



EXPERIAN FINANCIAL EDUCATION TOOLS

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# HOW TO GUIDE CUSTOMERS THROUGH THE 2022 COST OF LIVING SQUEEZE

**A guide for lenders** 

# Executive **summary**

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Consumers are facing a severe **cost-of-living squeeze** in 2022



Inflation hit **7%** for the 12 months to March 2022 - a 30 year high

## **Wage increases are not keeping up and consumers face a variety of problems:**

- Those Already Vulnerable face the genuine prospect of soaring debt and delinquency
- Pandemic Losers need support in reorganising and rebalancing their finances
- The Financially Healthy will have to make their money work harder to maintain living standards

## **Potential upcoming issues for lenders therefore include:**

- Fulfilling their FCA duty to protect the vulnerable
- An increase in costly customer management and collections work
- Losing good customers to rivals as they look for better value products





Forward-thinking lenders can therefore gain a significant advantage by providing Financial Education that helps consumers negotiate their new financial realities.

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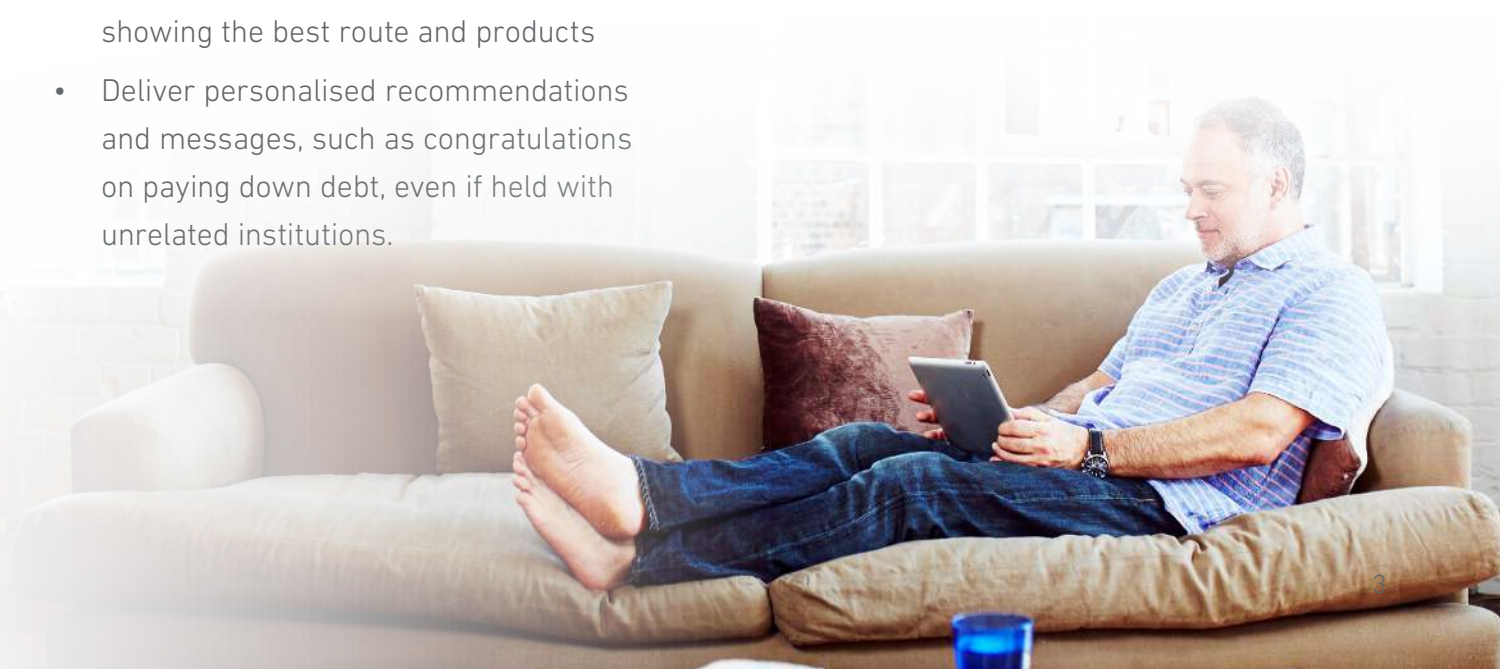
Experian's new white-label Financial Education tools merge Experian credit scores and reports with transactional Open Banking data to provide the most complete picture yet of a consumer's finances.

**With the full picture, lenders can:**

- Let customers see themselves as lenders see them with an Experian credit score and report
- Provide insights into what that score means and why it is as it is.
- Explain what their score means for offers in the market and their cost of credit.
- Provide a menu of products personalised for the consumer
- Guide customers on a 6-9 month journey of improving their score, opening up the possibility of new, better-value products
- Help people achieve own financial goals by showing the best route and products
- Deliver personalised recommendations and messages, such as congratulations on paying down debt, even if held with unrelated institutions.

**Experian offers Financial Education tools to meet this need, which:**

- Are effective in acquisitions, engagement and retention
- Cut the time and complexity of analysing credit behaviour
- Connect easily and seamlessly with existing customer journeys
- And deliver demonstrably better insights based on excellent data quality





# What the cost-of-living squeeze means for lenders

Price rises are putting pressure on households across the UK, and they are now feeling the squeeze. For consumers, filling shopping trolleys and fuel tanks, and staying warm in their homes, are all getting noticeably more expensive.

To take only four recent examples of sharp price rises:



**Big-shop basics:** Marmite, PG Tips, Hellman's and other Unilever brands went up 4.1% in the three months to September 2021 – the biggest jump since early 2012. Popular snacks like Pringles and Doritos went up by 7.6% in the 12 weeks to the end of October.



**Heating:** Many customers have been told that their monthly direct debit is increasing. Ofgem's price cap protects customers on variable tariffs, but this limit reached a new high in October 2021 and is likely to rise by hundreds of pounds more in April 2022.



**Fuel:** Petrol rose to a record average of 145.8p a litre in November 2021, compared to 112.6p a litre a year earlier.



**Renovations:** The cost of timber doubled in the year to December 2021. The price of plastic used in doors and windows was up 13%.

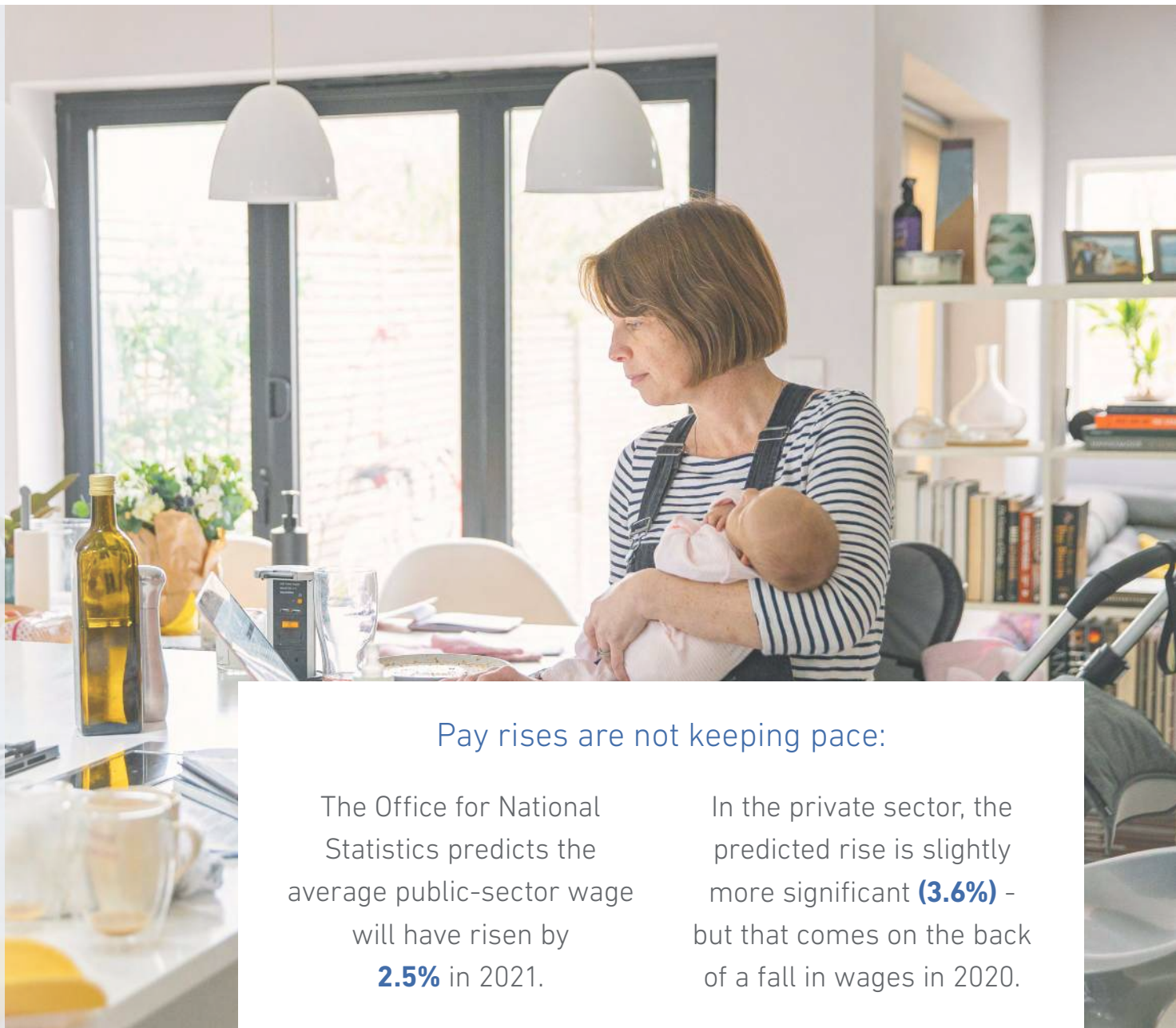


Shortages and supply issues - many linked to the pandemic or Brexit - mean the total cost of living is rising faster than at any point in the last ten years:

↑ Inflation hit **7%** in the 12 months to March 2022

↓ A year before, it was just **0.3%**.

Business secretary Kwasi Kwarteng has called inflation a “real cause of some concern”.



### Pay rises are not keeping pace:

The Office for National Statistics predicts the average public-sector wage will have risen by **2.5%** in 2021.

In the private sector, the predicted rise is slightly more significant (**3.6%**) - but that comes on the back of a fall in wages in 2020.





The cost-of-living squeeze is coming against a backdrop of existing difficulties for hard-stretched families. Many people have little or no breathing space to help keep their heads above rising water.

As the squeeze intensifies, lenders will face **three key issues**:

**#1**

Ensuring they are doing the right thing by protecting the growing numbers of vulnerable (or potentially vulnerable) consumers - and meeting FCA commitments regarding the vulnerable.

**#2**

An increase in the number of consumers falling into customer management and collections - with knock-on financial, staff and management costs.

**#3**

Increased competition for good customers, who want their money to work harder.

Now is the time for lenders to act and help consumers address these issues. This is the right thing to do, and what the FCA expects. It will be a source of competitive advantage for innovative lenders.



# How the squeeze affects **key consumer groups**

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As the pandemic rolls on, three groups - defined by their differing exposure to financial shock - are emerging:

## The already vulnerable

Even before Covid, one adult in five in the UK (20%) showed signs of low financial resilience. For them, even a £50 reduction in monthly income or a £300 unexpected expense could be too much to withstand (all Experian data). Many of this group could tip into crisis as costs rise, wages are hit by a National Insurance hike, and Universal Credit is reduced.

## The pandemic losers

The pandemic severely affected a second cohort of consumers, overlapping with the first. As the cost-of-living increases, this group could struggle to meet existing commitments. Since the start of the pandemic, some 6.6m consumers have suffered a significant drop in income due to being furloughed or losing their jobs. 3.5m took out an emergency payment holiday.

Many of these people are younger and employed in sectors such as retail, hospitality and travel. They use credit and may have deferred repayments over the pandemic, and credit behaviour before the pandemic could make them more vulnerable as prices rise. People in this group frequently lack experience gained managing strained finances in previous recessions and can be disadvantaged by limited money-management skills.

## The financially healthy

This group is in better financial health and may have improved their circumstances while weathering the pandemic through reduced spending.

However, even for this group, a world in which prices are rising faster than wages is one where their money needs to work harder to maintain the same lifestyle. They need optimised products and services to help prevent them from losing money in real terms.



# Meeting the squeeze with **financial education**

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Across all three groups, customers' day-to-day financial realities and goals are changing. 76% of people say the pandemic has affected their financial goals (Experian research).

However, many are unsure how to negotiate their new financial reality. 76% believe financial providers should help them better understand their financial position. 63% of people want products and services that will help them make the most of their money, and they are willing to share personal data to get them (both Experian research).

Innovative providers have a significant opportunity to thrive by helping customers understand their financial situation, manage difficulties, set goals, and provide optimised products and services for each customer's unique situation.



**76%**

of people say the pandemic has affected their financial goals

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**63%**

of customers want product advice and are willing to share personal data to get it





## The richest picture of the consumer ever

This situation has changed with the launch of Experian's new Financial Education tools. These blend Experian credit scores and reports with transactional Open Banking data to provide the most complete picture yet of a consumer's finances.

### With the full picture, lenders can:

- Understand customers as individuals - with individual needs and preferences - and build more loyal relationships based on trust
- Provide tailored customer journeys with personalised experiences and interactions, helping people feel seen and fully understood
- Achieve a real-time understanding of how a consumer's financial situation is changing across the whole landscape - seeing changes in affordability, credit scores or spending faster, and enabling the appropriate support to be delivered
- Create segments of one - allowing the lender to offer highly personalised products and rates
- Understand vulnerable and potentially vulnerable customers earlier, and provide appropriate steps to help them improve their financial health

With Financial Education tools, the picture of a consumer's whole financial life is no longer a jigsaw with missing pieces and bits that don't fit together.

### By doing that, lenders can:

- Educate and support customers in line with FCA best practices
- Provide optimal products and services customers will need to support their growing needs
- Build warmer, more engaging and less transactional relationships with customers that are characterised by trust and loyalty, and sustained by personalisation and support
- Demonstrably meet their FCA commitments to supporting the financially vulnerable and treating customers fairly
- Attract, engage and then retain customers



# How Experian supports **financial education**

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Our Financial Education tools have been redesigned to assist lenders and consumers in the new situation. They provide insights and guidance to help people manage their day-to-day financial realities and strive towards future goals.

Using credit data from bureaus and transactional information from Open Banking, the tools support customers on three different levels ➤





## Score and Report

The full financial picture - including a Credit Report using the well-understood Experian score.

The foundation level gives customers a simple, complete view of their financial situation, including an overview of current savings and credit accounts and an Experian credit score. It helps customers find ways to rebalance and improve their financial position.







## Coach Me

Actionable insights that help customers make decisions and lead better financial lives.

Customers are guided in rebalancing their finances with personalised recommendations and tailored advice to make the most of their money. Spending is organised into easy-to-understand categories, so customers can see at a glance where the money goes each month and where they can trim costs or better balance their finances.





## Future Me

Personalised support and recommendations, with product switches made simple.

Customers are supported on a personalised journey towards their financial goals. After clarifying the customer's goals, the Future Me service recommends optimal products and services to help them get to where they want to be - such as being debt-free, in a new home, or accessing better credit.





## With Financial Education tools consumers:



Understand their position better



Are advised on how they can improve it



Are supported through the journey towards longer-term financial goals.

## How Experian Education tools work



Offered either in an easy-to-integrate white-label form or via API.



Experian's Financial Education is suite of components that can operate independently or as one, built from Experian credit scores and reports and Transactional Data.



These tools can be built and delivered to meet specific customer needs.



Excellent user experience - no need for separate ID and fraud checks.



Can be integrated at any point of the user journey - helping consumers understand what they can afford / how to reduce the cost of borrowing before taking out a new facility.



Available in different combinations, from simply a credit score, right through to the full Score and Report, Coach Me, Future Me package.





# Financial Education in Practice

\*representative stories



# 01

## Sheryl, already financially vulnerable

Sheryl lives in north London in a rented two-bedroom flat with her two teenage daughters. By the time she's commuted to her job as an office assistant, she's out for at least 10 hours a day. Sheryl has already been late on some rent payments.



“I’m proud of having brought up two kids on my own. Money’s always been tight - now though, it just doesn’t go far enough. I hate the idea of debt but have had to take out loans to get by. I know I could manage my finances better, but I just don’t have time. I’m now going to bed worried about money.”

### Goals



Better balance  
finances so she’s not  
constantly worried



Get debt-free



## How Financial Education tools help

### SCORE AND REPORT

Sheryl can understand where, how often and how much is spent on specific things. This gives her the opportunity to identify ways to spend in line with her income.

### COACH ME

Sheryl receives an SMS reminding her of recent spend and things to be aware of – such as pay day loan payments becoming due

Sheryl can see that she usually spends more than £100 a month on takeaways. Often, she can't face cooking after a long working day.

By giving her mum £30 a month to buy ingredients, she could ask her to do some extra food in her weekly batch cooking, which Sheryl can then freeze. That frees up at least £70 a month.

Looking at the insights, she can validate the upside of reducing current debt and identify other areas where she could spend less.

### FUTURE ME

**Goal: Get free of the stress of debt and an unbalanced budget.**

The service identifies that she has £7,000 in savings - rainy-day money - which is gaining almost no interest.

It suggests she should use £1,000 to settle payday loans that are rapidly gaining interest.

It also recommends a zero-percent credit card balance transfer to pay off three existing cards with one monthly payment.

This payment looks manageable with the savings identified at the Coach me stage.

Sheryl is not yet debt-free, but she has a clear and realistic plan for getting there.

## How it helps the lender



The lender can genuinely say they have done their utmost to help Sheryl out of financial vulnerability.



She stays out of the collections process - which is highly costly in staff time



The lender recovers the money it is owed by Sheryl



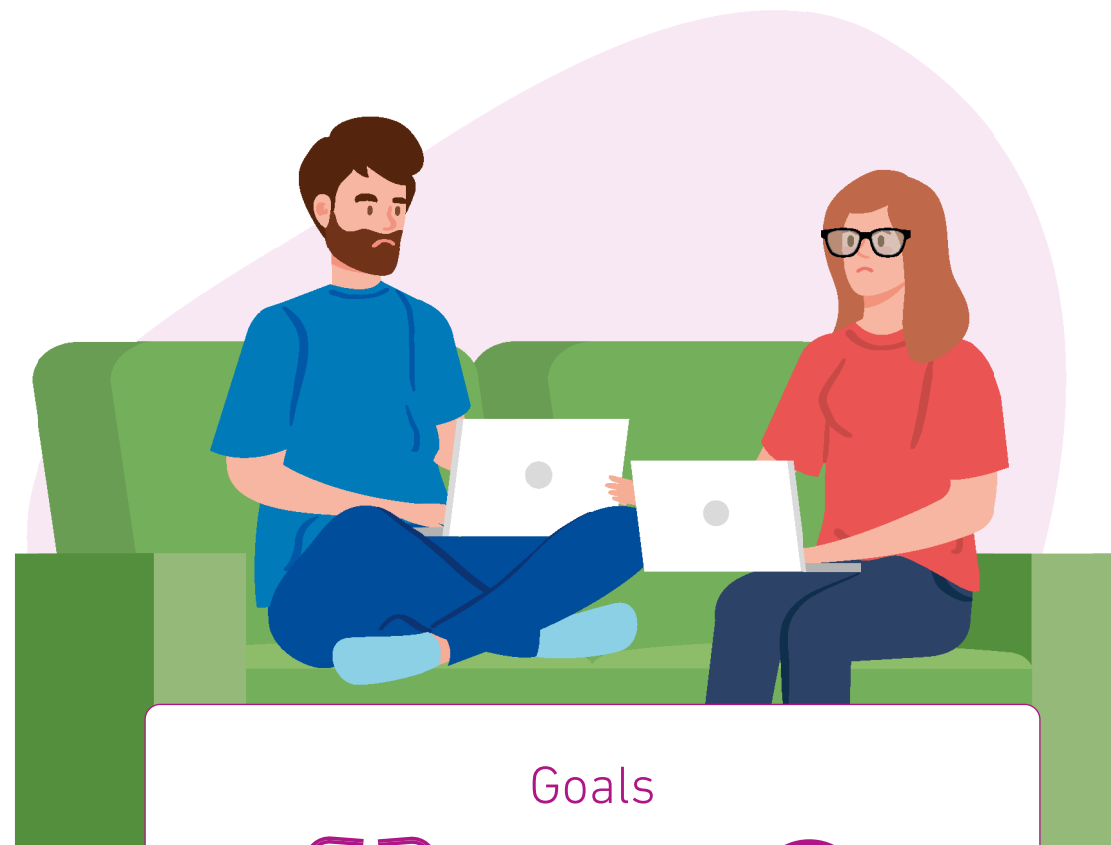
Sheryl becomes a loyal customer



# 02

## Deborah and Keith, pandemic losers

Deborah and Keith live with their teenage children in Redhill. Deborah works as deputy head at the local primary school, and Keith runs his own business. Income from the business has seriously slowed since the start of the pandemic, and they've taken payment holidays on their mortgage, car finance deal and credit card. They are worried they won't be able to cover the costs when they restart payments.



“We're usually pretty good at balancing our budget month to month, but recently with Keith losing work we've had to really tighten our belts.”

### Goals



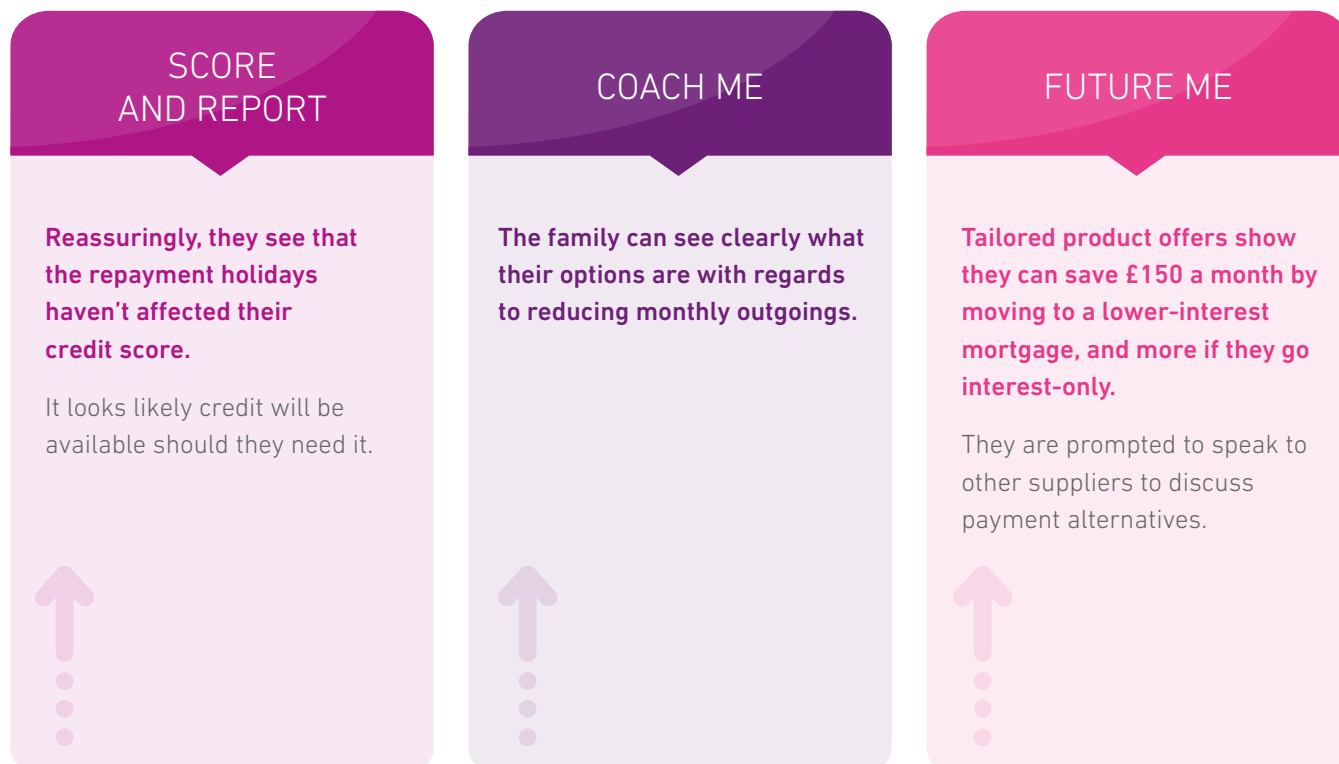
Avoid getting into  
any more debt



Reduce monthly  
outgoings to match  
lower income



## How Financial Education tools help



## How it helps the lender



It is now unlikely that the family will move into bad debt or significant arrears.



They have been helped towards a solution that works for them and are more likely to become loyal customers.



# 03

## Diego, financially healthy

Diego lives with Charlie in a flat in Edinburgh. They meet their costs each month and manage to save too. Diego wants to buy a car and is saving for that. Despite a comparatively well-paid job in IT, Diego feels his access to financial products may be limited because he only moved to the UK three years ago.



“Me and my girlfriend have just bought our first flat. We’ve been lucky through the pandemic and actually managed to find extra cash to furnish the flat and get some renovations done. Now, I want to feel like I’m contributing more financially to our life together.”

### Goals



Buy a car



Be able to afford  
to fly home  
more often





## How Financial Education tools help

### SCORE AND REPORT

**Diego sees that although he has a thin-file for credit, his score is fair.**

He sees he was turned down for credit cards because he was not on the electoral roll.



### COACH ME

**The customised insights show Diego that he can build his credit score much faster than he thought by taking out a credit-builder card that he'll pay off in full each month. That will let him borrow to fly home.**



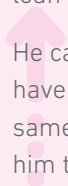
### FUTURE ME

**The Future Me automated advisor spots that Diego's car savings are in an account that only offers 0.3% interest.**

It suggests that he would be better off taking out a specific very-low-interest loan that he is pre-authorised for to cover the rest.

Due to the impact of inflation on the cost of the car –if he waits longer to purchase the car, it will rise in price and therefore the overall cost to buy will be the same even with interest for the loan included

He can buy the car now and will have paid off the loan in the same time it would have taken him to save the total.



## How it helps the lender



As he builds his credit score and improves his financial situation, Diego will become a more valuable customer who needs higher-value products and services.



Diego is delighted to have contributed to the household and is likely to be a loyal customer.



# How financial education offer **value for lenders**

## #1

### AQUIRE

Financial Education tools help build a winning brand, which prospects know empowers consumers to make quicker, better-informed, and money-saving decisions.

The tools can show customers the products they qualify for: 63% of consumers say they would be more likely to buy if they are pre-qualified for a product or service (Experian data).

## #2

### ENGAGE

Financial Education tools engage customers with personalised alerts and tailored insights.

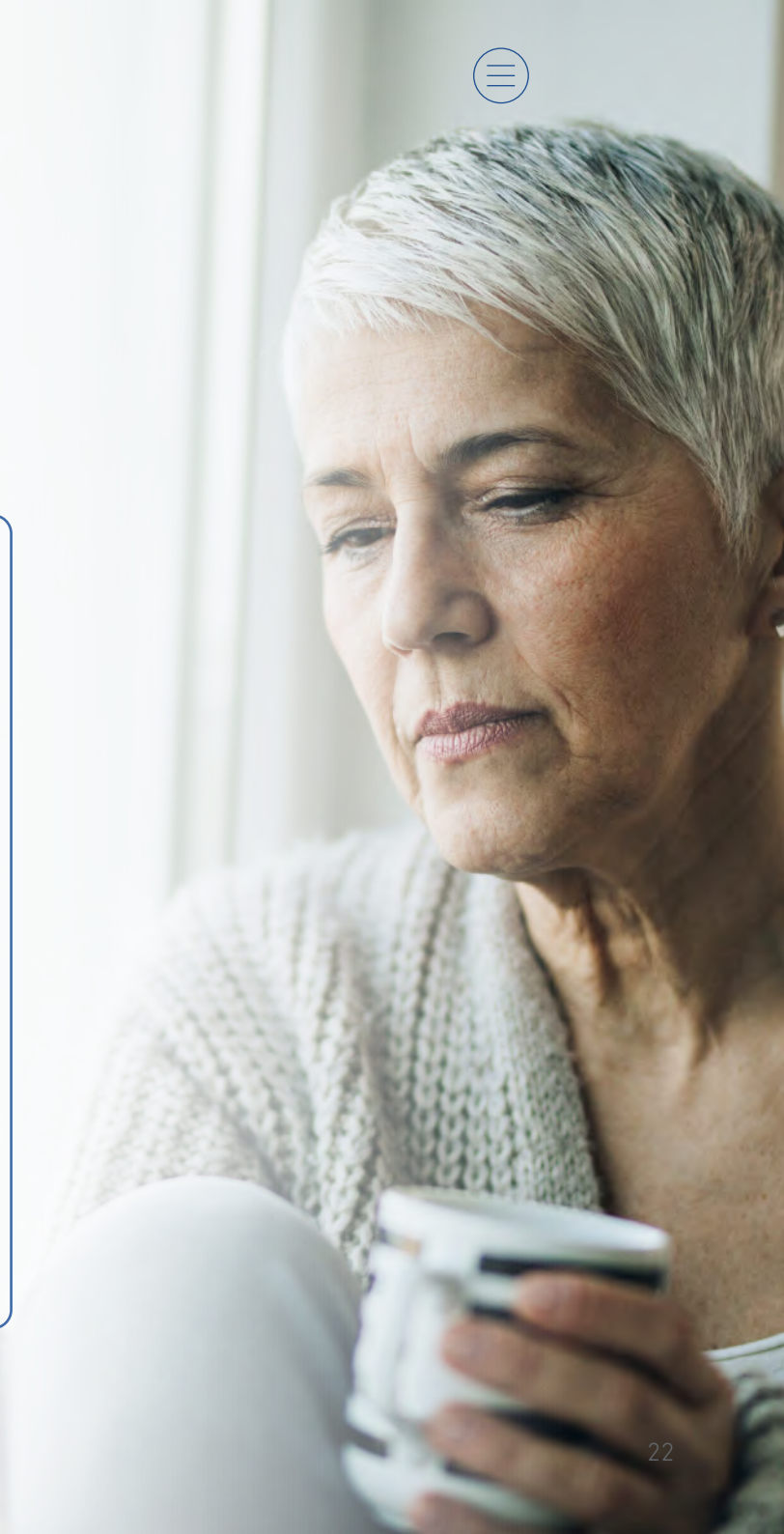
Credit scores are a powerful means of engagement. 70% who accessed their credit score maintain or improve it - leading to up to 20% higher conversion in product sales and a significant increase in customer lifetime value (all Experian data).

## #3

### RETAIN

Retain customers by helping them take control of their finances and achieve goals, moving the relationship from transactional to one of trust and loyalty. 70% of consumers think providers should help them better understand their financial position.

Those who use similar services regard them highly, giving world-class 80+ Net Promoter Scores.





## Why choose Experian tools?



**Save time, cut costs:** Cut the time and complexity of analysing credit behaviour, income and spending to help customers manage their money. We do that for you.



**Build strong relationships:** Use our real-time insights to build trust, helping customers find better products and take control of their finances.



**Seamless integration:** Our white-label tools are plug and play. Very little forward investment is needed so lenders can quickly and painlessly add further value to their relationships.



**A trusted brand:** The Experian brand is trusted and recognised for improving financial literacy and helping consumers access better financial services.



**Flexibility:** Start with a small part of the full package, then develop services that suit you.



**Data Quality:** Experian has the highest quality bureau data with around 85% of the credit-active population on the bureau.



**Better, more robust insight:** Our Categorisation Engine provides the highest accuracy in the market (95%) and calibrates to achieve 98% accuracy after implementation (Experian research).

### Interested?

Get in touch with our specialist team on **[businessuk@experian.com](mailto:businessuk@experian.com)** to understand how we can help you thrive by supporting your customers through the cost-of-living squeeze.





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

**[www.experian.co.uk](http://www.experian.co.uk)**

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