THE RISING COST OF LIVING AND THE CONSUMER

How lenders can better understand their customers and manage risk through the crisis.

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INTRODUCTION

The UK is going through a cost-of-living crisis which shows no sign of slowing down. Off the back of rising fuel costs and global supply chain issues, everything from food to travel prices are soaring. Fuel prices at the pumps are higher than ever before, inflation reached a record-breaking 7% March 2022 and continues to spiral, homes are becoming increasingly expensive to heat, National Insurance contributions rose in April 2022, causing a squeeze not only in the home, but directly in take home pay.

And whilst the economy continues to grow and bounce back from a tumultuous period, that alone is not enough to rescue those who will be most affected by the spiralling cost of living.

Experian research shows the squeeze will lead to highly variable consumer pressures, depending on individual circumstances, including which sector a customer works in and where they live. The key message for organisations is that today, no two individuals are alike in their experience of the pressures of the squeeze, or in their resilience to those pressures. There are as many risk profiles as there are consumers.

Lenders are at the forefront of this challenge. They need to help both existing and new customers manage their borrowing during this period of uncertainty and financial strain.

But what do lenders need to know about consumer financial health, and how can they reach more customers at this opportune time whilst protecting their portfolio?

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23% of people with income changes due to COVID-19 are expecting to take out new credit

During extenuating circumstances – like the current cost-of-living-crisis – historical data is no longer a reliable reference point for determining portfolio risk. This crisis will continually evolve and affect different people in different ways, so lenders need to constantly monitor their portfolio against a changing risk landscape.

There are already signs of consumer stress: [1]

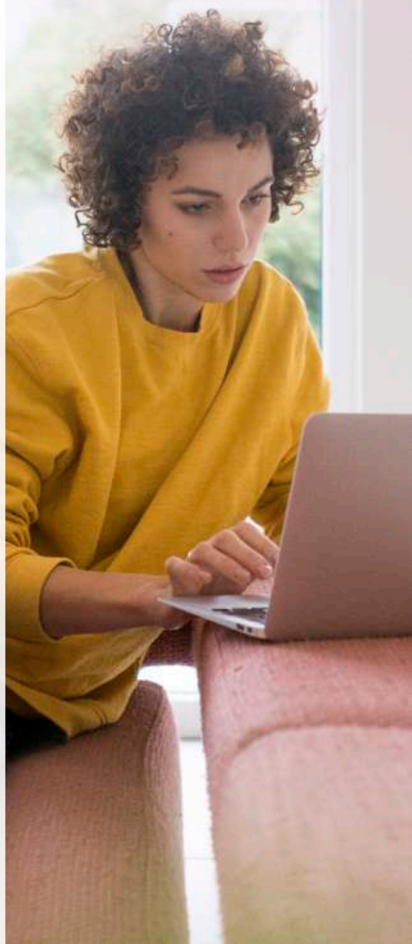
- Current-account balances are falling
- Overdraft use is rising
- Credit-card balances are rising
- Collections cases rose 7% between December 2021 and February 2022

Consumers who do not have a financial buffer will soon struggle to make ends meet. With 25% of UK consumers expecting to use a credit card to pay for unexpected bills[2], it's highly likely that lending portfolios will be exposed to different levels of risk than they have been before.

Applying traditional bureau data, alongside regional, sector and individual risk data, with up-to-date economic risk models means that personalised strategies can be developed in response the changes in credit worthiness as the crises unfolds. in turn, lenders can ensure fair and responsible treatment to keep consumers safe.

[1] 10378-Experian-Cost-of-Living-Crunch-Whitepaper-comp.pdf

[2] Experian research, October 2021



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31% of people do not feel financially secure

The pandemic and protracted financial difficulties are making people acutely aware of their financial vulnerability. Our research shows that as many as 31% of people do not feel financially secure[3], and we expect this number to rise as the cost-of-living crisis bites. With half of young people (49% of those aged 18 to 24) saying their financial situation causes them a lot of stress[4].

Borrowers should ideally receive support before they feel their debt is spiralling out of control. As the crisis evolves and becomes even more challenging for people, lenders have an opportunity to educate customers on managing their incomings and outgoings as a way to drive positive action.

READ MORE | Download our Financial education guide to learn more.

[3] Experian research, October 2021

[4] Experian research, October 2021

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14.7 million people have a low financial resilience

The cost-of-living crisis is so unpredictable that it remains difficult for lenders to determine which of their existing customers could face affordability problems. While many people have suffered income shock over the past two years, as many as 48% say their finances didn't change as a result of the pandemic and 14% even say their finances have improved[5].

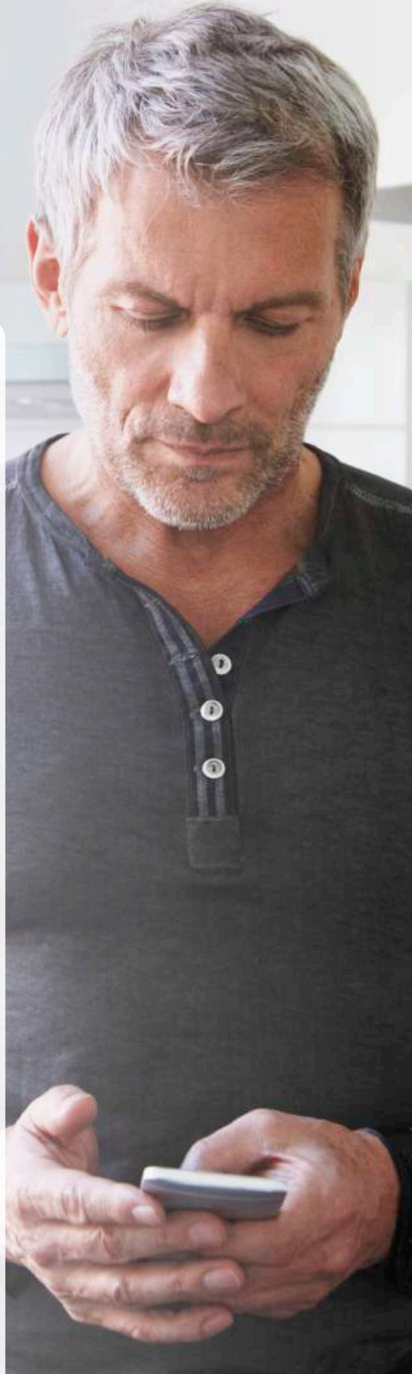
But times are now changing, and even those originally able to save, are finding themselves dipping into buffer funds to pay for life's essentials.

Real incomes are falling, and expenditure is increasing, meaning even those in a strong financial position could find themselves out of pocket.

Our research indicates that, 44% of people would need to borrow money from either orthodox lenders or friends and family, should an emergency, such as a broken boiler, arise.

With access to the right data, lenders can better identify customers with lower financial resilience, through understanding their income, employment status, location and expenditure.

LEARN MORE | Learn how Experian can help you anticipate financial problems to protect yourself and vulnerable customers.



[5] FCA, 2021, FCA finds the COVID-19 pandemic leaves over a quarter of UK adults with low financial resilience

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Some sectors are not recovering strongly, leaving borrowers who work in them at greater risk.

Some sectors have been slow to bounce-back and we anticipate that several will still not have reached their pre-COVID size even by the end of 2022 (Experian data). These include:

- Agriculture, forestry, and fishing
- Mining and quarrying
- Manufacturing
- Transport and storage
- Professional and other private services

Organisations will need to be aware of which sectors they are most exposed to so they can manage their portfolios effectively.

LISTEN HERE

Experian's Colette Land discusses the recent impact of energy price rises, and helps utility providers use data to drive effective customer managment.

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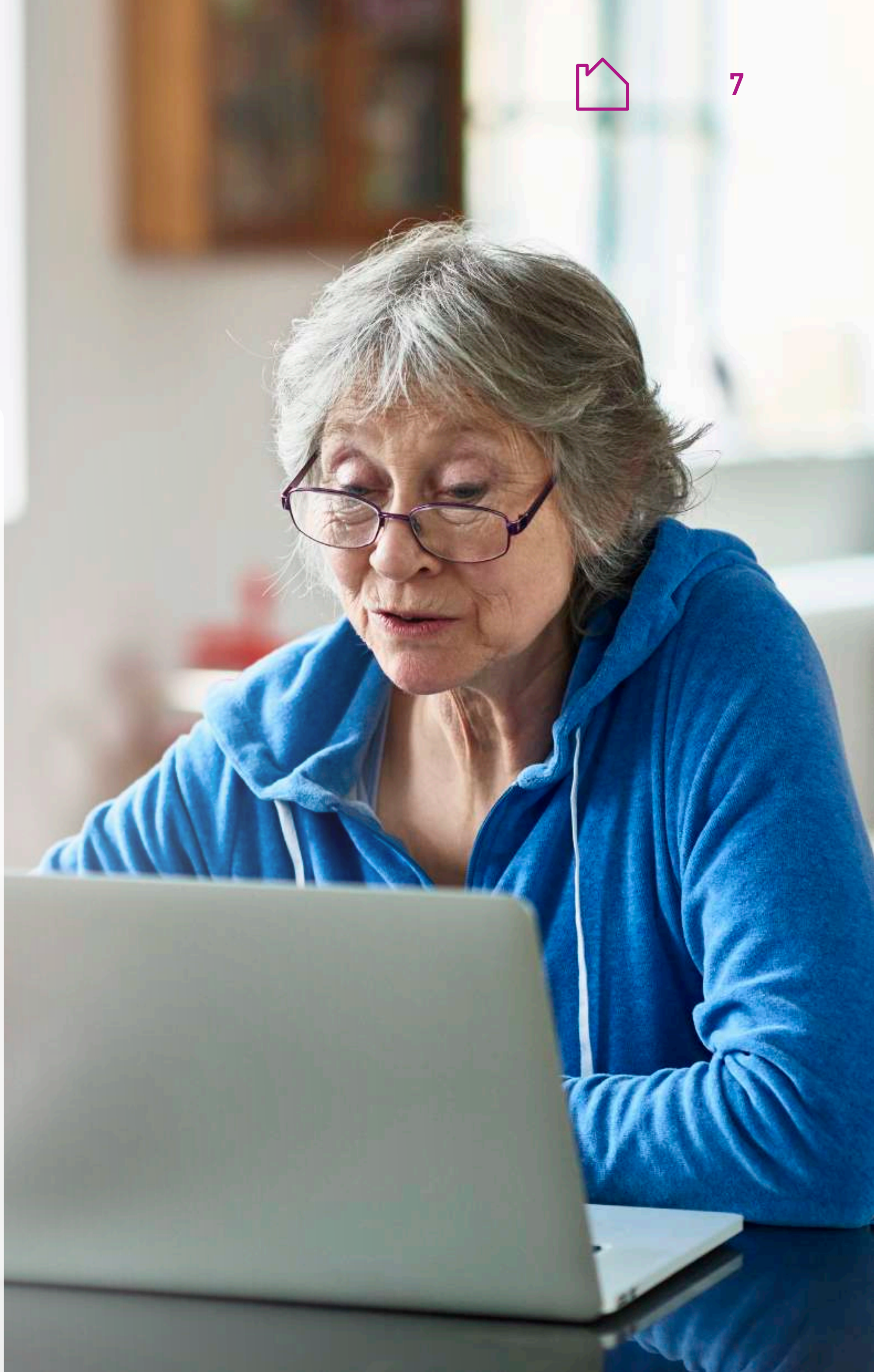
Supporting those at risk

With so many potential risk profiles, deep understanding of the customer is key to effective portfolio management.

Unemployment data alone is no longer the key to a true understanding of risk. Through using a breadth of data sources, understanding customers and their individual risk, will enable lenders to offer greater support to customers who may be at risk of defaulting.

- How much is the consumer earning?
- Is that income stable?
- Is it keeping up with increased spending due to inflation?
- In which industry sector is an individual employed?

Establishing proactive customer management strategies through identifying and working with those most at risk, can help both consumers and lenders alike.



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Managing your portfolio

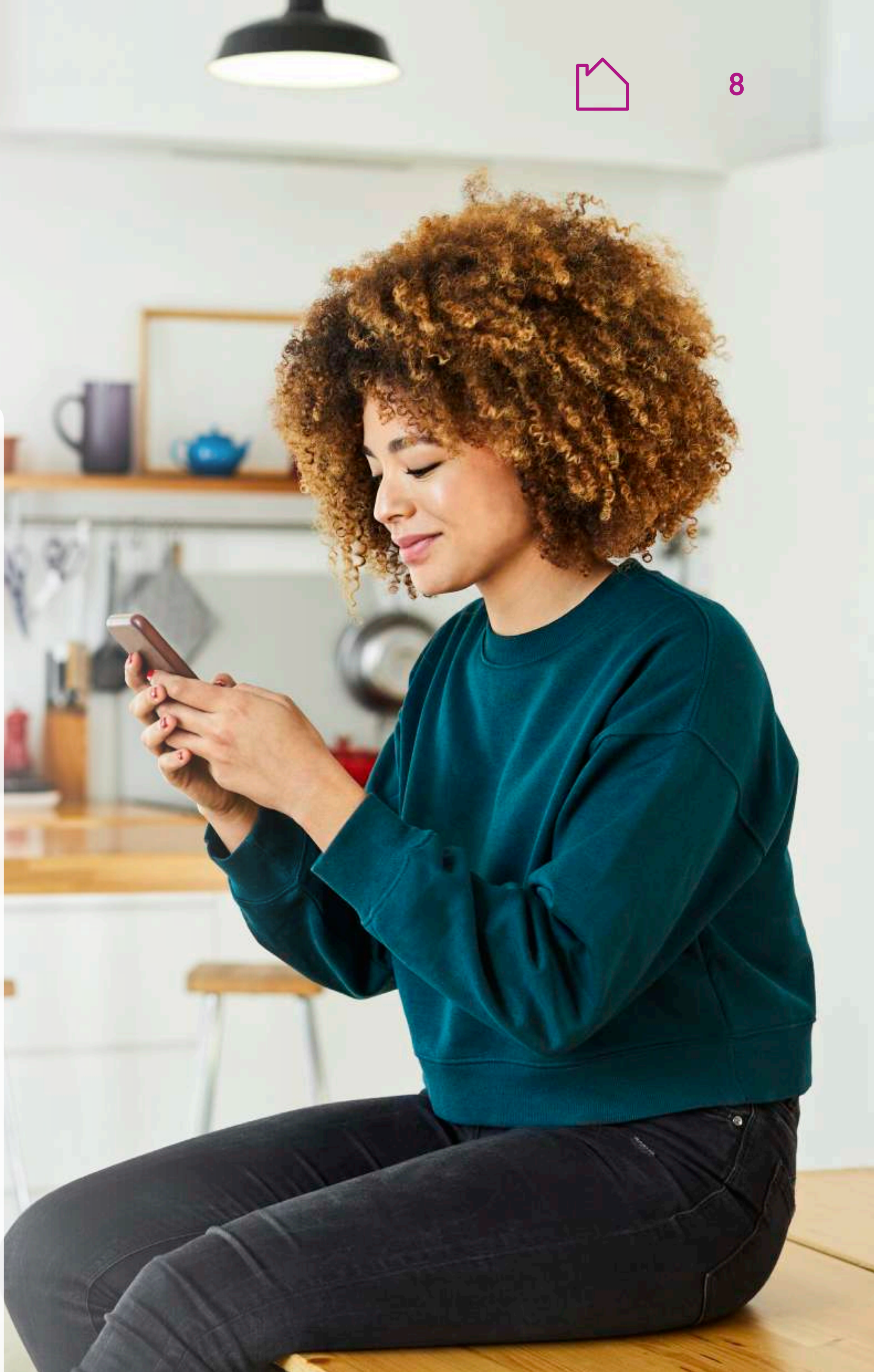
Managing portfolio risk will demand more granular consumer analysis.

The new landscape is one that cannot be understood well using tools based on averages or broad segments.

Portfolio risk management will require sophisticated analysis, with customer-level insight. The best-positioned lenders will be able to benchmark their portfolio positions against the rest of the UK market or specific peer groups. They will use that benchmarking to measure their effectiveness in portfolio management, to assess their levels of exposure, and to see how their customer risk profiles compare.

READ MORE

Our recent guide for lenders will help you understand the economic situation to help navigate the changing credit landscape.



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Keep agile, listen and adapt

The crisis is ever-evolving. Policy changes, record fuel costs, increasing food prices – we are constantly hearing about new rising costs which can impact even the most seemingly financially stable.

Through keeping up with policy, trends, and economic forecasts, lenders can better position themselves to understand impacts to portfolio, and individual customers.

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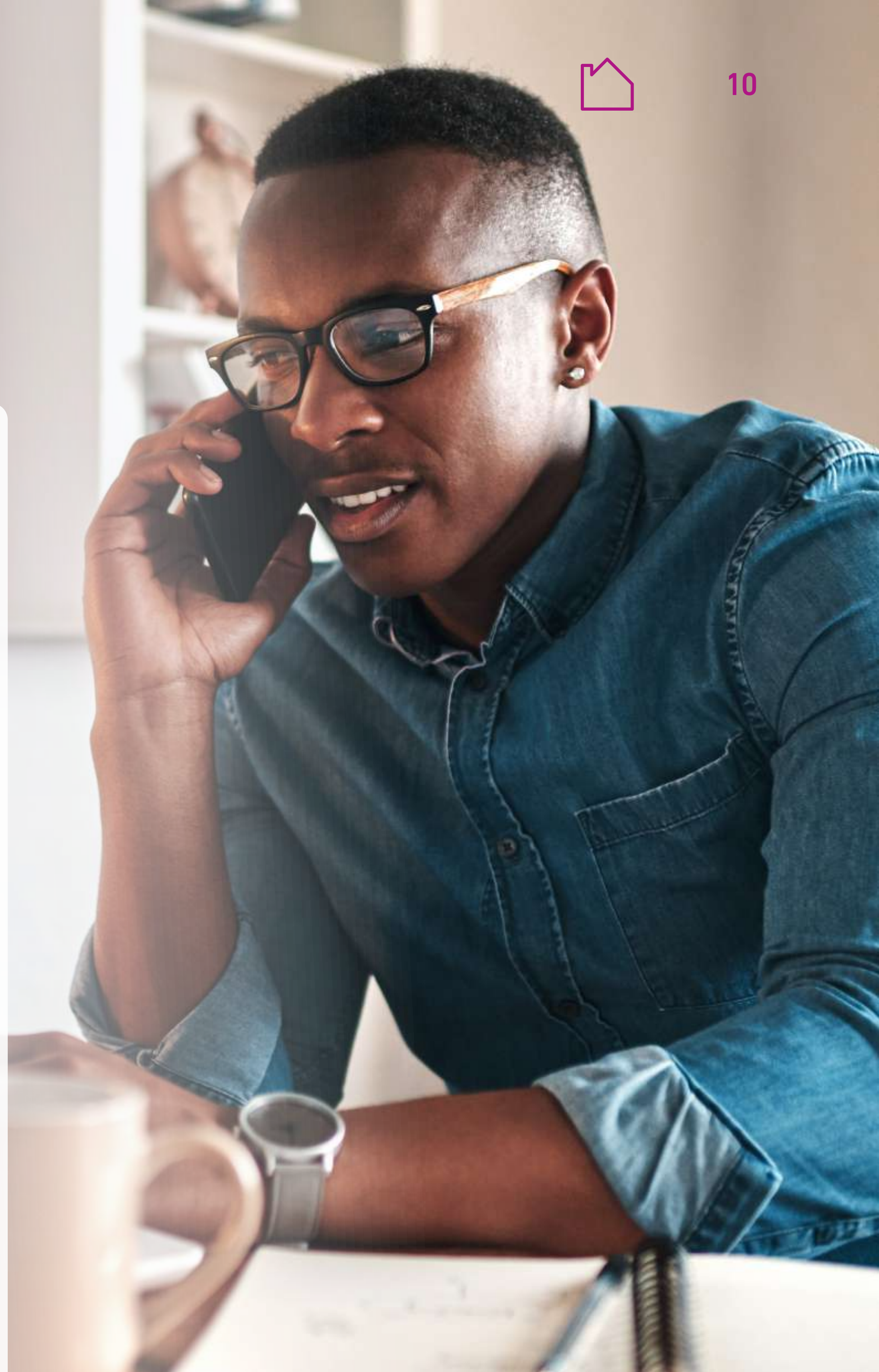
Continue to grow

There are millions of potential borrowers in the UK who are in robust financial health despite the cost-of-living squeeze. £492m of debt[6] was paid down over the pandemic, delinquency remains very low by historic standards and the housing market is booming.

Therefore, blanket policies to minimise exposure run the risk of lenders missing out on valuable new business. Lenders who understand the changing needs of customers within the market will be able to see clearly where these growth opportunities are arising.

[6] 10378-Experian-Cost-of-Living-Crunch-Whitepaper-comp.pdf

CONCLUSION



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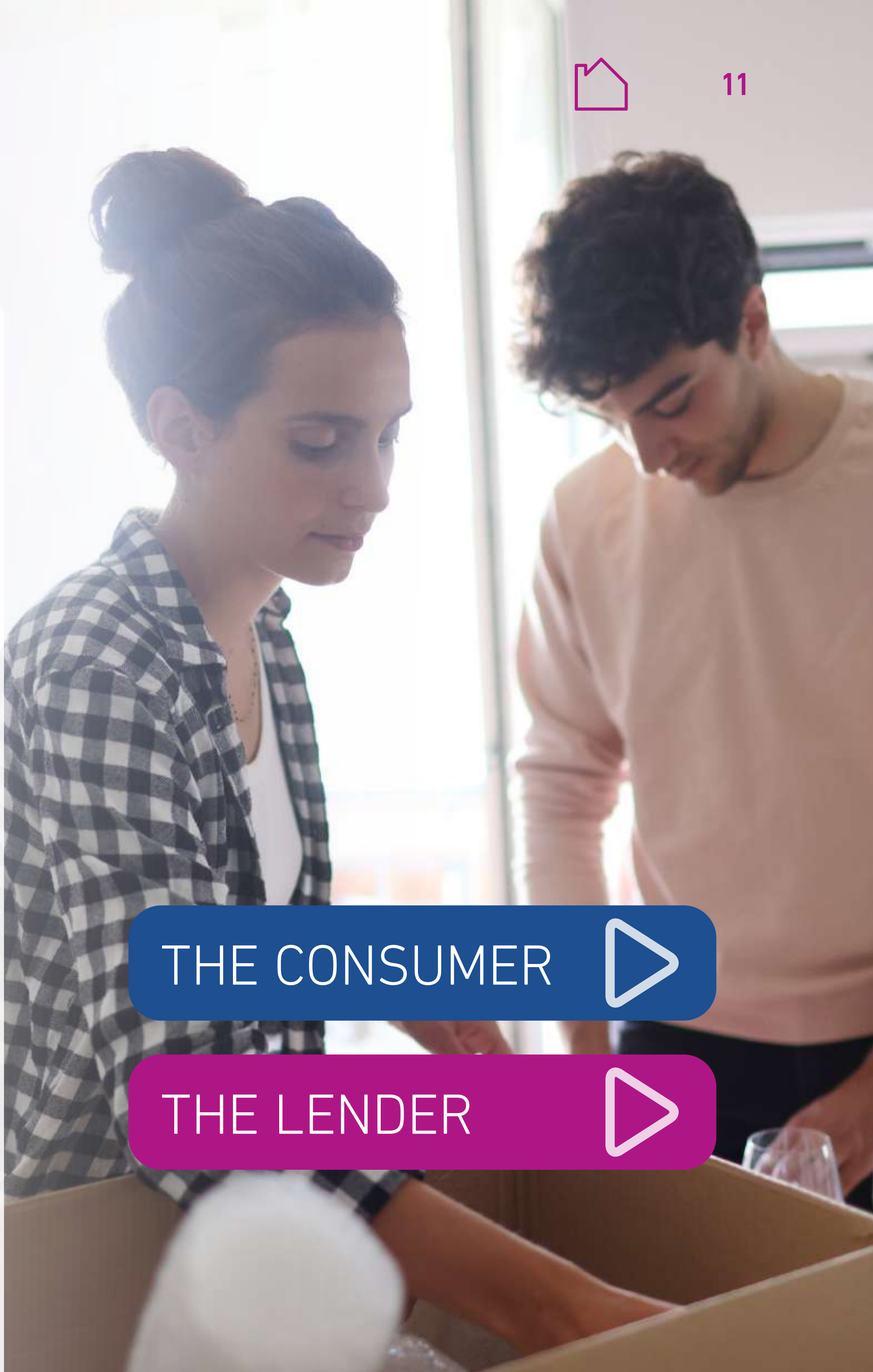
CONCLUSION

We are at a unique point in history. Whilst the UK economy remains strong, there are signs that growth will slow in the coming months, this coupled with the challenge to people's personal finances, makes the immediate future more uncertain for many. Lenders have an opportunity to guide customers through the coming months with new products and more tailored support functions to both protect their existing portfolio and achieve growth. But to do so effectively, they need accurate data on their customers to offer the right kind of products and manage their risk exposure.

Experian provides this insight. By combining data on both macro trends and individual behaviours, we can give you the visibility you need to be agile through the changing economic climate.

JOIN OUR WEBINAR

Register for our regular Insights Series to keep up to date with the latest changes impacting your portfolio.



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