THE RISING COST OF LIVING AND THE CONSUMER

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

SECOND EDITION

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INTRODUCTION

As the cost-of-living crisis in the UK continues to grow, with inflation hitting a four-decade high and likely to rise further this Autumn, consumers are starting to feel the squeeze. Essentials including food and energy are continuing to grow, leaving many reprioritising where to spend their income. Lenders must continue to find ways to better identify and support those struggling to make ends meet.

In our first edition we anticipated the cost-of-living crisis to lead to highly variable consumer pressures, with no two customers being alike in their financial situation and stability.

Our latest research, encompassing responses from 2,013 consumers across all regions of the UK, explores how consumers are perceiving the impact of the cost-of-living crisis to be affecting their household finances, how it is changing credit usage and which demographics are most likely to feel the pinch.

Lenders continue to be at the forefront of this challenge. Supporting both new and existing customers to manage borrowing in an affordable and appropriate manner, minimising risk of financial strain to the consumer, and risk on their portfolio.

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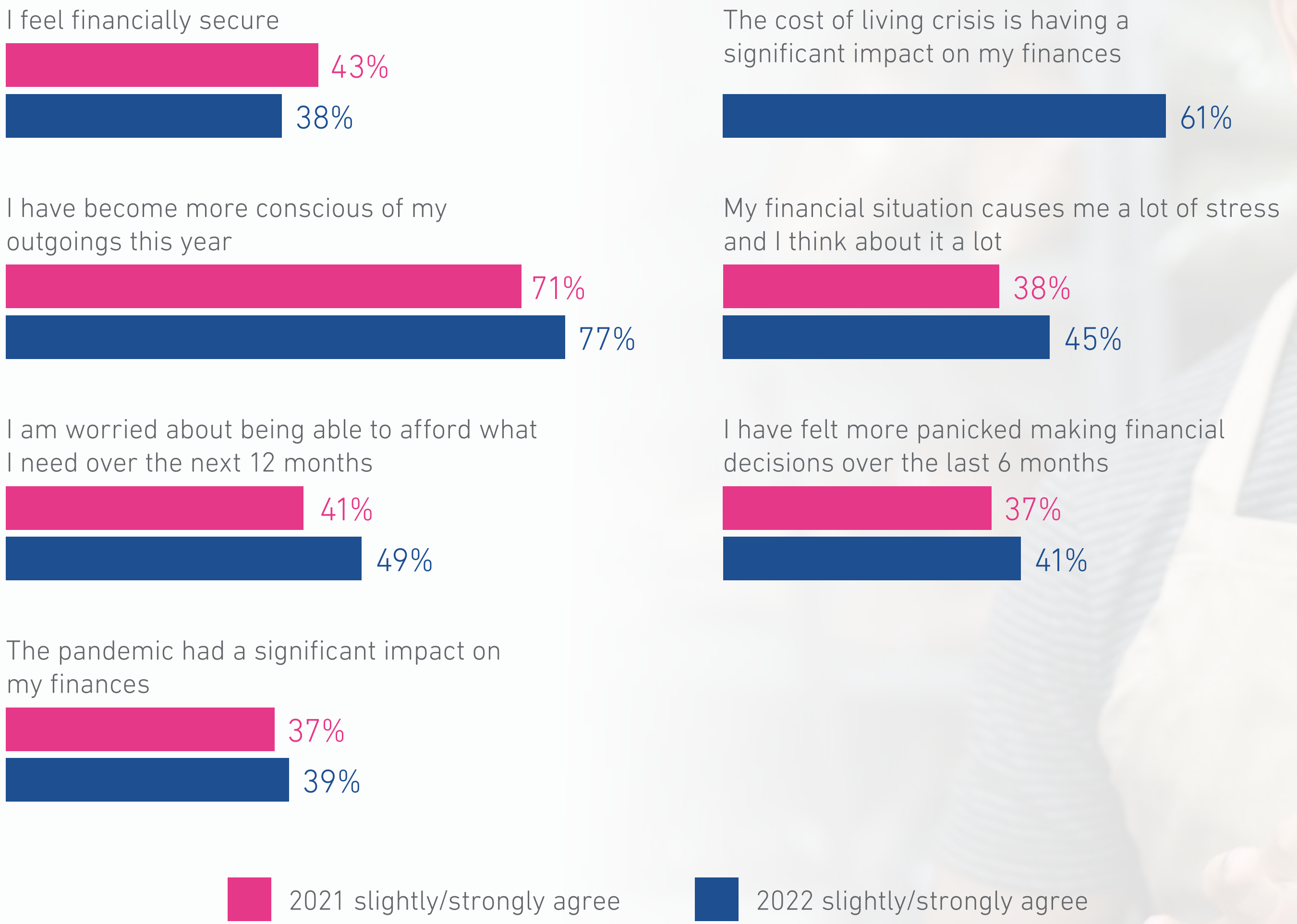
OVERVIEW

Our second edition research highlights how secure consumers perceive their finances to be in 2022 vs 2021, and the impact of the cost-of-living crisis on their own expenditure.



OVERVIEW

As a headline, we can see:

- Fewer people feel financially secure
- More people are conscious of outgoings
- More people are worried about what they can afford
- More people sense the cost-of-living crisis is having a significant impact on their finances compared to the pandemic
- More people feel more panicked about making financial decisions
- More people feel stressed about their finances

Yet, there is still a large proportion who present good – or excellent credit risk.

In the following pages, we will delve more into the research behind these headlines and how lenders can better support customers and protect their portfolio.

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THE CONSUMER

Just 38% of respondents feel financially secure

The latest financial squeeze is causing consumers to question their day-to-day expenditure and stability of their own finances. Consumers' sense of financial security has dropped by 5 points vs. our 2021 research.

61% of respondents claim the current crisis is having a "significant" impact on their finances

45% say their financial situation causes them a lot of stress

LEARN MORE Find out how you can help educate consumers

Within our own data, we are seeing:

- Double-digit increase in credit card and loan applications
- Continued growth in overdraft use
- On-going increase in credit card balances
- Collections continue to rise, with a 7% increase in the past quarter
- Those who have defaulted have an average of nine other credit accounts, which are not yet in default

Positively, the quality of new applications for loans is not currently deteriorating. That said, any consumers who are at risk of defaulting, should have access to support from banks and lenders before their finances cause undue stress. As we continue to see increasing energy costs and inflation rises month-on-month, it is more important than ever that consumers have access to tools to enable them to better understand their finances and save for the future.

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THE CONSUMER

45% of respondents cited household energy as the #1 item most affecting their finances

The rise in household energy prices and the seemingly never-ending increases in the energy price cap have been well documented in recent months. It is unsurprising that consumers are conscious of the impact of this on their household finances.

A staggering 74.6% of consumers report they are spending more on their household bills, followed by groceries (55%) and transport (including fuel and public transport 47.5%). Within our own data, we are seeing a slow but steady increase in the percentage of customers falling behind on energy bills.

In turn, they are spending less on activities determined as “discretionary spend” such as eating out (49.9%), events such as theatre and days out (48%) and clothing (48.8%)

LISTEN HERE

Experian’s Colette Land discusses how we’ve been supporting energy companies better identity and support those at risk.

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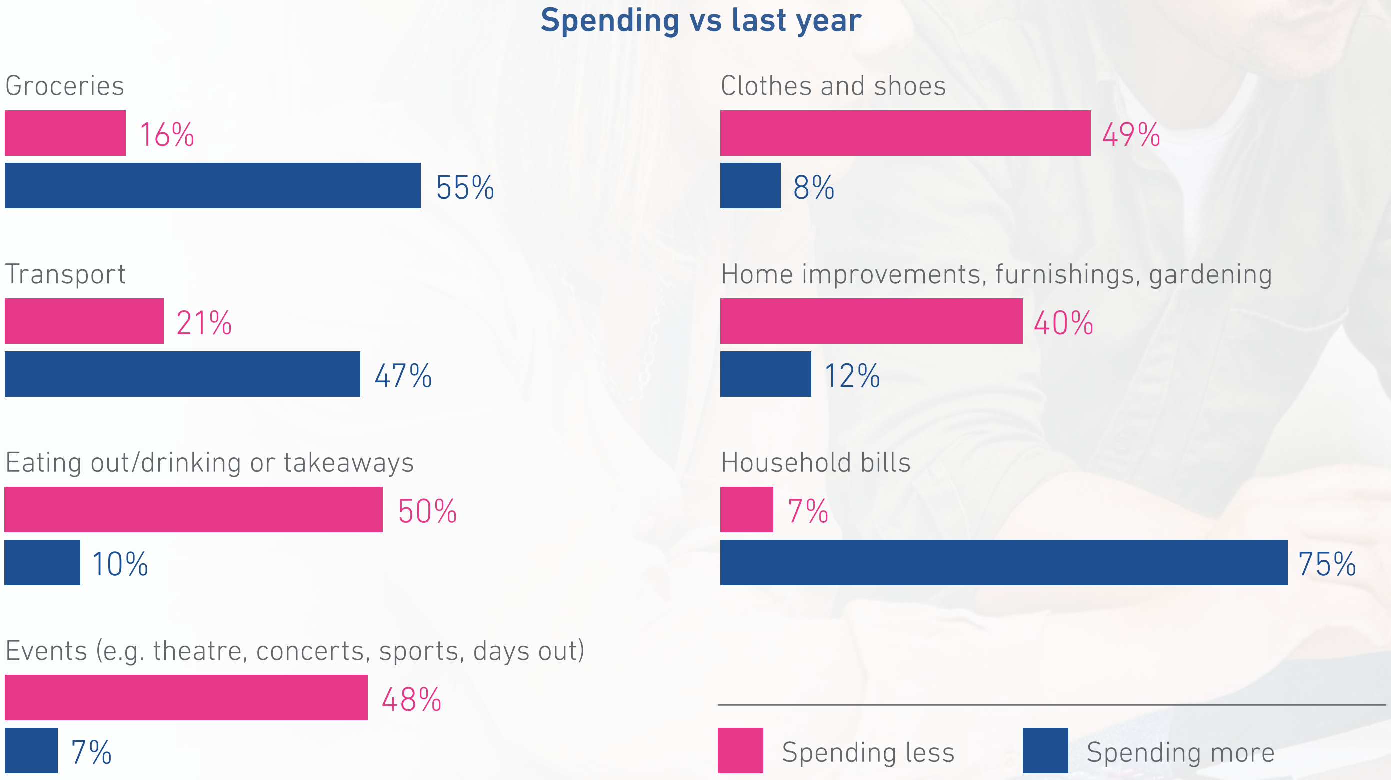
THE CONSUMER

75% of consumers report they are spending more on their household bills



As prices continue to escalate, what changes will we see to enable consumers to go back to spending on more than just the bare essentials?

THE CONSUMER

12% of respondents have used existing credit cards more than usual for daily spending

Credit cards are, to some, becoming a necessity to cover daily spending. Coupled with the growing popularity of Buy Now, Pay Later, available on holidays, clothing, and even groceries, how and when we use differing forms of credit is beginning to change.

From our own insight, we are seeing credit card balances rising by 6% since the start of 2022. Alongside continued growth in credit card applications with 25% increase in July 2022 versus 12 months prior.

Each consumer is subject to individual circumstances and drivers for applying for credit. During a cost-of-living crisis, understanding these circumstances is more important than ever.

LEARN MORE

Our Affordability IQ solution helps you better understand and treat every customer as an individual.

THE CONSUMER

36% of 18–24-year-olds have used credit due to being in a temporarily difficult financial situation.

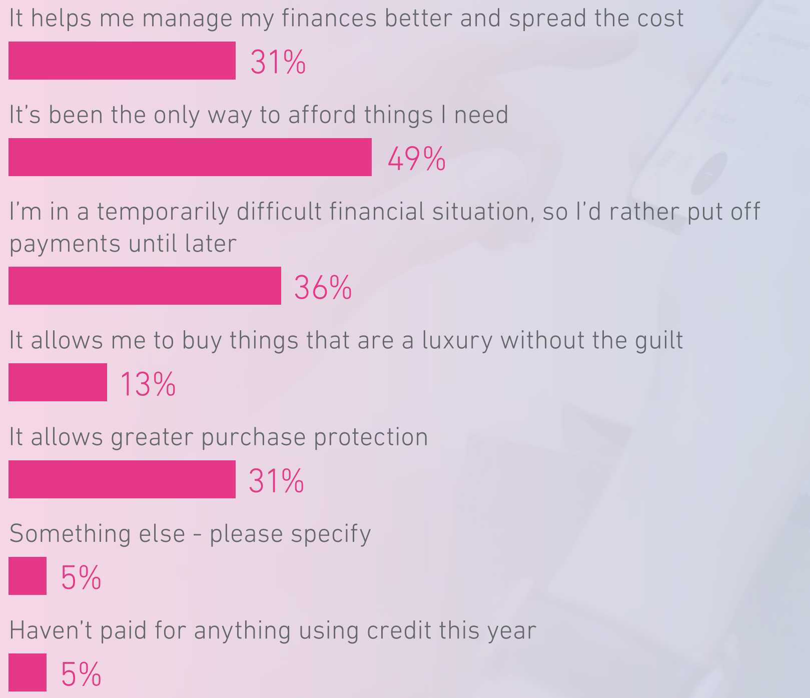
The younger demographic is already acknowledging they are experiencing financial strain, and concerningly, 30.8% have used credit in the past 6 months as they feel it's the only way to afford things they need.

In fact, over 15% of 18-24s will "definitely" take out new credit in the next 12 months.

Comparatively, in the over 65s, who primarily use credit for payment protection (40.2%), less than 2% of respondents intend to take out new credit, the majority assuming they have the means to cover unexpected emergencies.

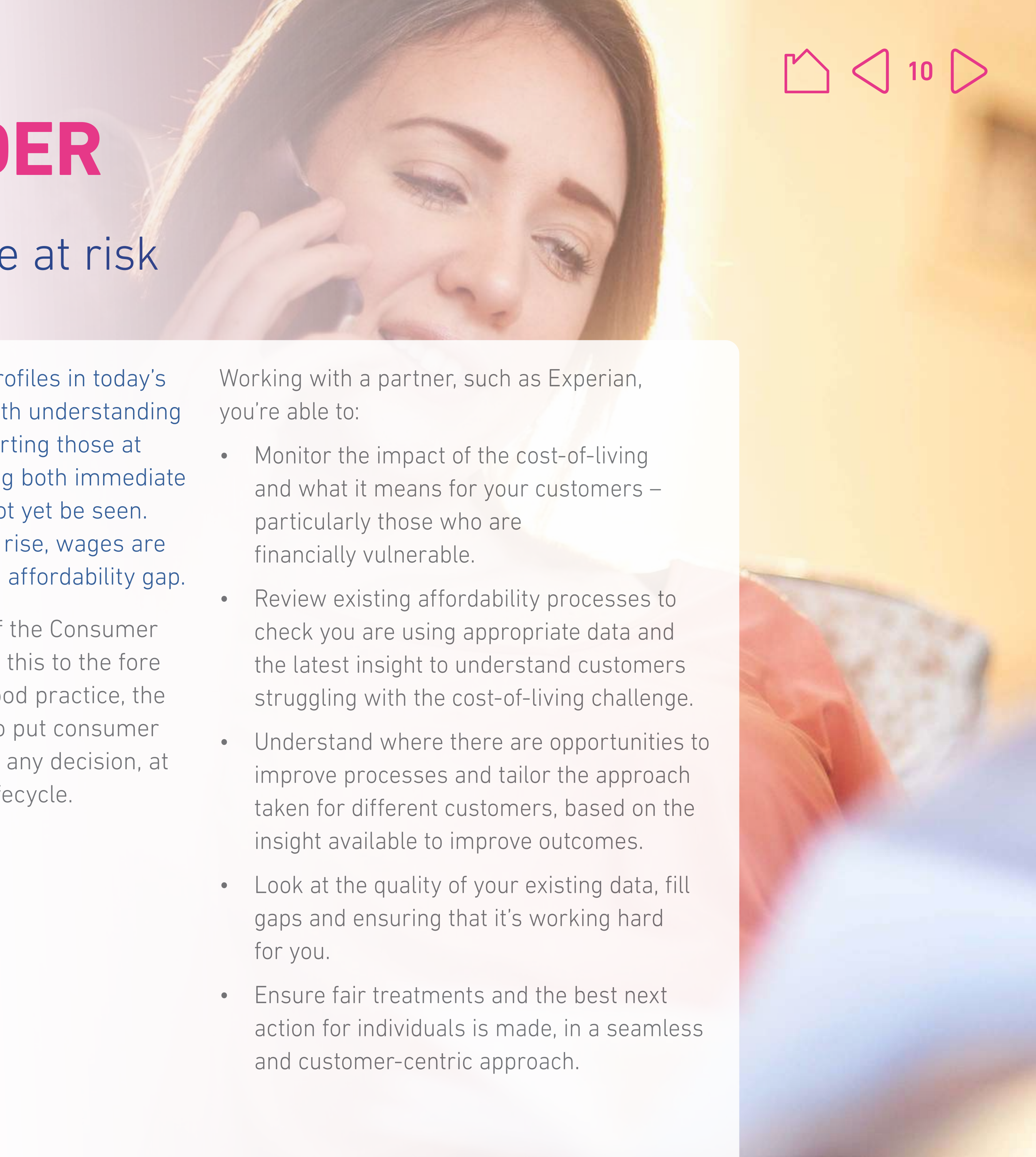
As the cost-of-living continues to rise, how will the younger generations continue to fare, with costs outstripping wage increases, property prices remaining high, and energy rates soaring?

Thinking about occasions over the past 6 months where you have bought or paid for something using credit, what have been your motivations for doing so rather than paying outright? Please select all that apply:



THE LENDER

Supporting those at risk



With so many varying risk profiles in today's changeable economy, in-depth understanding of your customer, and supporting those at risk, is crucial. Understanding both immediate and future risks which cannot yet be seen. And whilst costs continue to rise, wages are lagging behind, widening the affordability gap.

The recent announcement of the Consumer Duty Regulation has brought this to the fore once more. Whilst always good practice, the FCA will expect all lenders to put consumer best interest at the centre of any decision, at all stages of the customer lifecycle.

Working with a partner, such as Experian, you're able to:

- Monitor the impact of the cost-of-living and what it means for your customers – particularly those who are financially vulnerable.
- Review existing affordability processes to check you are using appropriate data and the latest insight to understand customers struggling with the cost-of-living challenge.
- Understand where there are opportunities to improve processes and tailor the approach taken for different customers, based on the insight available to improve outcomes.
- Look at the quality of your existing data, fill gaps and ensuring that it's working hard for you.
- Ensure fair treatments and the best next action for individuals is made, in a seamless and customer-centric approach.

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THE LENDER

Understand, adapt, react

As the crisis continues to unfold, it is more important than ever to understand, listen to the market, and adapt to suit the climate.

Continuous monitoring of your portfolio, and early detection and identification of consumers' risk will give both lenders, and consumers the greatest protection and financial security.

Keeping up with the latest trends and market insight, as well as monitoring your portfolio – including how you compare to the market and your peers - means you can be at the forefront of changes and forecasts so you can adapt your business and continue to grow with confidence.

While there are many causes of stress, many of these can be identified and modelled against today.

At Experian, we have a dedicated team of economists and analysts to help support you to build a resilient future.

JOIN OUR WEBINAR

Register for our Insights webinar series to get the latest industry and economic trends.

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THE LENDER

Responsibly say “yes”

Whilst we continue to be mindful of those who may be struggling, we mustn’t forget, that for many, affordable credit is still appropriate. Credit remains a viable way of managing finances for many consumers by spreading the cost of purchase, particularly for more expensive items. When used appropriately and affordability is assessed correctly, credit can fulfil both consumer need, and lender growth strategies.

Through using the latest, integrated data sources, such as those found in Experian’s Affordability IQ, Open Banking and Delphi product ranges, lenders can continue to grow, whilst minimising risk to their portfolio and the consumer.

READ MORE

Find out how Experian can help you get a better understanding of your customers affordability

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THE LENDER

Continue to grow

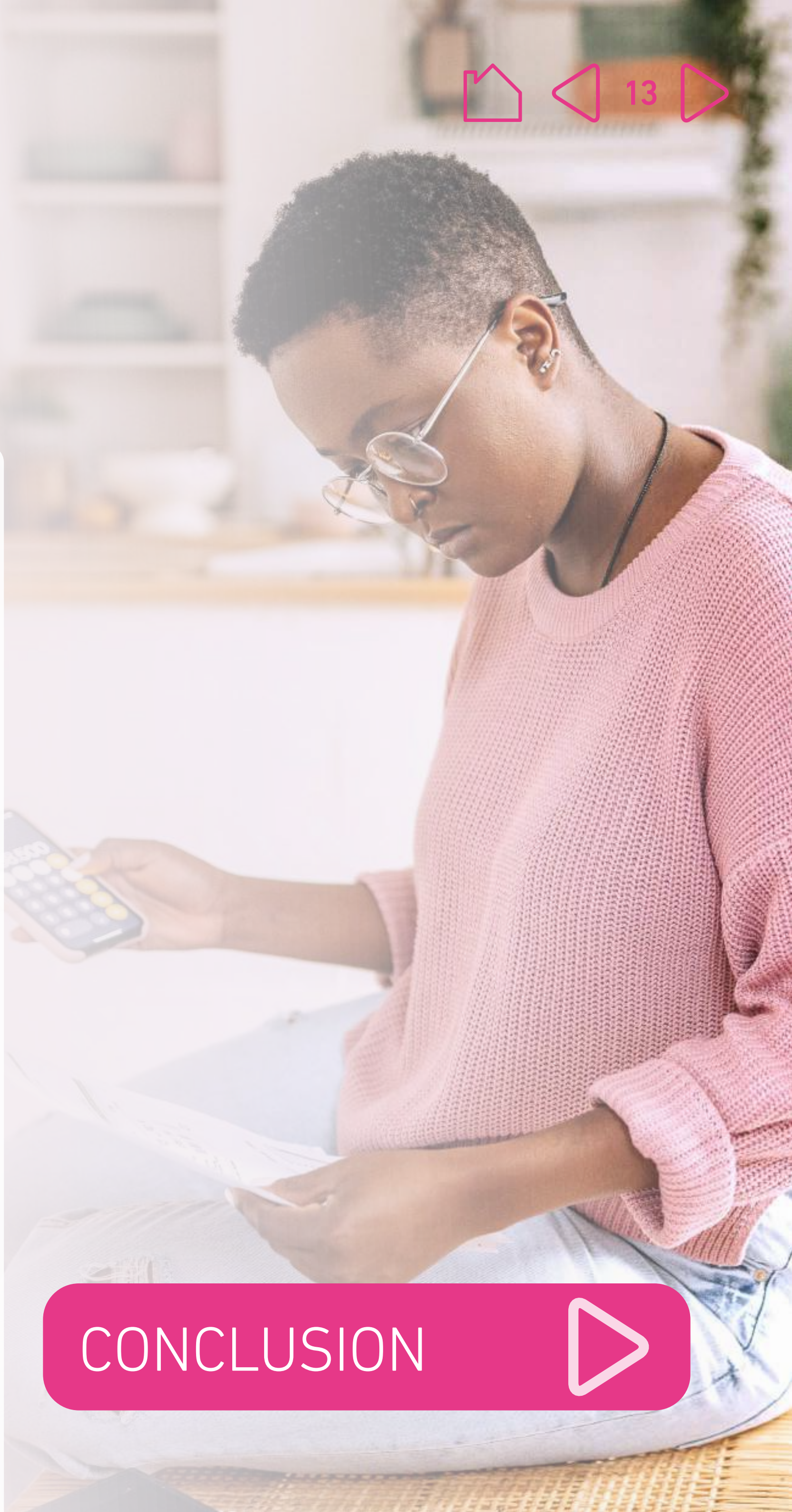
There are millions of potential borrowers in the UK who are in robust financial health despite the cost-of-living squeeze. £492m of debt was paid down over the pandemic, delinquency remains very low by historic standards and the housing market is still strong.

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.

In a turbulent economy, ensuring your scorecards, strategies and policies are performing appropriately is crucial. Machine Learning and new technologies can offer the ability to test and simulate change before it's applied.

Introducing new platforms which can monitor and manage change rapidly, with a greater degree of accuracy can help you build confidence in your decisions and grow your portfolio.

LISTEN HERE Listen to our podcast on considerations for your credit strategy in the current climate



CONCLUSION

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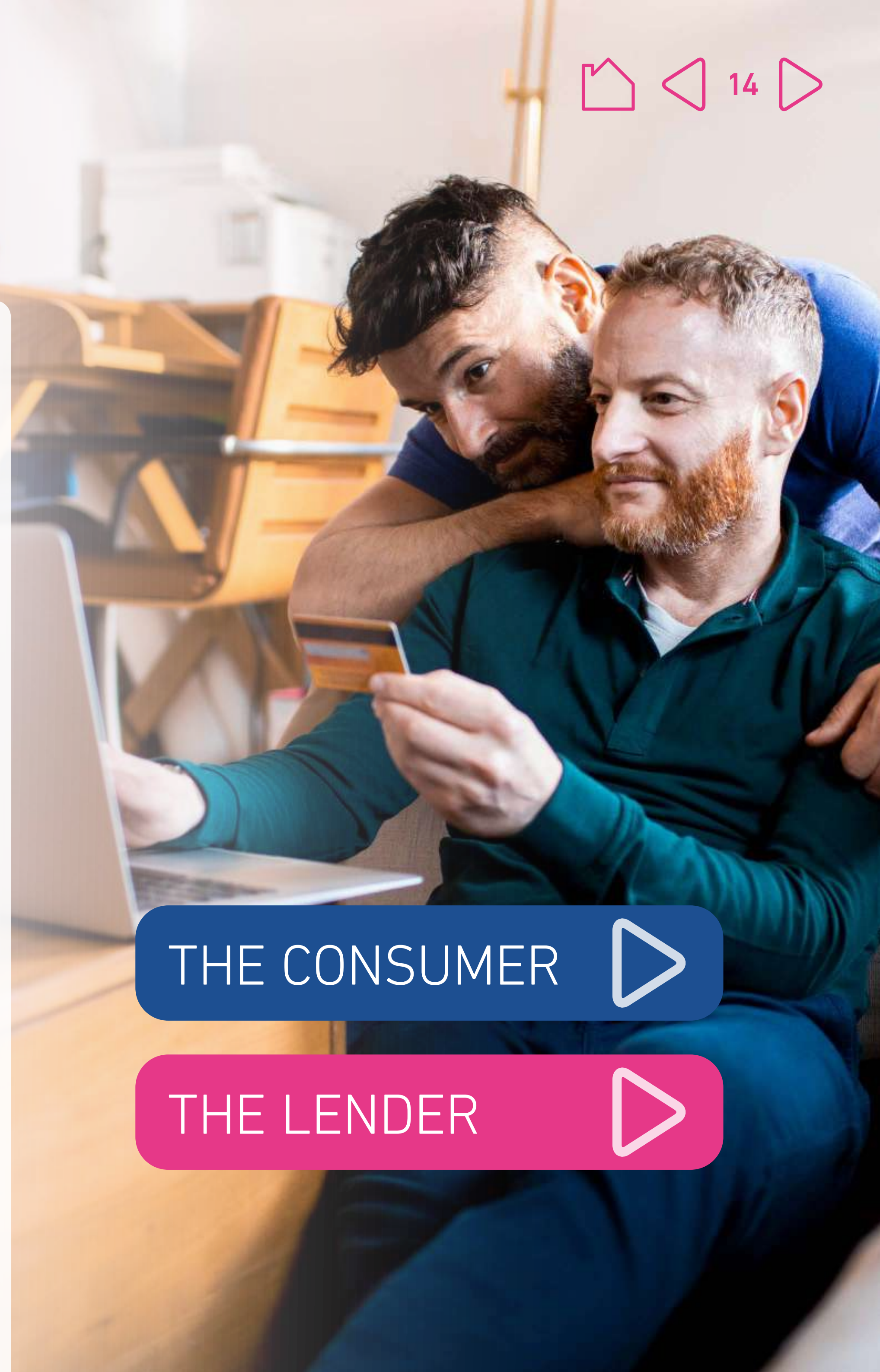
CONCLUSION

As the cost-of-living continues to rise, consumers are starting to feel the strain and see the impact on their bank balances. Accessing credit is still an affordable and responsible option for many, but understanding consumers, and their ability to repay during this changeable time, is critical. As a lender, you need to be getting a broader, up to date and more in-depth analytical view of your customer, understanding their credit utilisation and disposable income, before deciding whether that customer carries the right level of risk to fit your growth strategy.

At Experian, we can provide this insight through combining data on macro trends and individual behaviours to help give your organisation the insight to help grow in a challenging environment.

LEARN MORE

To find out more about how Experian can help your organisation, contact us on businessuk@experian.com



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