleagues ran a nationwide randomised trial on a credit card that accounted for a meaningful share of all first-time formal loans in Mexico; for nearly half the sample, it was their first formal loan. They matched borrowers to social security records and used mass layoffs to isolate job loss the borrower did not choose. Even a very large cut in the interest rate moved default only modestly, and for the newest borrowers it made no difference at all. Losing a job moved it by a multiple of that.

That result matters twice. The population is the one Gulf lenders are now competing for: thin-file, first-credit, formally employed. And the job loss is identified through mass layoffs, which are employer events by definition.

Keys, at the Federal Reserve, found that households are far more likely to file for bankruptcy in the year after a job loss, and that the elevated risk lasts for years, not months. The more persistent the loss, the worse the outcome. Losing a manufacturing job, a proxy for a longer separation, was considerably more likely to end in bankruptcy than losing a job elsewhere. His model makes the mechanism explicit: default depends on the size of the income shock and on how long the borrower expects it to last.

How a worker loses the job matters too. Cederlöf used a last-in-first-out layoff rule in Sweden to compare workers displaced in small redundancies with those displaced in mass layoffs. Workers let go in smaller layoffs eventually closed the earnings gap with former colleagues. Among workers let go in mass layoffs, the earnings loss was permanent, and they were more exposed to non-employment, long-term unemployment and leaving the labour force altogether. He suggests congestion as a reason: a large layoff releases many similar workers into the same local market at once.

The Swedish study measures earnings, not credit. But earnings are what repay a loan, and persistence is what Keys found converts job loss into default.

Brazil's central bank linked its credit registry to employment records and found a similar division in credit outcomes (Garber, Ladeira and Narita, 2026). Among workers who found new jobs quickly, those displaced from larger firms suffered earnings losses that persisted after re-employment; they cut their borrowing and still defaulted. Those displaced from smaller firms largely recovered their earnings, but they had increased their borrowing, mostly on credit cards, in the months before the layoff, in anticipation of it, and they too defaulted after the job loss. The strain showed in their credit behaviour before the salary stopped.

Default after job loss is inability, not choice. Using US household data, Gerardi and colleagues found that changes in the ability to pay have the largest effects on mortgage default, and that losing a job weighs on default as heavily as a large fall in home equity. Registry data from Romania adds that the effect is sharpest at lower incomes.

Three conclusions follow for a lender.

Job loss is a first-order risk, not a tail. Persistence is what turns it into loss, and a job lost alongside many others tends to be the more persistent kind. And pricing cannot remove it.

That last point deserves precision. A price premium can compensate a lender for higher expected loss. It cannot prevent the loss event, shorten the unemployment, preserve the borrower's residence, or create a path to recovery. Price compensates for risk. It does not change it.

04 What the evidence does not show

Nobody has published the share of Gulf consumer credit loss that is correlated through employers. We looked, and we do not expect to find it.

The research establishes that job loss drives default, that persistence drives severity, and that mass layoffs raise default among the borrowers affected. It shows that earnings losses after a mass layoff are more persistent than after a small redundancy, and that financial strain can surface in credit behaviour before the job goes. It does not measure employer concentration inside a lender's book, and none of it comes from the Gulf. The Swedish and Brazilian evidence measures earnings and borrowing, not a lender's loss.

So what follows is inference, and we mark it as ours. The claims that Gulf conditions magnify the shock, that the cluster shock is the more severe one on a Gulf book, and that employer monitoring yields usable lead time there, are hypotheses. We are not asking a lender to accept that the effect is large. We are saying that the mechanism is plausible and economically important enough to test, and that the test is well within reach of any lender with a salaried book.

05 Why the Gulf magnifies it

The research in section 03 largely comes from markets where losing a job does not, by itself, end the borrower's ability to remain in the labour market. Four features of the Gulf change that.

Employment and residence are linked. In the UAE, a residence permit that ends with employment carries a grace period set by residence category. For most workers it is short, a matter of weeks; it is longer for skilled workers and for long-term visa holders. In Saudi Arabia, a worker's right to transfer to another employer, or to leave, turns on the employment contract. The details vary, and they have become more flexible in both markets. The principle holds: losing the job can put the legal basis for remaining in the country in question.

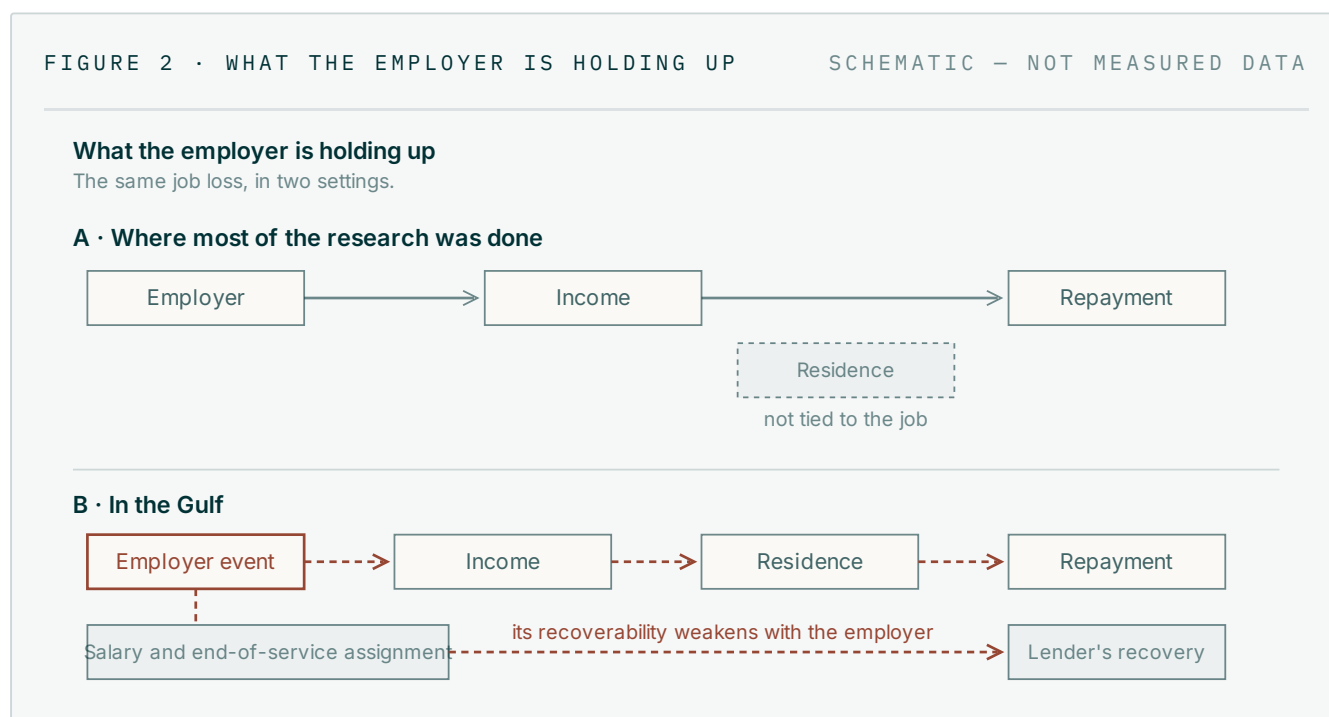
That can make the shock more persistent. For a lender, the problem is not simply unemployment. It is the possibility that the borrower leaves the local labour market altogether rather than re-entering it. That can turn a temporary income shock into a much more persistent one, and persistence is what converts job loss into default.

Employers deteriorate and fail in public, including large ones. Saudi Oger's workers went months without pay in 2016; the company was later liquidated, and a Riyadh court put the wages and benefits owed in the billions of riyals. One former employee told Human Rights Watch he had had to take bank

loans to support his family. Arabtec, one of the region's largest contractors, still employed tens of thousands of people when its shareholders voted in 2020 to liquidate it. Neither was a marginal employer.

The lender's recovery position weakens at exactly the wrong moment. In our experience, salary-transfer lending in the region carries an assignment of the end-of-service benefit as a matter of course, whether or not the published terms spell it out. The entitlement survives an employer's distress as a claim, but its recoverability is no longer assured. The collateral is weakest in precisely the event it is there to cover. The UAE's involuntary loss of employment scheme is a genuine buffer, but a short and capped one: part of basic salary, for a few months, and only after a year of premiums.

There is also a standing assumption to question. Conventional retail credit treats borrower outcomes as largely independent. The Basel Committee's own explanatory note explains the low correlation it assigns to retail exposures in those terms, observing that retail borrowers "are not strongly interlinked," and it derived the retail figures from G10 data. The assumption is reasonable at borrower level, and for a book whose borrowers work for thousands of unrelated employers. It becomes less comfortable when a meaningful share of a book draws its salary from the same few, because the employer then acts as a common factor above the borrower.



Above, the job supports the income and the income supports the repayment; losing the job leaves the borrower in the same labour market, looking for another. Below, the job also underpins the legal basis for remaining in the country, and the employer stands behind the lender's recovery through assignment of salary and the end-of-service benefit. An event at the employer puts every link after it in question at once, including the one the lender was relying on if the others failed.

06 At the door

Lenders in the region already treat the employer as a credit variable. The approved employer list is the evidence.

The list starts with the employer, not the bank. An employer is listed because it applies. In Saudi Arabia the process is published: banks put an employer registration route on their websites, asking for a stamped listing form, authorised signatories, the commercial registration, recent audited accounts, social-insurance headcount and the employer's Nitaqat rating. In the UAE the same process mostly runs offline, through the bank's relationship with the employer. Either way, the bank reviews the employers that come forward, once, on a snapshot of their accounts. An employer that never applies is never assessed, however sound it is, and its staff are priced as if it were unknown. The list therefore records which employers engaged with the bank, not which employers are strong.

For lenders whose employer framework is primarily an eligibility mechanism, the list does two jobs. It screens on the size of the organisation, as a proxy for stability. And it screens on the employer's record of remitting the final salary and end-of-service benefit to the bank when staff leave, which is what makes the lender's assignment collectable. Both are sound instincts.

The framework is most comfortable with the largest employers, and with individual exits at employers that cooperate. Large employers are more stable on average. But when one does deteriorate, it is the largest concentrated exposure the book carries, and the list gives no warning, because it was built to decide who gets in. The Brazilian evidence adds an uncomfortable detail: it was workers displaced from larger firms whose earnings losses persisted. Size lowers the odds of the event. It does not soften the event.

Below the top tier, the picture changes. Category B and C employers are more volatile, and the standard response is to accept them at a higher price or a higher salary floor. As section 03 showed, that compensates for the risk without reducing it.

The deeper limitation is timing. The listing review is a decision taken once, on accounts that are already a year or two old, and the loan decision that relies on it is taken once, at origination. When an employer begins to deteriorate after the loan is booked, nothing in the framework changes.

Every bank in the region uses the employer at origination to some extent. Where lenders publish their terms, the employer decides who gets in, on what terms, how the employer itself is judged, and how the loan is secured. Even lenders that advertise loans open to any employer still route the salary through themselves, or set their terms by who the employer is. None of the published terms we reviewed uses the employer after the loan is booked.

The employer at the door

What lenders' own published terms say about the employer, and when.

AT APPROVAL**LISTING PROCESS
(ONE TIME)****WHO STARTS IT**

"allows business owners to register their Business in the approved entities list"
 "Fill out the attached listing form, to be signed and stamped by the entity"

JUDGED HOW

"employer classification ... in 'Nitaqat' program must be in green color or above"
 "Audited financial statements for the last two fiscal years"

**ONGOING
POLICY / PRICING****WHO GETS IN**

"Employer needs to be part of the approved list of companies"

ON WHAT TERMS

"...for employees of approved companies, or ... for all other applicants"
 "Salary Transfer – Non-Listed Employer"

SECURED HOW

"Transfer your monthly salary and End of Service Benefits (EOSB)
 to your ... account until the loan is fully repaid"

AFTER THE LOAN IS BOOKED

no published term
uses the employer

the door

Extracts from the published personal-finance terms of retail banks, digital banks and finance companies in the UAE and Saudi Arabia, lightly elided. Listing is a one-time process, and it starts with the employer: the employer applies to the bank, with its own documents and signatories, and is judged on a snapshot of its accounts and ratings. Lenders then use the listing in ongoing policy and pricing: who gets in, on what terms, and how the loan is secured on the employer's salary and end-of-service payments. All of it sits at approval. Nothing in the published terms we reviewed uses the employer after the loan is booked. *NYK Advisory review of lenders' published product pages, FAQs, key facts statements and terms, September 2026. Lenders not named. This shows market practice. It does not measure any lender's exposure or default risk.*

07 After the door

THE GAP

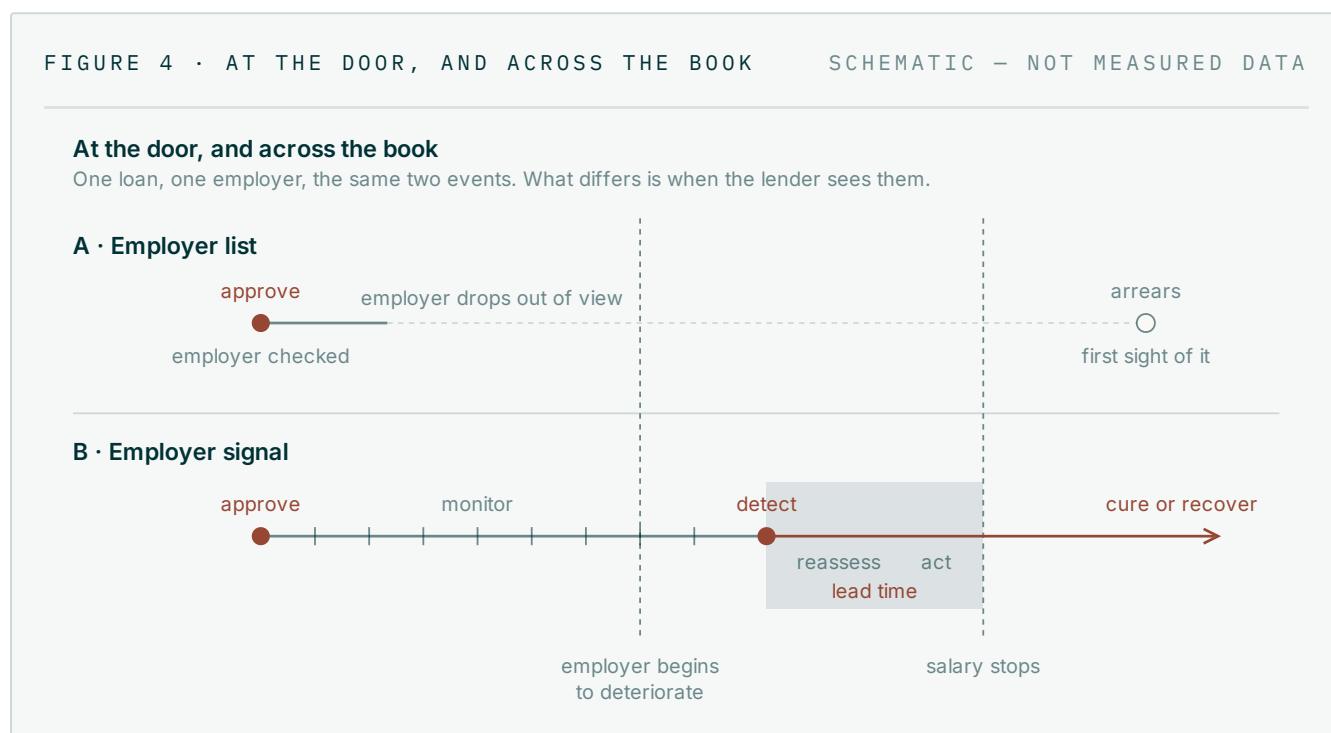
The employer drops out of view at exactly the point it becomes **informative**.

Most of the control a lender has over employer risk sits after origination. Yet the employer drops out of view at exactly the point it becomes informative.

The principle is simple. One practical manifestation of employer strength is whether it keeps paying its people, on time and in full. Treat the employer as a live signal across the book, not a gate passed once, and a lender can see a cluster forming before it becomes a set of individual defaults.

The timing is the hard part, and the valuable one. By the time a salary is missed, most of the lead time has gone. Employer strain tends to show earlier than that, and in places a lender's own systems are not designed to look. Getting a head start on that timing is the part of this work we do with clients.

With lead time, a lender has options it does not have after default. It can stop new lending and top-ups to a deteriorating employer. It can manage lines down, cap exposure, and hold back increases that would otherwise be granted automatically. It can prepare collections before the salary stops rather than after, while the borrower still has income, a bank relationship and a residence to protect.



The same loan, the same employer, the same two events. Above, the employer is a gate passed once at approval; after that it drops out of view, and the lender first sees the problem when the borrower falls into arrears. Below, the employer is watched across the life of the loan. Deterioration detected before the salary stops leaves time to reassess and act while the borrower still has income. The shaded interval is the lead time, and it is what the employer signal is for. The figure implies no particular length of lead time.

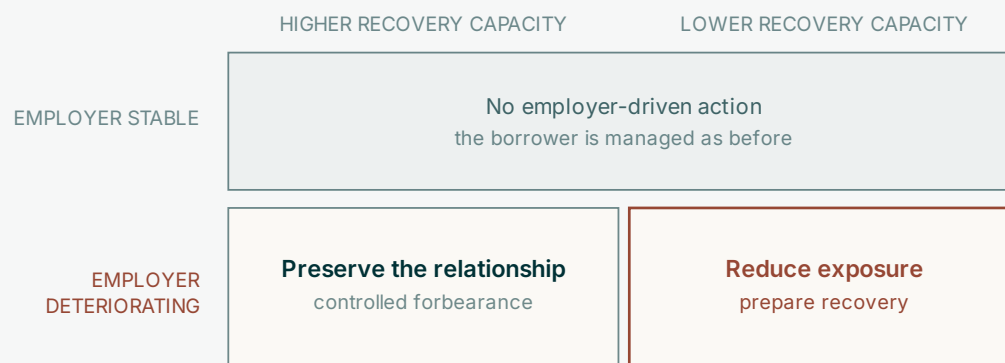
What it should not do is treat every affected borrower the same way. A lender needs to know not only who may lose income, but how much recovery capacity and time each borrower would have if they did. Two inputs describe that recovery capacity. Job code and sector indicate how readily a borrower is likely to find work again, and whether many others with the same skills are being released into the same market at the same time; recovery capacity is a property of the borrower and the moment, not a fixed trait. The residence framework indicates how long the borrower has to find it. A borrower with high recovery capacity is a case for controlled forbearance, where patience preserves a customer. A

borrower with low recovery capacity and little time left is a case for reducing exposure and preparing recovery, and every week of waiting costs money. The same employer event should not produce the same treatment for every borrower. That is what separates an employer signal from a blacklist.

FIGURE 5 · ONE EMPLOYER EVENT, DIFFERENT RESPONSES
SCHEMATIC — NOT MEASURED DATA

One employer event, different responses

The incremental, employer-driven response only. Not a complete treatment strategy.



The same employer event should not produce the same treatment for every borrower. Where the employer is stable, the employer view adds nothing to how a borrower is managed. Where it is deteriorating, the response depends on how much time and prospect each borrower has of finding work again: patience where recovery capacity is high, reduced exposure and early preparation where it is low. That is what separates an employer signal from a blacklist.

These are back-book decisions, and they are where the economics sit. Paper IV takes up how to run them: line management against live risk, repricing, retention on lifetime value and propensity-driven collections. The argument here is narrower. The employer is one of the signals that should drive those decisions, and in this region it may be one of the most important.

08 Where it fails

An employer view is not a complete answer, and five limits need naming.

Group structures obscure the risk. The entity that pays the salary is not always the one that carries the business, and strain at the operating company may not show at the payroll company until late.

Sector shocks move good and bad employers together. When a whole sector contracts, the employer signal ranks correctly and still arrives with every warning at once.

Some failures have no run-up. An employer can stop paying abruptly after a single event. Monitoring buys time only where time exists.

Data carries constraints. Some of what would describe an employer most clearly cannot lawfully be used for this purpose, and a lender needs to know which before building on it.

Forbearance can be misdirected. A borrower judged to have high recovery capacity who instead leaves the country turns patience into loss. Sequencing by recovery capacity reduces that error; it does not remove it.

09 Tests a credit function can run now

Six tests, in sequence, move from exposure to economics.

Concentration. What share of the salaried book sits with the top 20 employers, and how is it spread across list categories?

Correlation. How much of the variation in default sits between employers rather than within them? If employer explains little, the case weakens. If it explains a lot, the book is carrying a risk factor no borrower-level model captures.

Lead time. For defaults at Category B and C employers, when did the employer first show strain, and when did the bank act?

Recovery. Did the employer list predict what actually came back from salary and end-of-service assignments?

Cure. After losing employment, which borrowers came back to paying, and does job code or sector explain it?

Economics. Across all of the above, does acting earlier change the profit and loss, or only the ranking? A model can rank better and change nothing. The last test is the one that matters.

10 The credit officer's question

Each part of the employer view answers a question a credit officer should be able to answer about the book today.

Is this employer still paying its people, on time and in full?

How much of my book shares its fate?

If it stops, how long would each borrower need to recover, and how long do they have?

What will I do differently this month because of it?

The test is not whether employer risk exists. It is whether employer-level information explains loss on your own book, gives you lead time, and changes the economics of what you do next.

Run the test.

Paper IV turns to what a lender does with the book once signals like this one are live.

AUTHOR

NYK Advisory
Dubai & Riyadh

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Paper III of IV

PRACTICE AREA

02 — Underwriting & credit
risk
03 — Portfolio management
& customer value

GET IN TOUCH

If a number in your book is moving and nobody can tell you why, that is usually the right moment for a conversation.

CONTACT

nykadvisory.io
hello@nykadvisory.io

PRACTICE

Credit risk & decisioning
Dubai & Riyadh

THE SERIES

Four papers through Q4
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