HELPING IDENTIFY AND PRE-EMPT FINANCIAL VULNERABILITY

Using smart insights
and intelligent decisions
to protect people

Contents

Tackling the vulnerability challenge

The UK is seeing a rise in debt and levels of arrears, caused by a range of economic and social factors including stagnating wages, rising household bills and an ageing population.

In this paper we are exploring the financial stress that can contribute to the complex issue of vulnerability.Identifying and supporting vulnerable or at-risk individuals is an increasing priority across all sectors.

NEW OPPORTUNITIES TO DETECT AND PROTECT

Today, through significant advances in data sourcing and analytics, businesses have an opportunity to understand their customers in much greater depth than ever before. With this insight, you can ensure customers are getting the right products and you can put support in place before the customer becomes financially distressed.

In particular bank transaction data and AI technologies could be used throughout customer modelling and affordability assessments to identify patterns and changes in financial behaviour that suggest a person may be experiencing, or at risk of, financial difficulties. However, this needs to be done with the customer at the front and centre, with any tool or approach centred around their best interests, with an intention to deliver the best customer outcomes.

In this paper we explore financial vulnerability and look at the ways in which you can better detect and determine if your customer is, or is becoming, financially stressed. Having better identifiers in real-time can bring exponential benefits to your business and strategic goals, and more importantly, help protect society.

1.7bn
globally are unbanked[1]

50%
of UK adults are potentially financially vulnerable

3m
unable to pay debts when due

Regulatory guidance

The importance the Financial Conduct Authority (FCA) places on protecting vulnerable consumers has become increasingly clear with the recent publication of its Financial Lives and draft **FCA Mission: Our Future Approach to Consumers** documents. Throughout these documents, as well as in its **Business Plan** and **Mission Statement** (both published in April 2019), the FCA emphasises its clear operational commitment to prioritising the needs of the most vulnerable and least resilient consumers.

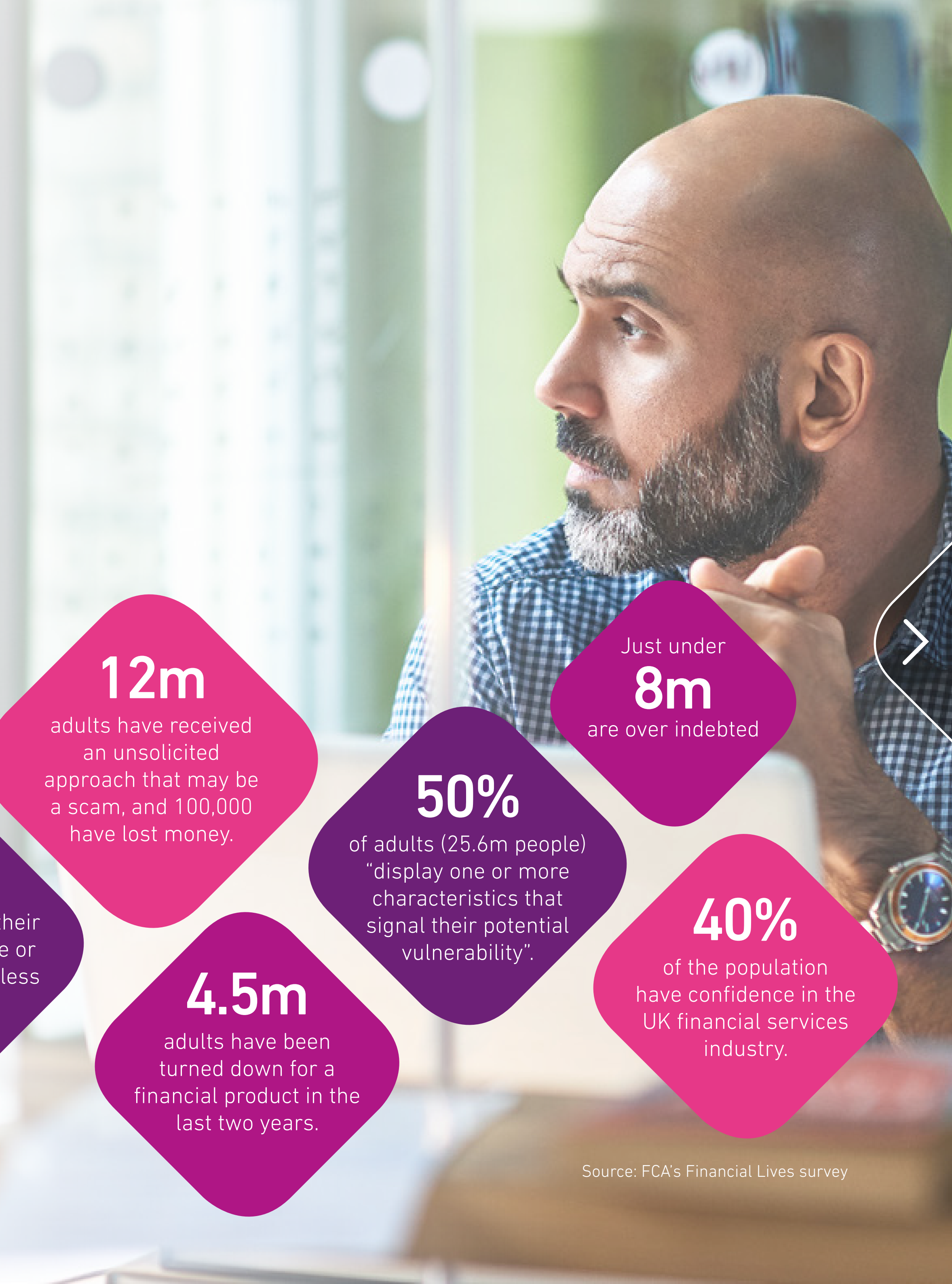
1. https://www.worldbank.org/en/topic/financialinclusion/overview

The increasing scale of consumer financial vulnerability

The Financial Conduct Authority's biggest ever survey of households found that 4.1 million people are in serious financial difficulty, falling behind with bills and credit card payments, with 25- to 34-year-olds the most over-indebted.

Furthermore, it found half of the UK population are financially vulnerable, with one in six unable to cope with a £50 increase in monthly bills.

Financial difficulties and mental health problems are closely interlinked. People with mental health problems are three and a half times as likely to be in problem debt, and half of all people in problem debt will have a mental health problem[1] - which may, in turn, make it harder to reach out and ask for help. Over time, this can drive a destructive cycle, worsening both our mental and financial wellbeing.[2]



17% would struggle if their monthly mortgage or rent increased by less than £50.

12m adults have received an unsolicited approach that may be a scam, and 100,000 have lost money.

4.5m adults have been turned down for a financial product in the last two years.

50% of adults (25.6m people) "display one or more characteristics that signal their potential vulnerability".

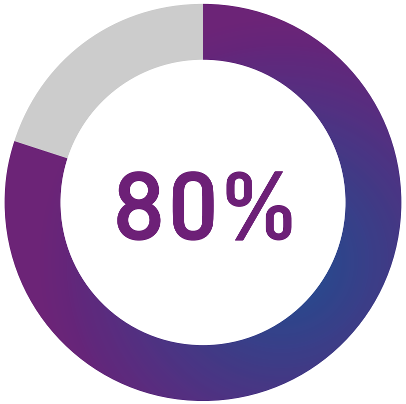
Just under **8m** are over indebted

40% of the population have confidence in the UK financial services industry.

Source: FCA's Financial Lives survey

1. https://www.worldbank.org/en/topic/financialinclusion/overview

2. Holkar M. Mental health problems and financial difficulty. Money and Mental Health Policy Institute. 2019. Derived from Adult Psychiatric Morbidity Survey 2014.



Around 80% of the population in emerging markets is on **prepaid mobile plans** with almost no access to financial services, or a financial identity.

1 in 12 18-24 year olds 'regularly struggle' to pay their mobile phone bill or top up mobile phone

Citizen's Advice

In 2018, over **1.2 million electricity customers** and almost **1 million gas customers** were **in arrears or repaying a debt** to their energy supplier.

MoneyTrust

4.4%

growth in new credit card lending

7 million cards in arrears

6% in persistent debt

32.3 million active credit cards in a debit balance

28% rise in arrears on personal loans

Top up loans are averaging £12k

£

41-45s are expected to be the highest spenders in 2020 with an average spend of £803.91 per week

13 million people lack any savings to fall back on should they suffer a 25% cut in income

9 million carers in Britain by 2037. 1 in 8 in the UK care unpaid for a family member, or friend

2 million people in the UK have a gambling problem; or signs they are becoming addicted

Source: https://publications.parliament.uk/pa/ld201617/ldselect/ldfinexcl/132/13206.htm#_idTextAnchor013

Factors influencing financial vulnerability:

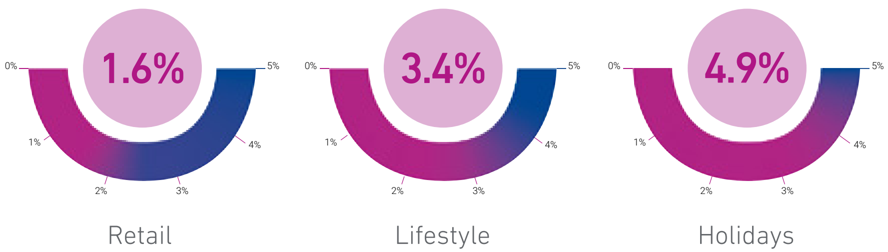
FINANCIAL EXPOSURE

According to research from Peter Wyman[3], there are nine million people in the UK using credit cards for everyday living. At the same time, there are 7.7 million with three or more defaults on outstanding balances. Uncertainty within the economic climate is causing a shift in house prices, and while mortgage demand is declining, requests for high-value loans have increased. This, as well as other contributing factors such as rising inflation, is leading many people to become financially over-exposed and therefore vulnerable.

SPENDING BEHAVIOURS

In our own research across consumer spending, we found people are moving away from owning possessions and towards spending on life experiences, such as holidays.

2020 spending forecasts (all households)

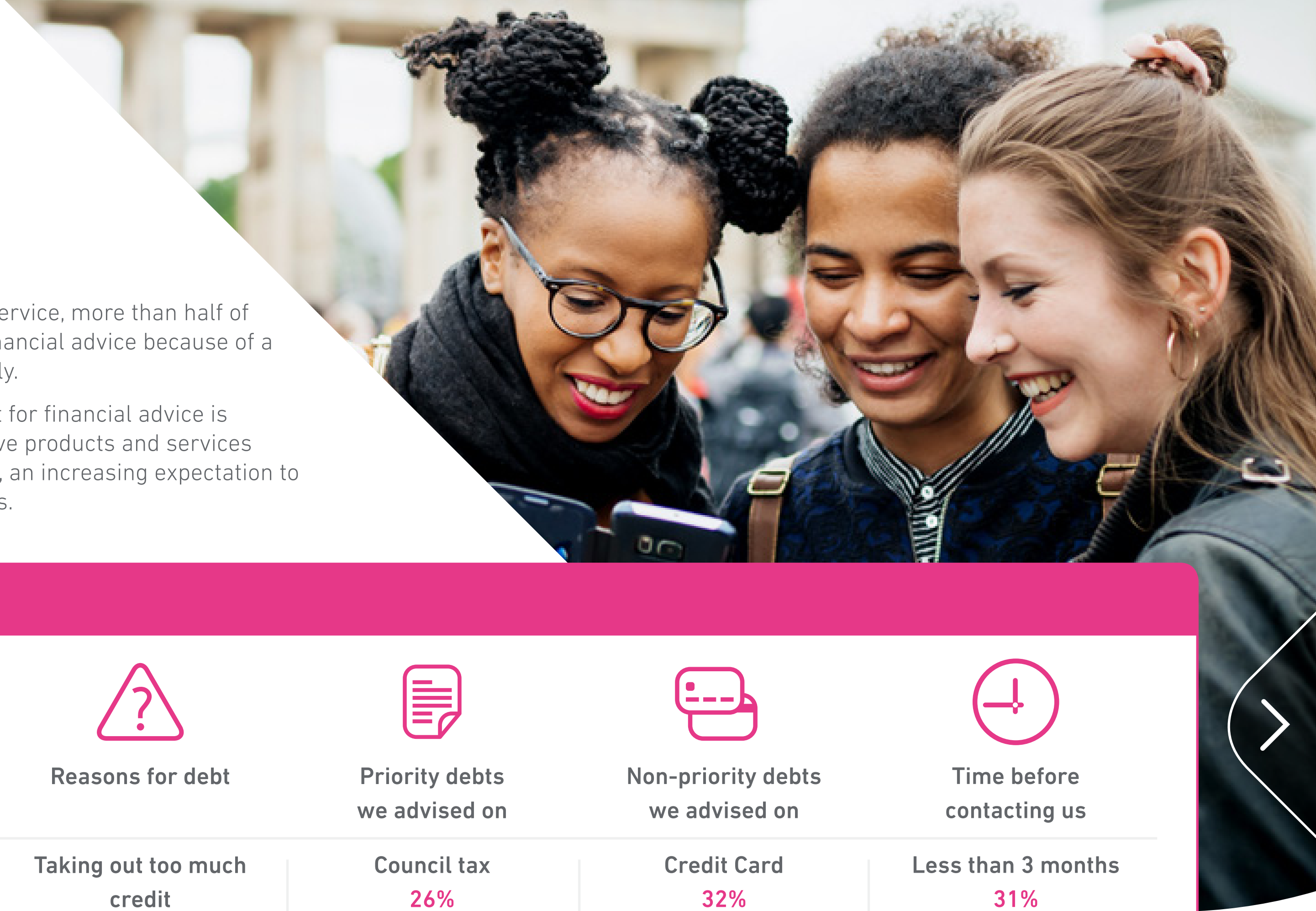


ONLINE INFLUENCE

As people share their lives online, their personal and financial details become more exposed and therefore susceptible to theft. While not specifically bringing financial vulnerability, the loss of money and inconvenience can lead to it.

The increase in online advertising and accessibility has led to more gamblers and associated problems. Over two million people in the UK are either problem gamblers or at risk of addiction, again leading to financial problems.

3. Peter Wyman report (Independent Review of the Funding of Debt Advice – 2018)



LACK OF ADVICE

According to a report from the Money Advice Service, more than half of Brits are prevented from accessing relevant financial advice because of a widespread lack of availability to access it freely.

In our own research, we see that people's want for financial advice is low. However, what's clear is their desire to have products and services personalised to their needs. There is, therefore, an increasing expectation to have advice integrated into their buying choices.

Debt profile

Number of debts	Total debt (£)	Reasons for debt	Priority debts we advised on	Non-priority debts we advised on	Time before contacting us
1-2 32%	1-1,000 16%	Taking out too much credit 21%	Council tax 26%	Credit Card 32%	Less than 3 months 31%
3-5 32%	1,001-5,000 32%	Ill-health or disability 20%	Benefit overpayment 15%	Overdraft 22%	3-6 months 10%
6-10 26%	5,001-10,000 19%	Job loss 19%	Rent 15%	Personal loan 14%	6-12 months 15%
11-20 9%	10,001-15,000 10%	Mental health probblems 13%	Energy 14%	Water 13%	1-2 years 15%
21+ 1%	15,001+ 23%		Vehicle finance 12%	Catalogue 13%	2+ years 29%

Source: Debt Advice paper

CHANGING DEMOGRAPHICS AND DEMAND

Demand for credit is changing. Today we see more people aged 60+ wanting access to financial credit, including mortgages. The UK has an ageing population and the FCA estimates that 60% of those aged over 65 are potentially vulnerable.

These groups of emerging borrowers are increasingly vulnerable as they have financial exposure into their retirement years. While at the point of application they may be in full-time employment, it's likely that this will change. With inflation not growing at the levels seen in previous years, financially they could become exposed. Being able to help these groups is critical if they're to be better protected – this extends across all generations.

Rise in lending into retirement

Rise in mortage prisoners overall

+7.3% rise in defaults on loans in the last 12 months

60% aged 65+ are potentially vulnerable

VULNERABLE THROUGH EXCLUSION

The World Bank defines financial inclusion as having access to "useful and affordable financial products and services, delivered in a responsible and sustainable way".

In the UK, financial exclusion is a significant issue. Today 8.3 million British residents are suffering exclusion due to either having no credit file (1.5m), or a limited [thin] credit file (4.3m). We found through our own analysis, there are 2.5 million consumers who were rejected for credit, but were actually credit worthy. With new, including non-traditional data sources available today and advances in analytics – everyone has the potential to be included and access products and services.

FINANCIAL EXCLUSION IN THE UK

13 million

13 million people lack any savings to fall back on should they suffer a 25% cut in income

Source: www.financialinclusioncommission.org.uk/facts

5.8 million

5.8 million people in the UK are virtually invisible to the financial system. The cost of being invisible is significant and can lead to financial exclusion

Source: Experian

3 million

3 million consumers in the UK use high cost credit

Source: Financial Conduct Authority

1.7 million

1.5 million adults have no bank account

Source: www.financialinclusioncommission.org.uk/facts

1/2

Half of households in the bottom half of income distribution have no home contents insurance

Source: www.financialinclusioncommission.org.uk/facts

9th

The UK is ranked ninth in the world in terms of banking inclusion by the World Bank

Source: www.financialinclusioncommission.org.uk/facts

£1.52 trillion

Is owed across the UK

£194 billion

In outstanding consumer, the equivalent of £2,470 per household

The challenge for business

According to research we commissioned with Forrester Consulting, across 700 CXOs in the UK, Europe, Middle East and Africa, almost a third of businesses admit they're ineffective at identifying at risk customers. The inability to spot early warning signs is a critical challenge for 27% of those surveyed – a trend that's getting worse; last year the figure stood at just 13%.

Faced with the growing challenge of identifying increasing numbers of financially vulnerable customers, how can businesses better detect those at risk and quickly implement the right levels of support?

In the following chapters we explore the technologies and analytical approaches which can help you identify patterns that are indicative of a emerging struggle, but also how you can help those who are already vulnerable.

27%
say not spotting early-warning signs is a critical challenge

30%
of decision-makers admit they're ineffective at identifying at-risk customers

30%
say collections continue to be a rising challenge – up from 11% in 2017

How to identify and support financially vulnerable customers

As a company, you need to be able to look at financial stress at every stage of the customer life cycle. From onboarding, through the entire term of the product being in place and beyond. By doing so you can provide the most appropriate terms for the product or service.

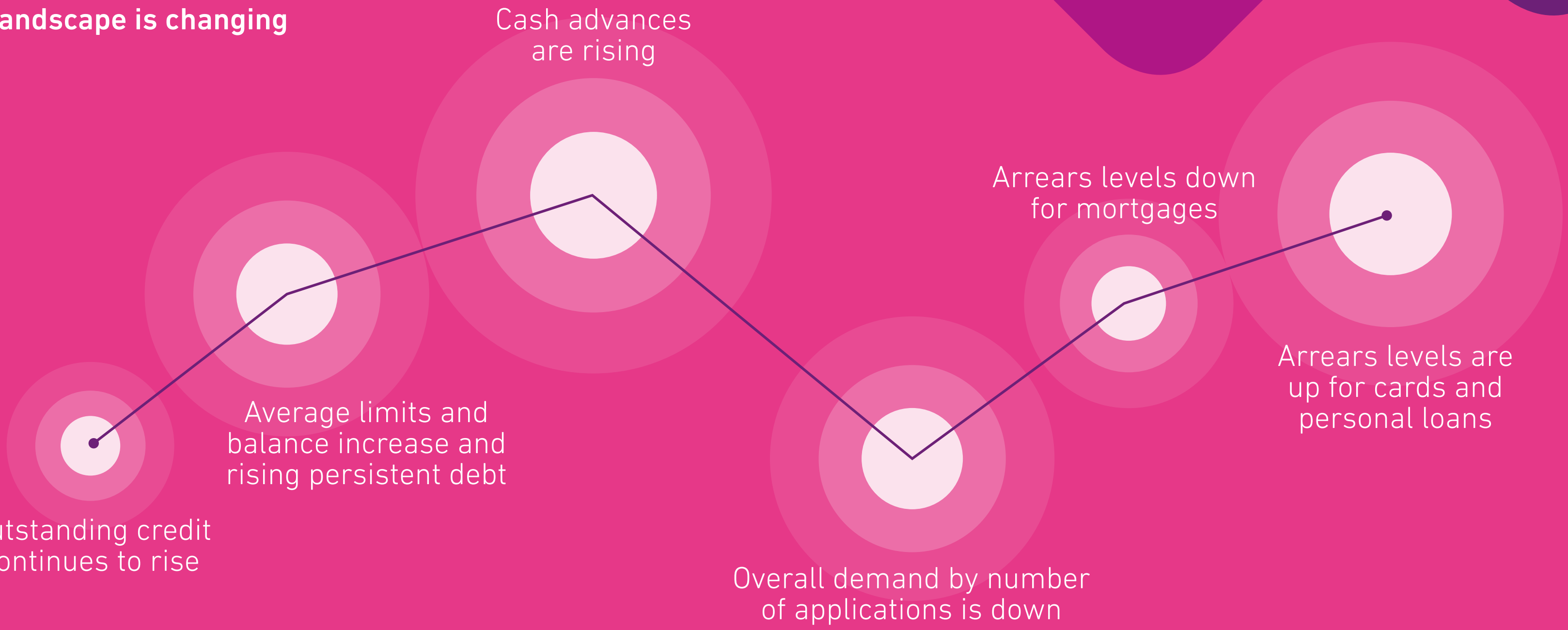
But this isn't something that should be limited to your collections teams; in fact, through greater insight at an earlier stage across your organisation, you can vastly reduce how many customers appear as collections cases in the first place.

With the Bank of England, FCA and PRA all working towards a balance between good credit access and responsible lending practices, it's possible that soon lenders will need to meet a new set of metrics. As an industry, we need to assess what responsible lending looks like and help to make this happen.

2 in 5
people are in debit at the end of the quarter in their energy bills

1 in 4
people go over their contracted monthly mobile phone bill

The credit landscape is changing



Assessing initial affordability

Challenge: Regulation compels firms to do more in their assessments of what a customer can afford. The FCA, for example, advocates "a proportionate approach, which considers the costs and risks of the credit for the individual customer and the probability that they may suffer harm."[5] At the other end, regulators such as OfGem and OFwat are equally encouraging protocol to be taken to limit impact and vulnerability.

Solution: By using more sophisticated affordability checks, factoring in a range of credit and transactional data, you can better understand a customer's income and outgoings, their other financial commitments, and their attitudes to saving and spending.

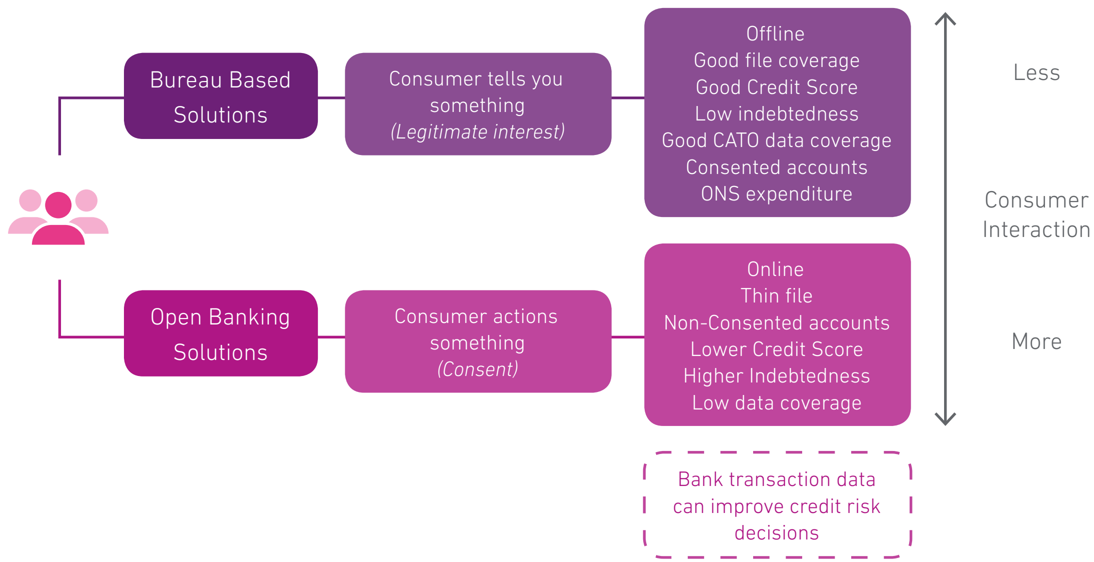
In turn this will help you quickly, easily and confidently assess a customer's affordability, and gain a clear insight into any at-risk indicators. This will also help you towards FCA and other regulatory compliance.

You could also offer a personal finance education to empower your customers to take control of their finances and better manage their money, as well as their spending – utility, phone, subscriptions, recreation and more. Through this you can enable them to identify better value services, switch services, but also take more ownership and control ahead of a situation where they are facing financial strain and may be unable to meet their obligations.

Factors within behaviours which could be an indicator of financial strain

- Spending without funds
- Increased, faster spending
- Further use of overdraft
- Increased reliance on payday loans
- Increased ATM cash withdrawals

Deciphering which assessment criteria is valuable



5. Assessing Creditworthiness in Consumer Credit, FCA, July 2017

Gaining consent to access transactional data

Challenge: gaining permission from customers to share their transactional data with you, especially given there could be no perceived value in doing so

Solution: while people are more accepting of their data being shared, they will only do so if they see value – and that value needs to be in the proximity of a purchase. For a lending application, the need is immediate – they want the car, the holiday etc. In energy, telecoms or a request for consent requested during the lifetime of a relationship, therefore no immediate need, it will be more challenging to convince the customer to share, and why they should.

TURNING OPTIMISM INTO OPPORTUNITY

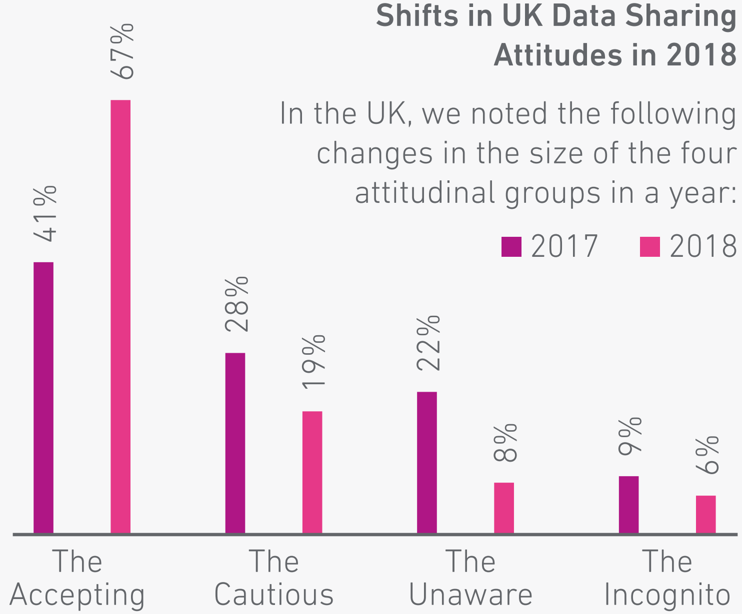
We are a nation of optimists, nearly half (43%) of people in a survey we commissioned recently confirm this by stating they believe their financial health will improve in the next decade. Therefore, if you ask them to share based on supporting their financial health, the value may not be seen by them.

However, if you could offer value adding services such as incentives to offer better terms during the service or loan, and tools that can help empower the individual to reach their expected better financial health, they would be more inclined.

However, one wrong move and such trust will be diminished and quite likely be irreversible. A series of clearly thought out value exchanges, matched to an individual's needs, lives and wants – is therefore imperative.

Shifts in UK Data Sharing Attitudes in 2018

In the UK, we noted the following changes in the size of the four attitudinal groups in a year:

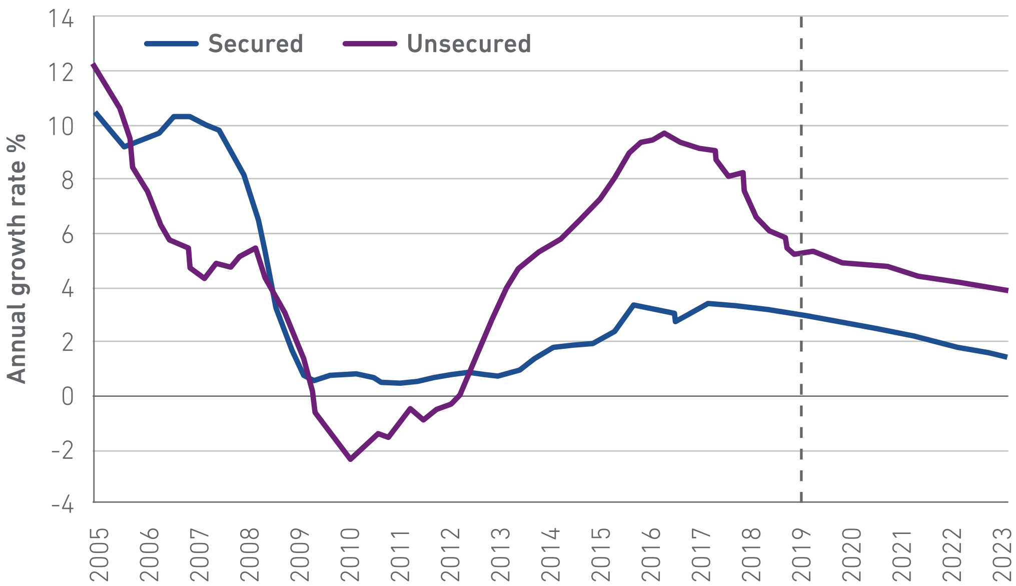


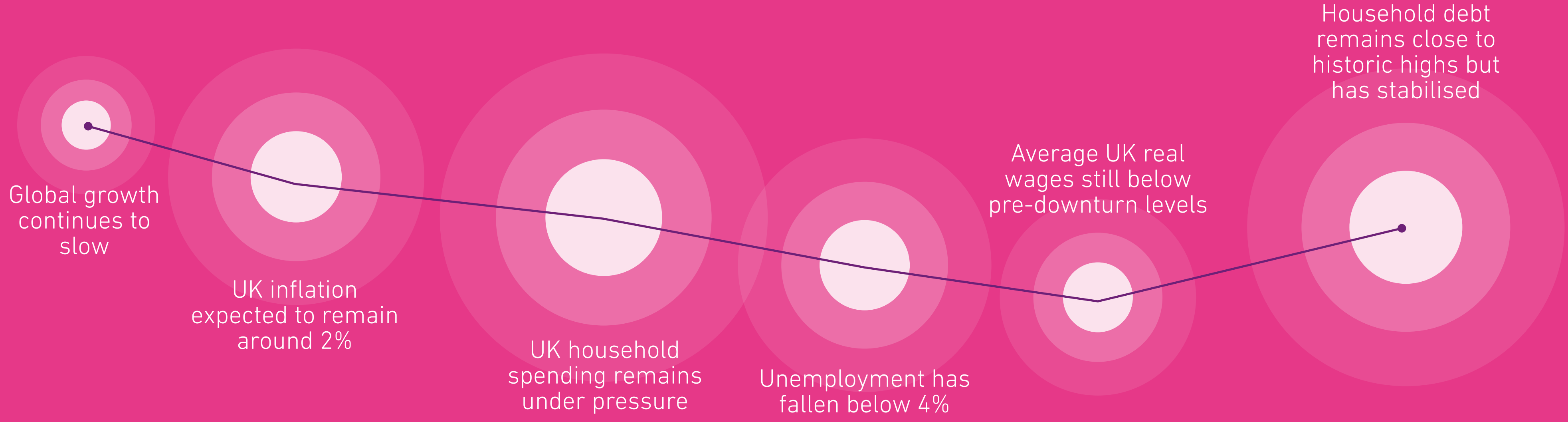
FACTORING IN THE ECONOMY

Challenge: It's one thing to know your customers, but how do wider economic factors such as how will falling house prices or base-rate changes impact their lives?

Solution: Regular reports into regional and national economic trends and scenarios, such as the impact of Brexit, changes in housing, rising interest rates and employment sector performance, can be married to individual data to give you a powerful insight into customers' lives.

For example, you could look at a person's monthly disposable income alongside income growth forecasts. You could take mortgage payments, isolate the interest element and apply base-rate forecasts and proposed standard variable rate increases to understand the effect of a rate change. Would the household be left with enough disposable income to pay their bills?





UNDERSTANDING EACH INTERACTION, ALWAYS

Challenge: The digitisation of our lives presents a hugely interchangeable environment with a vast array of customer touch points and demands that can be hard to keep track of.

Solution: Through artificial intelligence you can automatically collect, aggregate and analyse data at scale and speed to identify behaviour patterns that allow you to identify financial stress in your customer base.

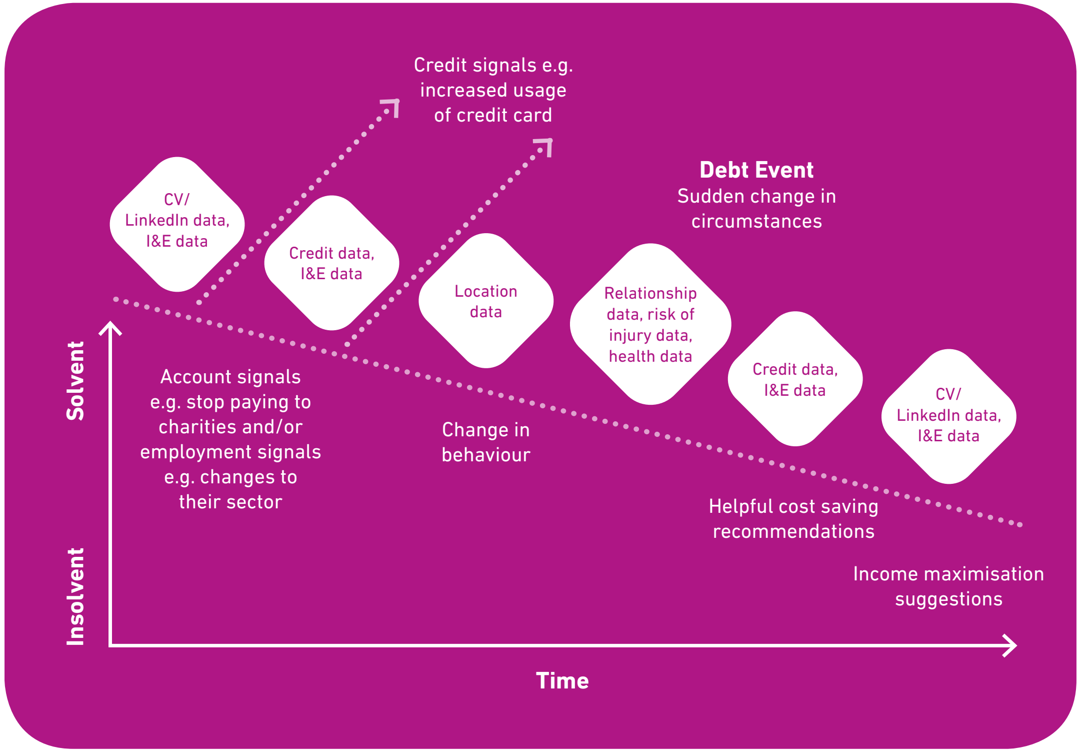
With data being shared and analytics able to aggregate and compute such data at scale, and speed, there's an opportunity to gain real-time insights that can help you act.

PRE-EMPTIVE STRATEGIES

Challenge: Identifying behavioural patterns at an early enough stage to react and move them to the right channel or product is a significant challenge.

Solution: It's possible to take everything we've talked about, such as data sources, customer scorecards and advanced analytics into a single, centralised decisioning platform that can be used across your entire organisation and customer life cycle. This ensures you can take better decisions and help customers access the right products and support.

A decisioning platform can also connect to an analytics 'sandbox' that allows you to use depersonalised data sets to test various scenarios in a safe and cost-effective way. For example, you could test what would happen to a certain section of your customers if there was a rise in the base rate, all in a test environment empowering you with knowledge that can be fed into your live models.



IMPROVING THE CUSTOMER JOURNEY THROUGH A BETTER USER INTERFACE

Challenge: Better understanding customers wants and needs without a single source of behaviour – brought by omni-channel engagements.

Solution: Through our research, we know there's an 85% dropout rate at the application stage. Data analytics can help you identify these points of friction, spot potential fraudsters and create a more user-friendly interface.

This could include pop-up chat bots or pre-populated data fields that ensure customers are getting quick decisions on the right products that will prevent vulnerability, because of the data population being more accurate and thorough.

You can easily integrate additional components into each individuals journey in order to digitally capture the information you require; for example using psychometric testing can bring more insight into a person's needs and wants, without moving them offline.

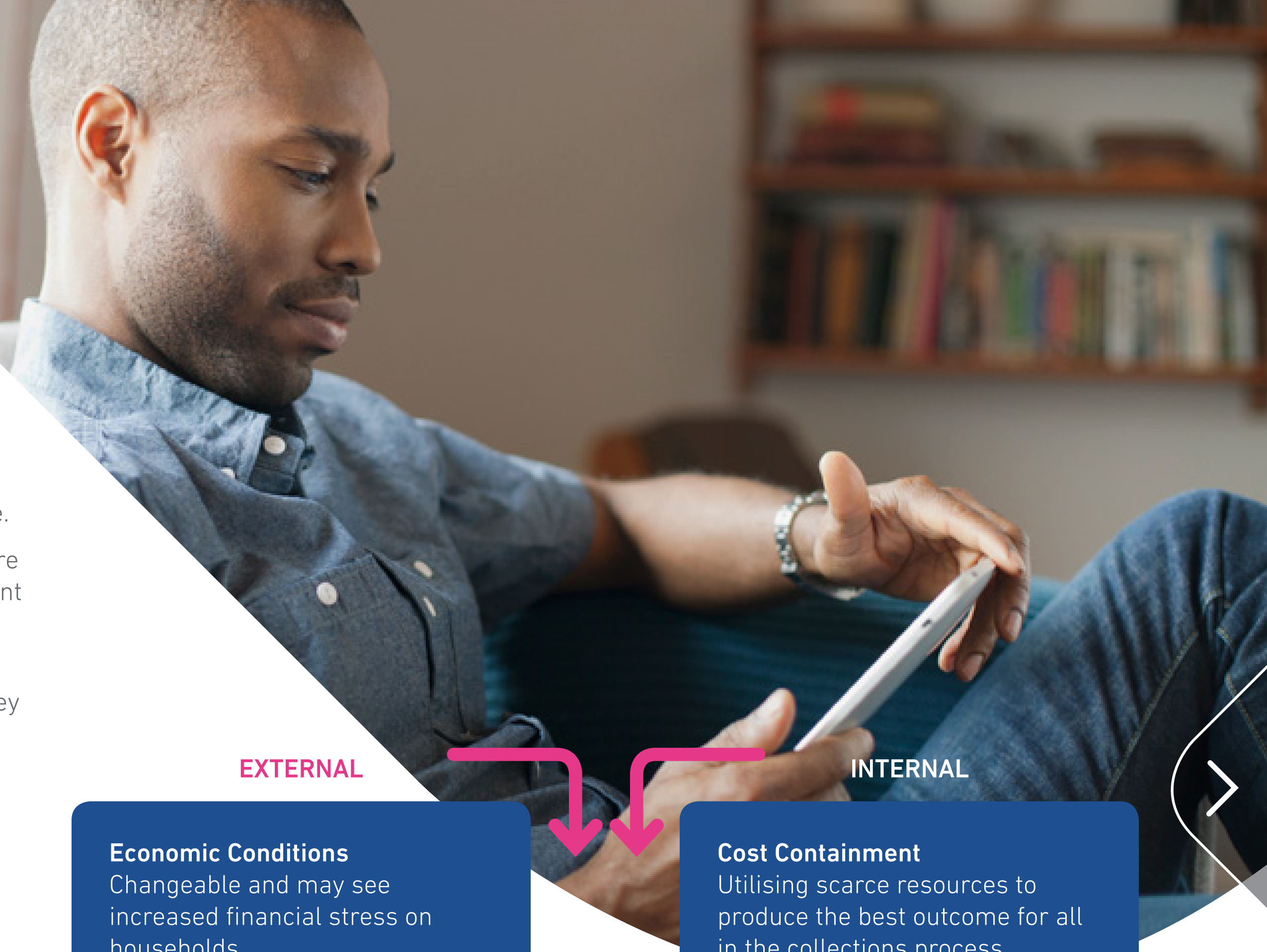
REENERGISING COLLECTIONS

Challenge: How do you help more customers avoid collections against a backdrop of rising financial pressures?

Solution: Nearly 50% of customers said they'd switch provider if they had a bad debt-collection experience, while one in three say they would pay more promptly if the experience was better.

Through centralised data management, you can initiate what we call people-led collections. Using a range of sources, including new and non-traditional data, and the right decisioning technologies, you can detect any changes in customers' circumstances and pre-empt any potential repayment difficulties by proactively adjusting their payment terms.

As well as being more efficient, this proactive approach to customer management helps more customers avoid a formal collections process. In fact, we believe that with accurate affordability assessments and careful management throughout the lifetime of the relationship, no customer need enter collections.



EXTERNAL

Economic Conditions
Changeable and may see increased financial stress on households.

Consumer Experience
Consumers expect personalised and relevant digital journeys.

Regulation Compliance
Greater focus on the fair treatment of consumers.

Increased Competition
Consumers area able to easily switch lenders increasing the importance of your brand.

Customer

INTERNAL

Cost Containment
Utilising scarce resources to produce the best outcome for all in the collections process.

Maximise Recoveries
Increasing the amount of cash collected by creating more effective processes and treatment strategies.

Customer Insight
Use data to develop more personalised interactions influencing behaviours to improve results.

The time to be proactive is now

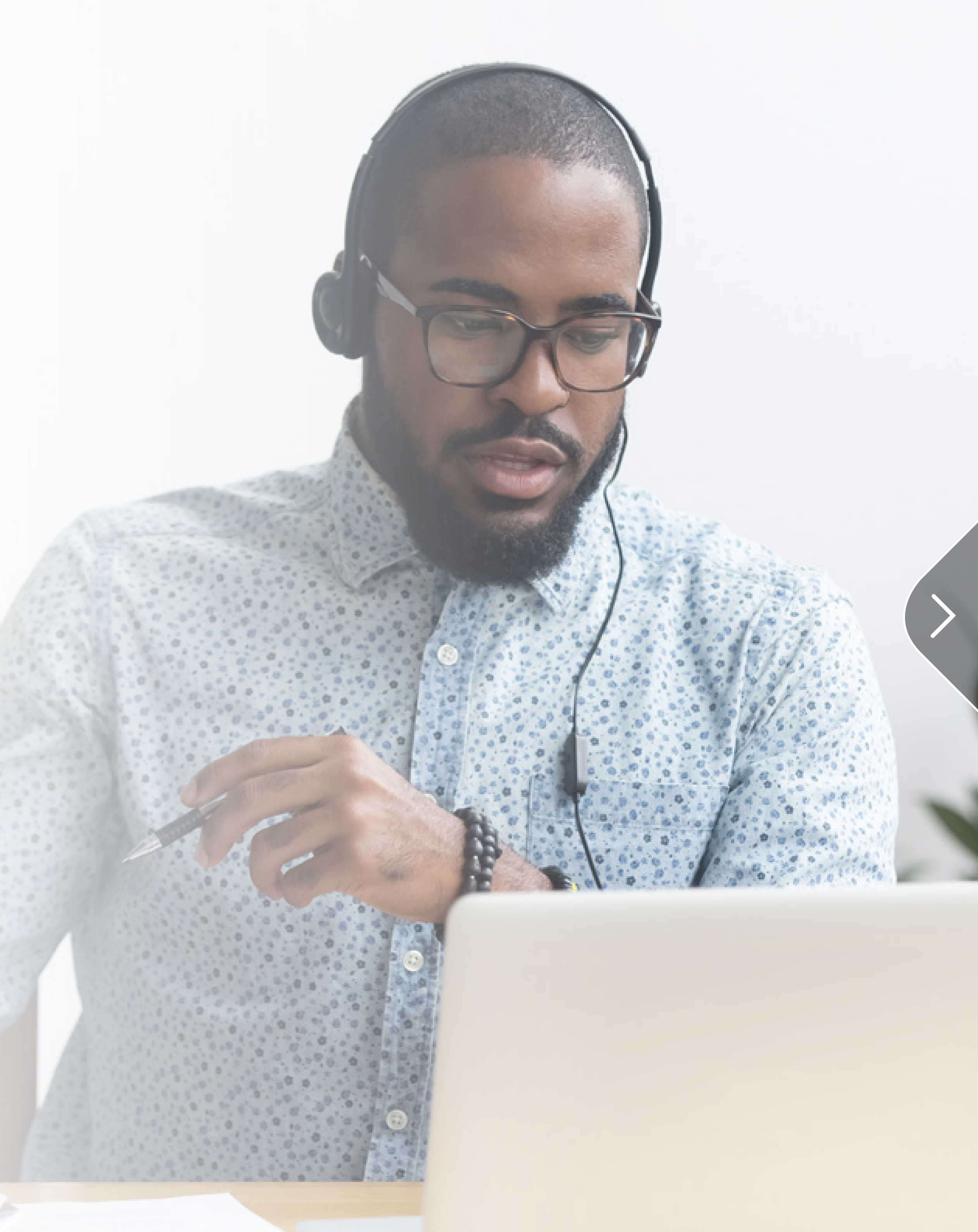
As we've explored, there are many factors that can affect a person's financial situation and therefore make them financially vulnerable.

As people's debt continues to rise and a growing number feel the financial squeeze, now's the time to look at how data and technology can bring new levels of support.

Through this new approach to data management, you can tailor your products, show higher levels of customer service, better balance risk, meet increasing regulation and, ultimately, enhance your brand.

It is equally an immediate opportunity to understand the full picture and situation. Such advances in data, and analytics – including the introduction of new initiatives such as open banking – can provide valuable insight into an individual's entire transactional trends, offering critical insight of where patterns could be emerging, before you would traditionally have foresight.

The rise of new, non-traditional data sources, teamed with advances in analytics, presents a significant opportunity to be more proactive in supporting your customers or throughout the relationship with you.



Harnessing the power of data today, and always

POTENTIAL DATA SOURCES OF THE FUTURE

As non-traditional data sources, such as utilities and rental data, have begun to be been successfully added to credit reports in the past few years, the value in finding new sources has come into focus. It's important for organisations which have not previously shared data to recognise what they can do with the information they already gather.

Those most vulnerable in our society – who will form at least some of your customer base - should not be subject to substandard financial situations because not enough is known about them. We are working with the government to look at new data sources, while industry can make a real difference.

The following government data sets could potentially be useful:

Council tax: The payment of council tax enables confirmation of identity, establishment of a regular payment pattern and links an individual to a property, supporting identity verification.

While not without challenge, given that there are approximately 500 local authorities in the UK, it would provide a regular, reliable proof of payments.

Universal Credit: To accurately assess affordability, it is essential to understand an individual's income in full. Often benefit payments are not captured which makes credit appear less affordable.

The Universal Credit database holds an essential data set for some of the UK's most vulnerable and excluded individuals, showing a reliable and verified form of payment being made to them.

Knowledge of Universal Credit payments could help improve our affordability algorithms by allowing us to identify the income source more accurately.

HMRC: Incorporating HMRC income would significantly reduce the proportion of credit searches that return a 'thin' or 'non-existent' file and would strengthen our understanding of an individual's circumstance, allowing more accurate decisions to be made.

This would result in making credit available to a higher proportion of consumers whilst gaining a more accurate view of their affordability. We could, for example, validate a pay increase to be certain this is a regular income.

UCAS: Each year, UCAS processes about 800,000 applications for Higher and Further education from people who are not yet financially active but are likely to be soon. Access to this data would enable CRAs to support lenders to ensure these people are financially included from an early stage in their financial lives.

INDUSTRY DATA SETS

Turning now to data in the hands of private companies:

Pre-paid cards: Given prepaid cards do not require a credit check, they are a useful option for thin file customers. Adding usage data could also provide a pathway to other sources where people pay regularly.

Subscription services: With the growth of e-commerce and streaming of everything from music to films, online subscription services have become increasingly popular.

Trend data from such providers could give a picture of a consumer's track record of making regular, accountable payments for a product or service.

Digital credit: Digital credit has been growing in popularity as an alternative to credit cards, particularly amongst younger customers. Access to such data could help to build records for this younger group, who make up a significant proportion of thin files.

Savings and Investments: There is also room to consider whether someone consistently moving money from their current account to a savings account is showing good behaviours which lenders would value.

Experian is looking at a proof of concept on shares to understand how these assets could be used for affordability assessments. You can ensure that people get access to the right products and services at application. You can manage them throughout their life as a customer by anticipating economic scenarios and identifying changes in personal circumstances that may leave them financially exposed.

Conclusion

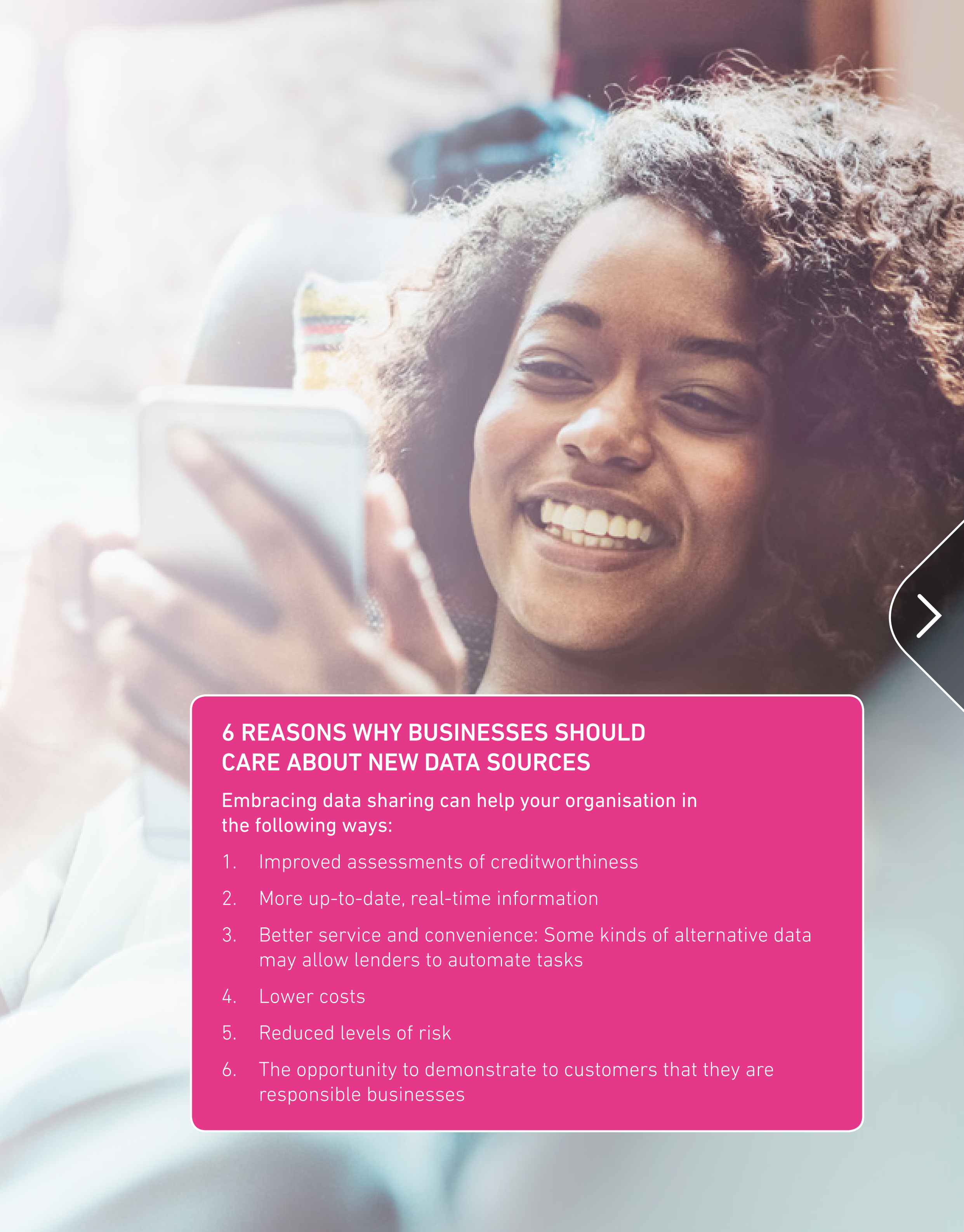
Harnessing data to better prevent - and detect - financial vulnerability

You can empower consumers through innovative tools, such as a financial education portal, or personal finance management application to not only help them understand their spending, but if a product is affordable before they even apply. Empowering them from the point of need – but equally, being able to be there before a need and beyond.

Most importantly, you can vastly reduce how many customers are entering collections by using previously unseen insights in real time and giving them the help and support they need, early - but more powerful; you can negate collections entirely with the right analytical modules and value-adding data sources.

It is well reported how financial strain can also impact mental well-being. Regulatory guidelines are looking to reduce any predictable harm and this is a great framework to adopt which can be beneficial for reasons that extend far beyond compliance.

The future is led by customer centricity and empowerment, being able to achieve this in your proposition will not only reduce risk, but help you build better trusted and valuable relations too.



6 REASONS WHY BUSINESSES SHOULD CARE ABOUT NEW DATA SOURCES

Embracing data sharing can help your organisation in the following ways:

1. Improved assessments of creditworthiness
2. More up-to-date, real-time information
3. Better service and convenience: Some kinds of alternative data may allow lenders to automate tasks
4. Lower costs
5. Reduced levels of risk
6. The opportunity to demonstrate to customers that they are responsible businesses

About the research and insight contained within this report

Research insights

Research contained within this paper, unless sourced otherwise, is an extraction from Experian research commissioned through 2018 and 2019. This includes research with third-parties including Forrester Consulting, as well as consumer research conducted on Experian's behalf through C Space. Additional data insights are derived from data sources such as National Hunter.

- Read from our research commission to Forrester Consulting **here**
- To read insight from our Global Data Management trends, **click here**
- For a full view of the UK Fraud trends, please read our **annual fraud report** – also see our Global Fraud and Identity report **here.**

For more information on any specific quotation, **please contact us**.

About Experian

Experian unlocks the power of data to create opportunities for consumers, businesses and society.

At life's big moments – from buying a home or car, to sending a child to college, to growing a business exponentially by connecting it with new customers – we empower consumers and our clients to manage their data with confidence so they can maximise every opportunity.

We gather, analyse and process data in ways others can't. We help individuals take financial control and access financial services, businesses make smarter decision and thrive, lenders lend more responsibly, and organisations prevent identity fraud and crime.

For more than 125 years, we've helped consumers and clients prosper, and economies and communities flourish – and we're not done. Our 17,200 people in 44 countries believe the possibilities for you, and our world, are growing. We're investing in new technologies, talented people and innovation so we can help create a better tomorrow.

Learn more at **www.experianplc.com**

To find out more about our services, visit our website: **www.experian.co.uk/business**

Registered office address:
The Sir John Peace Building, Experian Way, NG2 Business Park, Nottingham, NG80 1ZZ

T: 0844 481 5873
www.experian.co.uk

© Experian 2019.

Experian Ltd is authorised and regulated by the Financial Conduct Authority. Experian Ltd is registered in England and Wales under company registration number 653331.

The word "EXPERIAN" and the graphical device are trade marks of Experian and/or its associated companies and may be registered in the EU, USA and other countries. The graphical device is a registered Community design in the EU.

All rights reserved.

C-00332