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THE EXPERIAN AFFORDABILITY REPORT 2023

Out of the darkness?
Hints of optimism return for UK consumers and small businesses.

READ MORE

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INTRODUCTION

The UK economy seems to be turning a corner, albeit very slowly. Economic performance has been resilient, despite challenges in the latter half of 2022, but the significance of the upgraded outlook shouldn't be overblown.

While easing, the economy's challenges haven't gone away overnight: inflation is still in double-digits and energy prices remain historically high. However, perceptions matter and the fact the economy has been able to outperform expectations could help stir a revival in business and consumer confidence. Of course, there is still room for economic surprises, but the balance of risks has become a little more favourable than previous forecasts. And while subdued growth this year is far from ideal, falling energy prices and inflation , and growing confidence, mean the economy has a chance to shed some of the gloom it has accumulated recently.

Key downside risks include a renewed increase in wholesale energy prices and the potential for tighter lending criteria in the wake of disruption in the global banking sector and rising central bank interest rates. On the other hand, an upside risk is the possibility that inflation may fall faster than expected, which could stoke more significant growth in the short term and see interest rates cut sooner.

In increasing Bank Rate to 5% in June, the Monetary Policy Committee (MPC) was faced with a combination of stronger-than-expected growth and employment, but underlying inflation in-line with expectations.

Business investment has underperformed the wider economy in recent times, with inflationary pressures and supply chain issues among a range of unprecedented headwinds weighing on capital spending. However, the economy's resilience against a challenging backdrop, as well as recent policy announcements, should support businesses and investment going forward. It's vital that businesses plan for different scenarios so that they have the confidence to follow through on investment plans amid changing circumstances.

Despite these challenges, there are significant opportunities for both consumer and commercial lenders to strengthen and expand their portfolios. Leveraging rich data and advanced analytics, lenders can identify consumers, businesses and sectors that are likely to remain financially resilient. It is crucial for commercial lenders to understand how different small businesses, with varied core activities, are affected by high costs. This sector-specific data, combined with financial information on individual companies, can help minimise credit risk in lending decisions and accurately assess affordability for new credit products.

By enhancing affordability processes, lenders can meet the growing demand among consumers and small businesses for increased support in managing their finances during economic challenges. Additionally, adopting these approaches allows lenders to meet the requirements of the Consumer Duty Regulation, while also applying the same level of affordability due diligence for business customers.

The news of the UK economy improving at a faster pace than expected and avoiding a technical recession this year means that commercial and consumer lenders have reason to be positive. In particular, there is optimism about positive income statistics and rising consumer confidence and demand for new credit will likely continue, providing growth opportunities for lenders who can identify 'good risk' customers.

Gareth Rees,
Head of Commercial Credit & Risk,
Business Information,
Experian

EXPERIAN'S AFFORDABILITY REPORT FOR 2023

Fully understanding the impact of the cost-of-living crisis on consumer and small business affordability across the UK has never been more important for financial services providers.

Lenders must be aware, for example, of how consumers are planning to change their spending habits and use of credit to achieve their financial and lifestyle goals, how they feel about their financial prospects in the near and mid-term, and how they are altering their work and life choices to improve their financial security.

At the same time, commercial lenders need broader data on small businesses across the UK to support them effectively as high costs continue to cause financial strain. With two-thirds of companies reporting ongoing negative impacts – including reduced revenues and productivity – the ability to work with small businesses to ensure they can continue to meet their repayment obligations is critical.

Added to all this, financial services companies need to stay up to date with the latest regulations and best practices – including the FCA's Consumer Duty Regulation. This requires institutions to better understand their customers and their affordability and to recommend products and services that offer real value in terms of improving their financial situation.

KEY TOPICS FOR THIS YEAR'S REPORT ARE:

- How rising living costs have impacted consumer finances and affordability – and what this means for lenders
- How UK businesses have been impacted by rising costs, which types or organisations are most affected, and how lenders can continue to identify lending opportunities
- How lenders are updating their systems, data and processes to improve affordability assessments, minimise credit risk, and comply with new legislation – and the Consumer Duty Regulation in particular

METHODOLOGY

The Experian Affordability Report for 2023 is based on a series of research surveys and interviews, conducted with UK consumers, small businesses and credit providers in April of 2023. This includes:

READ MORE

CONSUMER RESEARCH

This is based on online surveys, completed by a nationally representative sample of UK consumers (2003 consumers in total), who live in England, Scotland, Wales and Northern Ireland.

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COMMERCIAL RESEARCH

For business insights, we conducted 501 interviews with business and finance leaders in the UK from organisations with 10 to 250 employees.

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LENDER RESEARCH

For the credit-provider perspective, we conducted 207 interviews with executives who have credit risk responsibility or influence in the UK. All of the executives interviewed work at companies in the UK or Ireland with more than 250 employees who offer lending or credit services to consumers and/or businesses.

CONSUMER LENDING

HOW HAS THE RISE IN THE COST-OF-LIVING IMPACTED CONSUMER FINANCES AND AFFORDABILITY

REPORT HIGHLIGHTS

1 69% OF UK CONSUMERS BELIEVE THAT THEY HAVE BEEN NEGATIVELY IMPACTED BY THE RISE IN LIVING COSTS – BUT 24% EXPECT THEIR FINANCIAL SITUATIONS TO IMPROVE IN THE NEXT 6 MONTHS

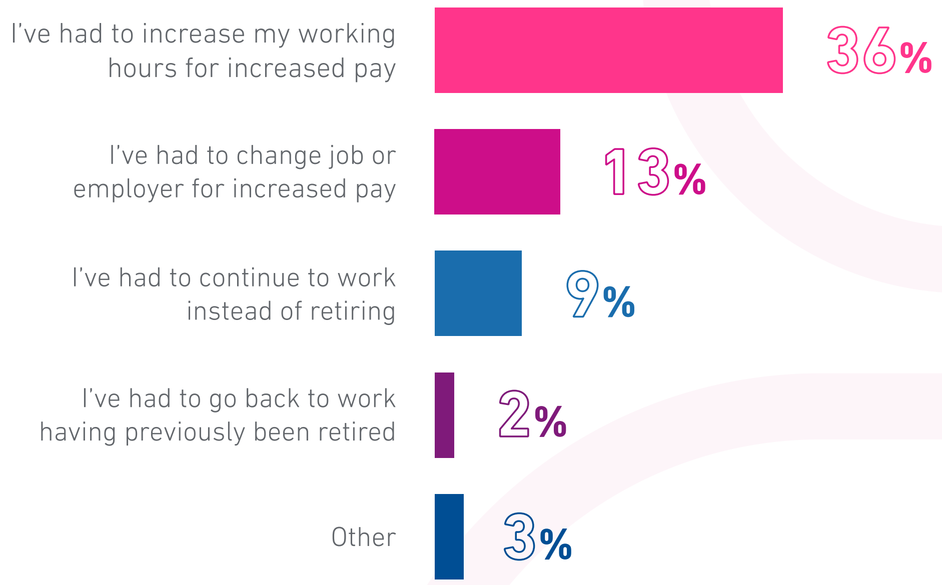
This year's report shows that, in spite of favourable changes to the UK economic outlook, and widely reported wage increases, more than half of employees question whether their salary can keep pace with rising prices. At the same time, only 30% of consumers say they currently feel financially secure, and 82% have become more conscious of their spending in the last 12 months (up 15% from last year).

60% of consumers worry that they won't be able to afford what they need over the next 12 months (up 11% from last year), and almost the same number (59%) agree with the statement: "my financial situation causes me a lot of stress, and I think about it a lot".

Consumers are changing the way they work to make ends meet

With wages seeming to be falling behind inflation and rising costs, 36% of employed people have increased their working hours to earn more. At the same time, 13% have changed to jobs that offer higher pay, and 9% have delayed their retirements.

THE IMPACT ON CONSUMERS' EMPLOYMENT AND WORKING ARRANGEMENTS



Consumers believe that the cost-of-living cloud has a silver lining

Despite the significant impacts of the cost-of-living crisis on consumers, many believe that things will soon get better. Specifically, nearly a quarter (24%) think their financial situation will improve in the next 6 months, perhaps due to an anticipated improvement in macro-economic conditions, or because their efforts to increase their incomes are bearing fruit. The figure is even higher for consumers in the lower age categories, indicating a strong sense of optimism in this age category.

THE PERCENTAGE OF UK CONSUMERS WHO THINK THEIR FINANCIAL SITUATION WILL IMPROVE IN THE NEXT 6 MONTHS ACROSS THREE DIFFERENT AGE GROUPS

UNDER 35
40%

35-54
21%

55+
14%

RISING COSTS HAVING THE BIGGEST IMPACT ON CONSUMERS

According to our research, consumers consider that the following categories are having the biggest impact on household finances:

ENERGY COSTS	GROCERIES	INFLATION (GENERAL)	PETROL OR DIESEL	TELECOMS SUBSCRIPTIONS	MORTGAGE INTEREST RATES
81%	79%	44%	39%	19%	16%

As the economical situation continues to squeeze finances, and interest rates rise, we anticipate the level of concern around mortgage rates to rise in the coming months as more fixed rate deals come to an end.

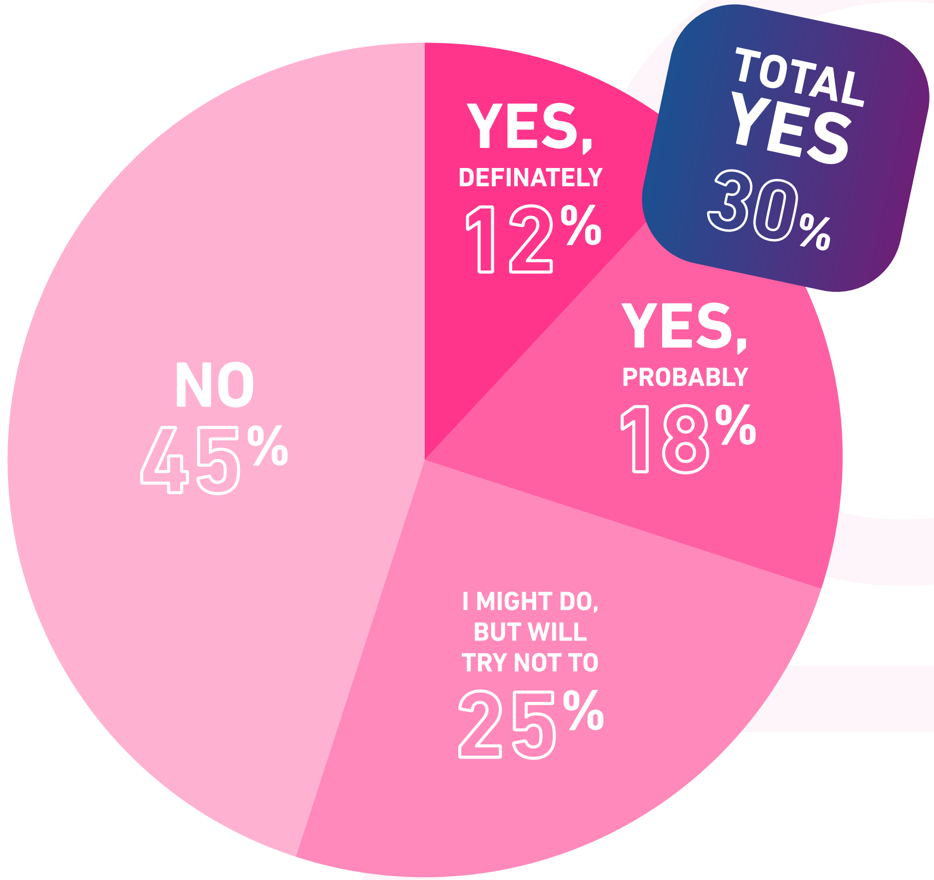
2 CONSUMERS SENSE THAT THEIR USE OF CREDIT IS INCREASING TO COMPENSATE FOR RISING COSTS

In the report, **34%** of consumers state that they have increased their use of credit to absorb rising prices in the last 6 months (**10%** are using much more credit, and **24%** are using a bit more). Of consumers who use credit, 39% say it helps them manage their finances better and spread out their costs; **30%** say it is the only way to afford the things they need; and **24%** use credit for "greater purchase protection".

Perhaps it's no surprise that **30%** of people interviewed for the report say they expect to take out a new credit product in the coming 12 months.

However, from real credit data taken from our Bureau, we can see that credit enquiries have now settled at around pre-pandemic levels and loan enquiries are trending downwards. New lending at the start of 2023 also saw a slight decline vs. the previous 12-month period. As we continue into 2023, Experian research suggests that credit applications may begin to increase later in the year.

THE PERCENTAGE OF UK CONSUMERS WHO EXPECT TO TAKE OUT NEW CREDIT PRODUCTS IN THE NEAR FUTURE



3 CONSUMERS’ USE OF CREDIT IS INCREASING TO COMPENSATE FOR RISING COSTS

The report shows that the majority of consumers expect more from their credit providers to help them recover from the legacy of the cost-of-living crisis. 86%, for example, feel that their credit providers have not been proactive in helping them manage their finances in the last 6 months, and 42% say their providers could be doing more in this area.

As we continue to work through the impact of the cost-of-living crisis, lenders are working to find ways to better understand consumer affordability across the lifecycle. Through using a greater breadth and depth of data and analytics, lenders can build a more accurate understanding of their customers and offer early support to those who need it.

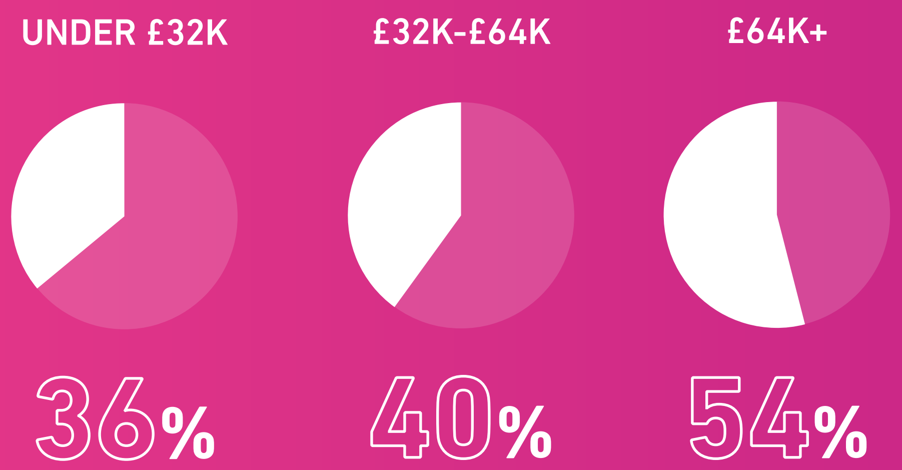
Andrea Cox,
Affordability Director
Experian

CONSUMERS' SENTIMENT WITH REGARD TO TAKING OUT CREDIT

Our research reveals that as we go up the income brackets, sentiment around using credit becomes more positive, with 54% of higher income households reporting that using credit helps them have more freedom and flexibility.

Based on findings from the report, we can see that the consumer persona who is most likely to have a positive view of the benefits of credit is male, from Northern Ireland, under the age of 35 (or over 55), with a household income of more than £64,000 a year.

THE PERCENTAGE OF UK CONSUMERS WITH POSITIVE SENTIMENTS ABOUT CREDIT – BY INCOME CATEGORY



Consumers don't think their credit providers fully understand them

Despite these positive sentiments towards credit across a large percentage of the consumer population, some customers also feel that their credit providers do not fully understand them – or their financial needs.

In this regard, 19% of consumers who have taken out a credit product in the last six months say their providers don't seem to understand their financial situation at all, and 59% said providers only understood them "to some extent".

Rich data and analytics, and Open Banking data in particular, allow credit providers to achieve a high level of understanding when it comes to consumers' financial situations and needs. However, the fact that many of these processes happen in the background in a way that is primarily invisible to consumers, may help to explain why consumers do not feel fully understood by their providers.

EXPERIAN VIEWPOINT

Key Report takeaway: Credit providers can gain new competitive advantage by demonstrating the value of their products and services for consumers

With the FCA's Consumer Duty Regulation coming into force, and consumers looking for products that help them to improve their financial situations, lenders who can demonstrate value across their product and services portfolios can achieve new competitive advantage. Increasing customer engagement and support also promotes longer-lasting, trust-based, and ultimately, more profitable customer relationships, and higher customer lifetime ROI.

One way to increase customer understanding, and to ensure that all products deliver maximum value in line with customer demands and the Consumer Duty Regulation, is to combine your customer insight with bureau and consumer consented data such as Open Banking and digital payslips. These, along with advanced analytics can help you gain a 360 view of your consumer's affordability.

In this way, lenders can ensure that all products offered to customers are not only appropriate, but also contribute to their financial wellbeing.

WHAT IS THE CONSUMER DUTY REGULATION, AND WHY DOES IT MATTER?

To comply with the FCA's new Consumer Duty Regulation, financial services organisations need to consider the best outcome for consumers when contracting their products and services, and to act consistently to support these outcomes. There is also a requirement to assess and demonstrate whether these actions have been successful, and whether the value delivered to the consumer has been optimised.

To comply with these requirements, lenders need to demonstrate a full understanding of consumer affordability, which requires them to use the most appropriate data to quantify risk throughout the term of the loan or credit facility. Rising inflation has highlighted the need to accurately monitor consumer income and discretionary spend to truly understand affordability. Additionally, lenders need timely data that shows any sudden changes to consumers' financial situations – due to a job losses or other factors. This ensures that proactive, timely and appropriate measures can be taken to support consumers and ensures good outcomes for them.

> We want all firms to be putting consumers at the heart of their businesses, offering products and services that are fit for purpose and which they know represent fair value. We want financial services markets to be consistently effective in supporting the lives of consumers across the UK. Products, services, communications and engagement from firms should instil trust, enabling consumers to make effective and confident choices to advance their financial wellbeing and build positive futures for themselves and their families.
>
> **FCA, consultation paper for the Consumer Duty Regulation**

COMMERCIAL LENDING

HOW HAVE RISING COSTS IMPACTED SMALL BUSINESSES IN THE UK

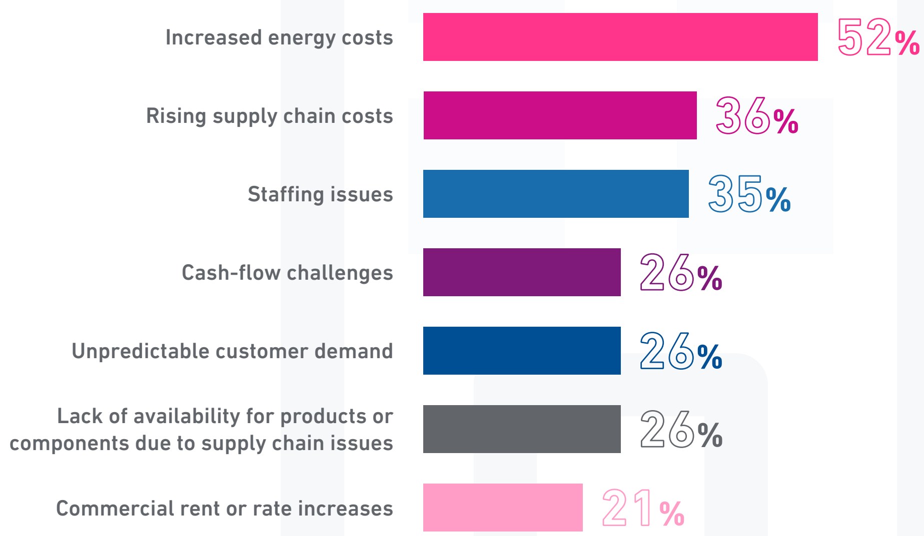
REPORT HIGHLIGHTS

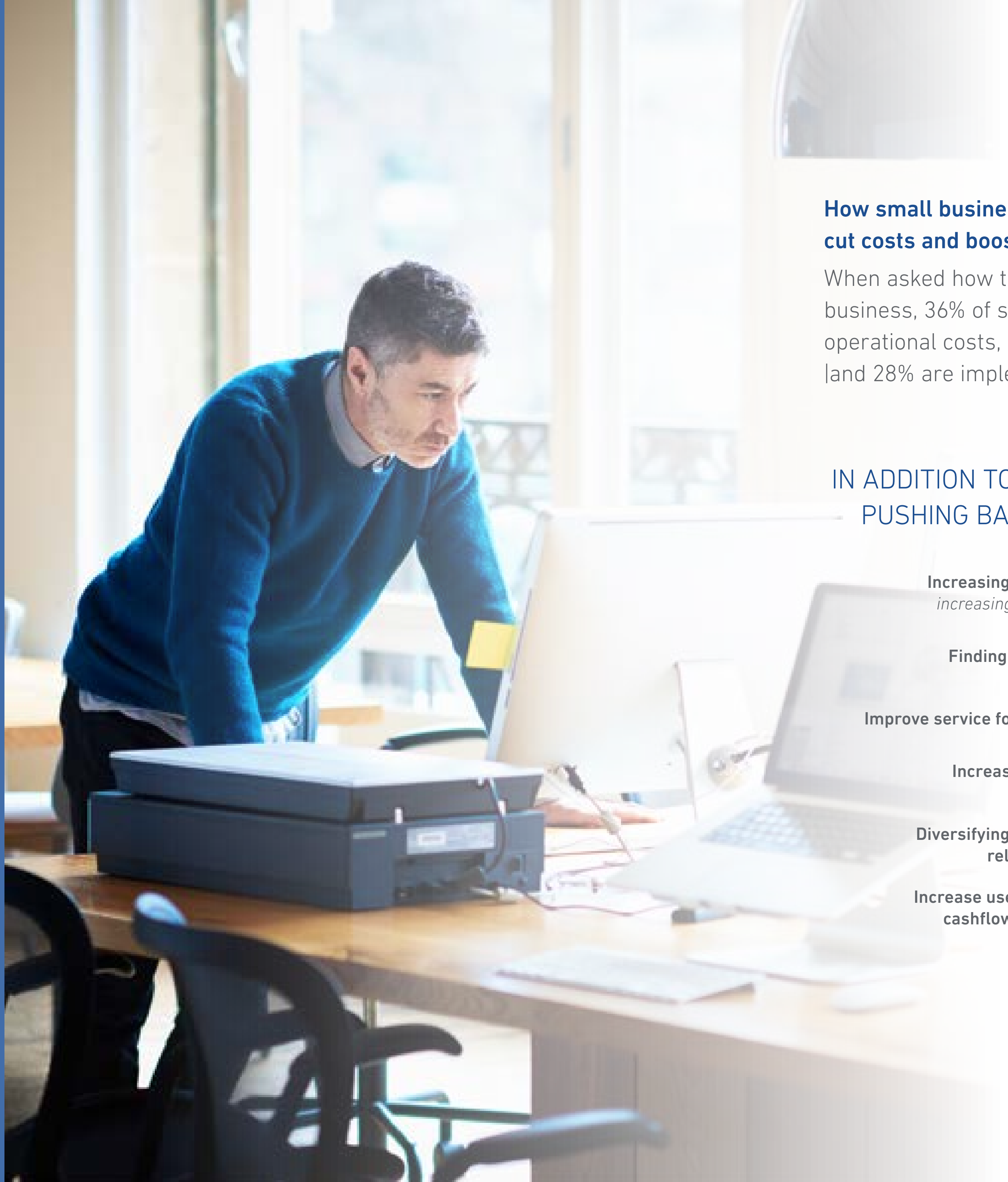
1 TWO-THIRDS OF SMALL BUSINESSES SAY THAT THE LEGACY OF THE COST-OF-LIVING CRISIS HAS IMPACTED THEIR BUSINESS – BUT THEY ARE FIGHTING BACK WITH EFFORTS TO INCREASE OPERATING EFFICIENCY AND BOOST THEIR REVENUES

This year's Affordability Report tells a story of challenge for many small businesses in the UK but also of resilience and optimism in the face of ongoing inflation, high energy prices, and overall increases in the cost of doing business.

Specifically, half of businesses (51%) believe they will be less profitable this year vs. 2022, with 7% now expecting to be unprofitable. 62% of respondents also said that they are experiencing more stress at work, because of the high cost of doing business. Staff productivity and morale have also dipped in 41% of companies, and 38% have delayed their growth plans.

THE TOP FACTORS INCREASING PRESSURE ON BUSINESS REVENUES AND MARGINS AND IMPACTING DEVELOPMENT AND GROWTH, ARE:

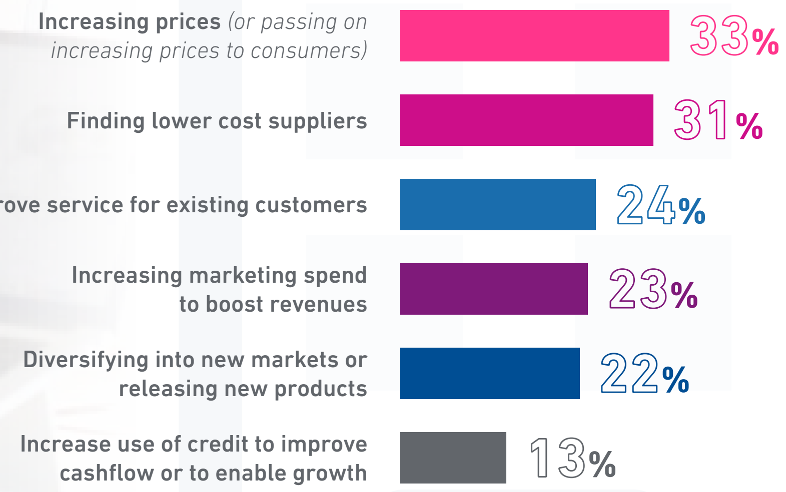




How small businesses are pushing back with initiatives to cut costs and boost revenues

When asked how they are responding to the high cost of doing business, 36% of small businesses are focusing on reducing operational costs, 35% are looking to increase business revenues, and 28% are implementing both strategies simultaneously.

IN ADDITION TO THESE STRATEGIES, UK BUSINESSES ARE PUSHING BACK AGAINST THE INCREASING COSTS BY:



2 SMALL BUSINESSES ARE SHOWING RESILIENCE AND STABILITY IN THE FACE OF RISING COSTS

This year's report found that even companies who have been severely impacted by increase in costs are generally optimistic about their futures. 59%, for example, say that – in spite of the tough economic backdrop– their businesses will emerge "stronger than ever".

What's more the majority of businesses are also expecting supply chain issues to improve in the next 12 months (41%), or even in the coming six months (19%), helping them to reduce costs and ensure continuity for their processes and customer relationships.

Other Experian data sources back up the case for optimism, finding that only a quarter of UK small businesses fall into maximum or high-risk categories, with the majority likely to remain financially resilient. At the same time, almost a third of companies have high potential for growth, making them excellent prospects for credit providers wishing to expand their portfolios.

SMALL BUSINESS RESILIENCE IS CREATING NEW LENDING OPPORTUNITIES FOR FINANCIAL PROVIDERS

BUSINESS OPPORTUNITIES

14% of low UK SMEs are low credit risk, high growth businesses with long life expectancy – **increasing to 21%** if we include mid-growth prospects

14-21%

3% of high credit risk UK businesses have medium to high growth and good life expectancy

3%

BUSINESS RISKS

4%

4% low credit risk UK SMEs show signs of future low growth and low life expectancy

5%

5% of mid-risk UK SMEs are potentially high growth businesses with long life expectancy

CREDIT RISK

LOW	MEDIUM	HIGH

Over a fifth (21%) of UK small businesses represent a low-credit risk, with high or mid-level growth prospects.

Most companies can manage with their existing credit agreements

Despite the current high cost of doing business, small organisations largely expect to manage with the credit agreements they already have in place. Overall, 38% say they will stick to their existing agreements, but may look to amend the payment terms to increase affordability. At the same time 25% are confident that they can meet their payment obligations with no need to renegotiate terms with their providers, and 19% are looking to amend their payment schedules to repay loans ahead of term.

Whilst our research suggests that less than 5% of small businesses have applied for new credit in the last six months, or intend to in the coming 6 months, **on a like-for-like comparison, year on year commercial credit search volumes for the first 4 months of 2023 exceed the previous year by more than 8%.**

Small businesses in the UK are using credit judiciously to improve their performance

In sharp contrast to the report findings for consumers, a large majority of businesses (84%) are using credit to improve cashflow, or as a financial safety net – rather than to meet rising day-to-day expenses.

Other key reasons for taking out credit are to avoid laying off staff (29%), to buy stock and otherwise access working capital (27%), and to access alternative suppliers and smooth-out supply chain issues (16%).

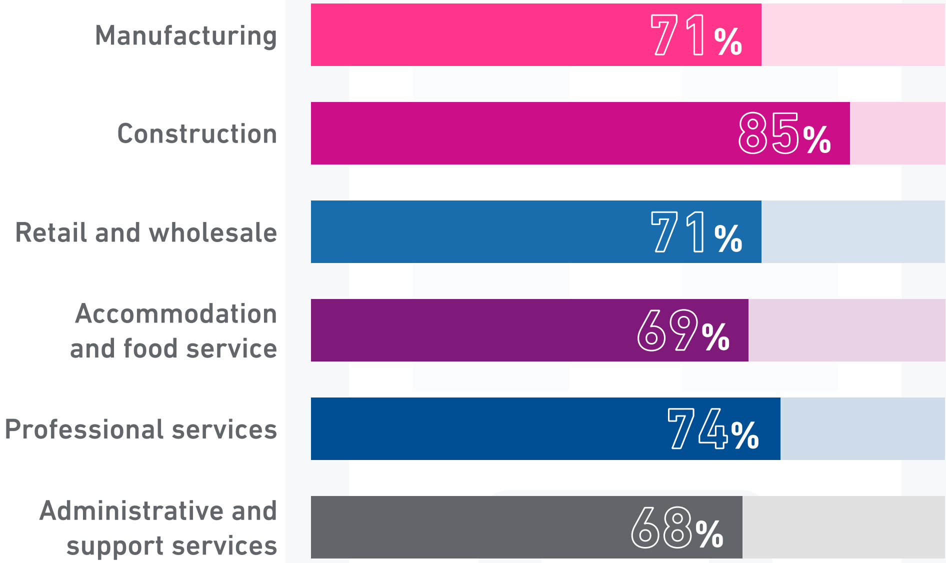
Finally, 10% of small businesses are taking out credit simply to maintain and build a credit history, which is vital for funding future development projects or to grow the business.

3 ALMOST THREE-QUARTERS OF COMPANIES ARE PRESSING AHEAD WITH THEIR SUSTAINABILITY INVESTMENTS AND INITIATIVES

Despite cost pressures, 72% of UK small businesses have been able to maintain investments in their sustainability initiatives, helping to build a greener future.

72% of UK companies with 10 to 250 employees indicate that, despite the ongoing challenge in economic conditions, their efforts towards a more sustainable future have not dampened.

The construction industry in particular, considered one of the most highly impacted by the cost-of-living rises, is showing particular strength it's sustainability efforts.



85% of construction businesses report that their sustainability efforts are unimpeded by rising business costs.

HOW CONSUMER TRENDS AND BEHAVIOURS ARE IMPACTING SMALL BUSINESSES

This year's report shows that consumers, whose finances continue to be squeezed by cost-of-living factors, are demanding even more from their retail and service providers in terms of value and flexibility.

41%
of customers are now negotiating more on price

31%
Finding lower cost suppliers

24%
Improve service for existing customers

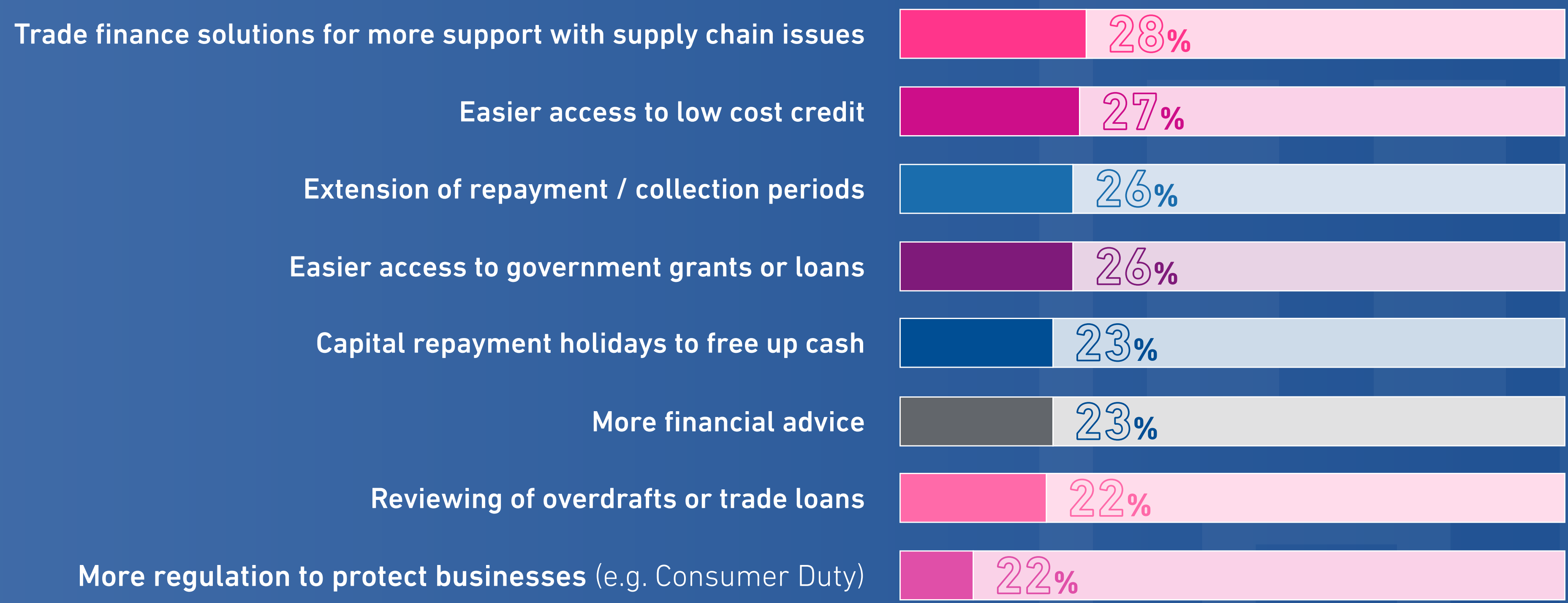
23%
Increasing marketing spend to boost revenues

At a time of such uncertainty, the burning industry questions are: how do we best serve our existing customers and grow lifetime value from them? How do we further grow our customer base? How do we manage the credit risk of our portfolios? **Metro Bank** has adapted to changes with speed and accuracy, thanks to a true understanding of each business, its model, and its core strengths. Through using Experian's PowerCurve suite, the bank can now make a lending decision in under eight minutes without any underwriting on overdraft decisions under £60k.

Read the **Metro Bank** case study to find out how

SMALL BUSINESSES ARE CALLING FOR ADDITIONAL SUPPORT FROM THE UK GOVERNMENT

95% of businesses point to different types of financial or government support needed to help them weather the current economic instability.



4 BUSINESSES WANT MORE TRUST AND MORE SUPPORT FROM THEIR CREDIT PROVIDERS

Overall, the 2023 report shows that small businesses in the UK have some level of trust in their credit card providers, with 41% (10 to 25 employees) saying that their providers "do what is right for our business" (rising to 52% for businesses with 26 to 250 employees). The businesses with the highest levels of trust towards their credit providers are manufacturers (63%), retail and wholesale companies (57%) and construction companies (52%).

However, many businesses (52%) also feel that their credit providers could be doing even more to help them manage their finances better, and 64% believe that credit card providers have a social responsibility to properly assess the affordability of business customers in the current unstable economic environment.

Interestingly, almost half of UK small businesses feel they will benefit from the FCA's new Consumer Duty Regulation. As the regulations come into force, and are fully embedded into consumer lending processes, the extent to which they will add value for small businesses will become apparent.

> SME lenders in the UK have been returning to commercial lending - this move away from Government schemes marks a return to a healthier lending market for our SMEs. In the latest British Business Bank small business finance report, more than 50% of SME lending was done by challenger and specialist lenders.
>
> Businesses that track their Experian credit score on Capitalise, are nearly 3x more successful via the lending marketplace.
>
> **Paul Surtees,**
> **Co-founder, Capitalise.com**

EXPERIAN VIEWPOINT

Key Report takeaway: UK small businesses are showing resilience in the face of economic instability, but still want more support from credit providers to manage and improve their finances

The Affordability Report shows that the majority of businesses continue to show resilience in the face of the current challenges. But while many companies remain resilient, business debt levels continue to increase, sending a warning to companies who have yet to lock in debt within fixed-rate repayment structures. These businesses may find the coming months difficult.

Despite this, however, there are still major opportunities for commercial lenders to increase the size and health of their portfolios, especially if they use rich data and advanced analytics to understand where the opportunities lie, and which businesses are likely to remain financially resilient. According to Experian Commercial Bureau data, on a like-for-like comparison, year on year commercial credit search volumes for the first 4 months exceed 2022 by 8.7%.

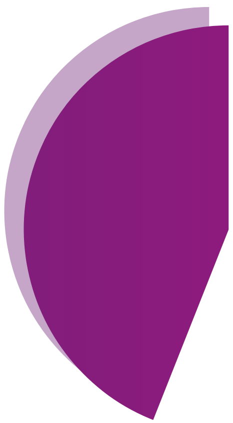
Lenders need to understand how small businesses in different sectors, and with different core activities, are adapting to the changing economy. This sector data needs to be combined with other rich data from multiple sources – including financial data on each individual company – not only to minimise credit risk for new lending decisions, but also to accurately assess each customer's affordability for new credit products. By improving affordability processes in this way, lenders can also meet small businesses' growing demand for increased support for managing their finances through economic challenges.

OPPORTUNITIES FOR SUSTAINABLE GROWTH

REPORT HIGHLIGHTS

1 FINANCIAL SERVICES COMPANIES WILL SEE INCREASED DEMAND FOR CREDIT OVER THE NEXT 12 MONTHS

Bearing in mind how the rise in the cost-of-living has impacted both consumers and small businesses, it's no surprise that 44% of lenders expect to see an increase in demand for credit among both groups of customers in the coming 12 months.



44%

of lenders expect an increase in demand for credit by consumers and small businesses

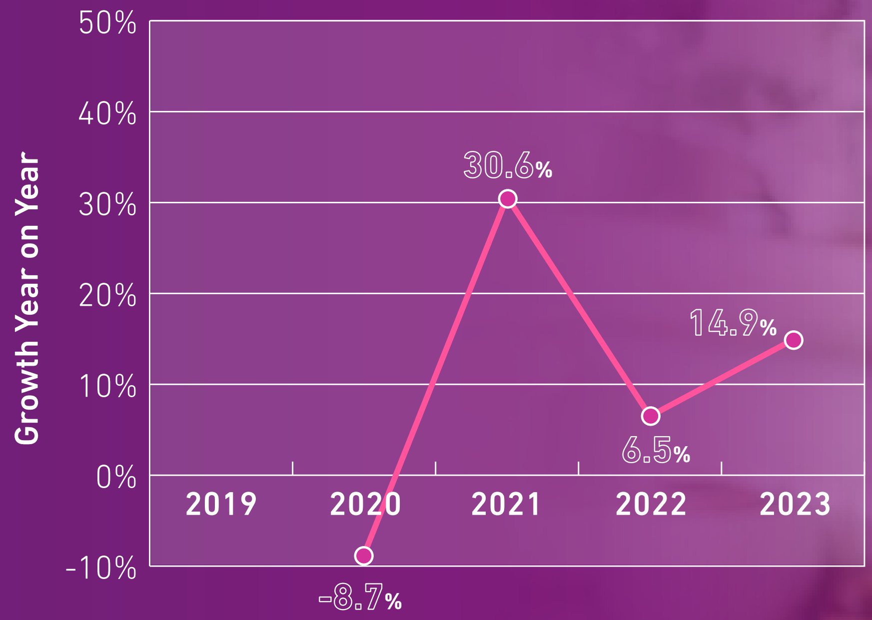
This is a continuation of an upward trend in demand for credit over the past year. During this period, 26% of lenders claim to have seen increased demand for credit among their consumer customers, while 36% have seen increased demand among their small-business customers.

However, increased demand does not necessarily mean that lenders will be able to grow their portfolios over the coming year. On the contrary, 38% of organisations think that fewer consumer and business credit applications will be accepted due to customers' financial status. As a result, 35% think there the coming year will see an overall decline in credit offered to customers.

ASSESSING NEW-CREDIT DEMAND BASED ON COMMERCIAL BUREAU SEARCHES

Experian insights based on commercial bureau search data show that demand for credit is increasing steadily, creating new opportunities for providers.

YEAR ON YEAR GROWTH IN SEARCH VOLUMES



Click here for our Monthly Commercial Lending Index which gives the latest insight into business credit trends

2 LENDERS SEE ACCURATE AFFORDABILITY CHECKS AS A WAY TO BOOST THEIR COMPETITIVE ADVANTAGE

This year's report shows that a large majority of lenders are planning to implement more frequent and more far-reaching affordability checks. By doing so, they will be able to identify existing and target new customers who are likely to remain financially resilient as we emerge from the legacy of the cost-of-living crisis.

One of the key challenges that many lenders have had to face is the UK's rapidly changing economic fortunes and the volatility it has created for consumer's incomes and levels of discretionary expenditure. As the price of essentials such as food, clothing and energy has increased, customer affordability has been squeezed. Understanding the impact of this squeeze on a lender's portfolio is essential to informing the level of risk and potential indebtedness for consumers. Every customer will be affected differently, so getting access to the right data, at the right time has become essential to understanding the risk, to inform how best to help consumers.

In particular, commercial lending organisations need to understand how cost pressures have impacted companies in different sectors, and with different core activities, to understand risk factors and opportunities on both a portfolio and per-customer basis. More frequent and regular affordability checks will also be used to provide an ongoing view of consumers' and businesses' financial status, which are prone to rapid change as uncertain economic conditions continue.

Overall, the fact that a large percentage of consumers and small businesses are likely to remain financially resilient through the crisis is a clear indicator that a range of new lending opportunities exist for lenders who can identify and act on them.

3 LENDERS ARE UPDATING THEIR PROCESSES TO IDENTIFY AND SUPPORT VULNERABLE CONSUMERS AND SMALL BUSINESSES

Credit providers are taking a number of measures to help consumers and business customers improve their financial wellbeing. In particular, 22% of organisations will be implementing frequent consumer affordability reviews as a way to identify and help vulnerable customers, while 19% are also planning to ramp up customer communications to ensure customers are able to meet their payment obligations and that those in financial distress receive the help and support they need.

In addition to these measures 15% of lenders intend to invest in better IT and software to support better decision making, and the same number are planning to use more granular data for customer credit decisions. A small, but still significant, percentage of lenders (12%) also plan to invest in additional training for customer support teams to help customers navigate out of the cost-of-living crisis and improve their financial situations.

In the business market, lenders are using updated credit scores (71%), followed by triggers and alerts on changes to their financial wellbeing (55%), customer data (44%), Open Banking (43%) and summarised current account data (42%).

4 THE CONSUMER DUTY REGULATION WILL HAVE A BIGGER IMPACT ON LENDERS THAN ANY OTHER UPCOMING LEGISLATION – REQUIRING SIGNIFICANT UPDATES TO THEIR SYSTEMS AND PROCESSES

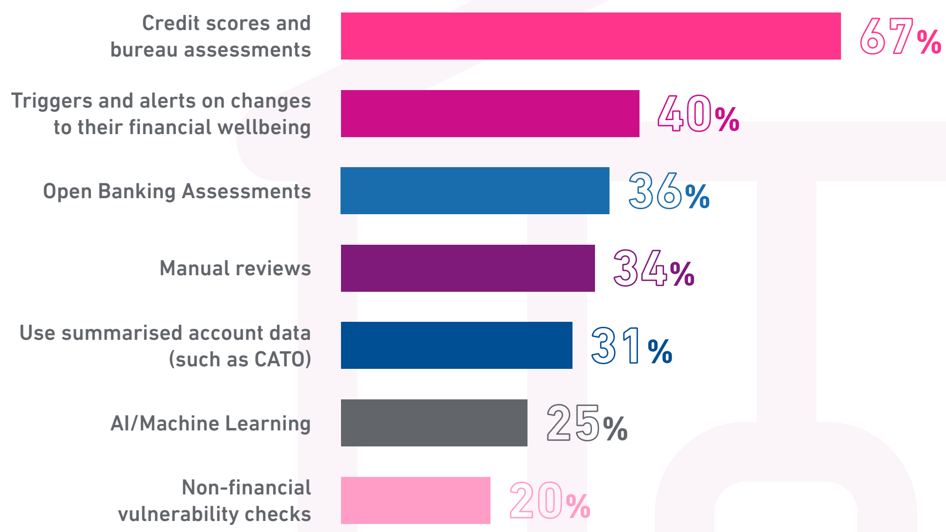
This year's report reveals that the FCA's new Consumer Duty Regulation will have a bigger impact on financial services providers than any other upcoming legislation. The research reveals that lenders anticipate many key areas of their activities will be affected, from business planning (76%) to marketing and customer acquisition (75%), compliance (75%) and customer management (73%).

Are credit providers ready for the Consumer Duty Regulation?

In the three months prior to the adoption of the Consumer Duty Regulation, 88% of business believe themselves to be prepared to some extent for the regulation.

In spite of this confidence, however, a large number of lenders (55%) say they still need to make further amendments to their processes to support the Consumer Duty Regulation. Many lenders (22%) intend to implement additional affordability reviews to identify and support vulnerable customers, and to ensure that all new customers can afford the repayments for the products they are offered.

THE MORE REGULAR AFFORDABILITY REVIEWS PLANNED BY LENDERS WILL BE BASED ON:



How often will lenders assess customers' affordability as part of their Consumer Duty Regulation strategy?

With consumers' financial situations in constant flux, credit providers need to revisit affordability periodically, and ensure that they are still able to meet their payment obligations. Data that provides an indication of changes to a customer's financial circumstances is essential, whether it be income shock, declining current account balances or increasing indebtedness.

The report found that:

25% of lenders will only assess customer affordability during pre-qualification and credit applications

30% intent to assess affordability for existing customers more than 4 times a year

34% will check customer affordability less than 4 times a year

11% will assess affordability when customers fall into debt or arrears

59%

of lenders say identifying financially vulnerable consumers is now more important than ever

Lenders will evolve their support for vulnerable customers in line with the Consumer Duty Regulation

As a result of the Consumer Duty Regulation, 59% of lenders say identifying financially vulnerable consumers is now more important than ever. This needs to consider financial and non-financial measures of vulnerability.

If a financially vulnerable customer is identified (via a routine affordability assessment), organisations plan to take a range of measures to ensure compliance with Consumer Duty Regulation.

The most common approach (35%) will be to update customers' payment terms and monthly payments. 35% of providers will also consider offering customers alternative products with more affordable repayment terms.

Just over a third of providers (34%) expect to be able to keep customers on their existing credit agreement, while providing additional advice to help them manage their finances better.

But in association with this, lenders also need to consider other support needs to meet the requirements of the Consumer Duty Regulation. These could include customers' channel preferences, physical and mental capabilities, and a range of other factors, to ensure that engagement is inclusive and can demonstrate that the needs of all customers are being met and that they are being supported effectively.

Will small businesses benefit from the Consumer Duty Regulation as well?

However, this years' report shows that lenders intend to offer similar levels of support for business customers and consumers. This is reflected by small business' expectations, with 58% anticipating that the regulation will protect businesses as well as consumers.

For example, 48% of lenders say they will change payment terms and monthly payments for vulnerable business customers. Additionally, 42% would consider changing small businesses onto alternative products with more affordable payments, and 33% would maintain the current agreement, but provide advice and support for better financial management.

CREDIT PROVIDERS FULLY UNDERSTAND THE VALUE OF CREDIT BUREAU DATA FOR ACCURATE AFFORDABILITY ASSESSMENTS

This year's report shows that:

98%

of organisations understand that a credit bureau such as Experian can help them address Consumer Duty Regulation in a number of ways.

How do lenders believe a Credit Bureau can help towards the Consumer Duty Regulation?

55%

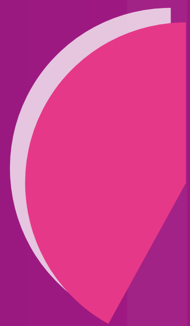
Decision-making for credit and affordability risk

48%

Business planning and strategic forecasting

47%

Data quality management



42%

Product management and development

EXPERIAN VIEWPOINT

Key report takeaway: Lenders need access to rich consumer and business data and advanced analytics capabilities to identify financially resilient customers, to identify pockets of new lending opportunity, to optimise new lending decisions and to support existing customers through uncertain economic times and meet their obligations under the Consumer Duty Regulation.

Lenders looking to maximise their revenue and growth potential as consumers and businesses navigate out of the cost-of-living crisis need to fully understand macro-economic impacts on existing and new target customers. This requires rich data and analytics tools that can accurately assess consumer and small-business affordability, not just at the decision-making and onboarding phase, but also throughout the product lifecycle.

The good news for lenders is that the same rich data and analytics tools that support new lending decisions and reduce portfolio credit risk can also streamline compliance with Consumer Duty Regulation.

This is based on the ability to identify financially vulnerable consumers before they enter the collections process, and to engage with them to make their existing products more affordable; to move them onto more affordable products; or to help them manage their finances more effectively and meet their existing repayment plan.

Additionally, the report suggests that some organisations may be overconfident in terms of their readiness to adopt the Consumer Duty Regulation. While most say they are prepared, even more say that they require further amendments to their systems and processes to fully understand consumer and small-business affordability.

To ensure that Consumer Duty Regulation can, indeed, be met, full audits are needed of existing customer affordability capabilities and customer communications strategies to ensure that all products offered to customers are both appropriate and able to increase their financial wellbeing.

HELPING YOU NAVIGATE THE VOLATILITY SO YOU CAN LEND WITH CONFIDENCE

Experian provides the rich consumer and commercial data lenders need to navigate the cost-of-living crisis, grow their portfolios sustainably, and meet customer the requirements of the new Consumer Duty Regulation.

Experian's offers for consumer lenders

With our rich breadth and depth of data on consumers across the UK, Experian helps lenders to optimise new lending decisions and identify opportunities for growth with risk-right customers. What's more, we can help you to understand each customers' financial circumstances, ensuring that the products and services you offer them are aligned with the Consumer Duty Regulation, contributing to a positive outcome for their financial wellbeing.

This includes our latest Bureau Affordability insights which allow lenders to verify consumers' income, monitor their income stability, understand their effective disposable income and to identify incidences of income shock and indebtedness. We also provide access to consumer consented sources of data such as digital payroll and Open Banking insights that can reveal potential vulnerabilities and stability of employment.

Retro Analysis of this data can help you understand whether your current risk models are accurate and fair to demonstrate how compliant you are in response to the Consumer Duty Regulation, whilst also enabling you to identify new data sources to improve the performance of your credit risk and affordability assessments to help acquire customers whilst delivering better outcomes.

We can help you identify vulnerable consumers and to take immediate action to support them, whether that means adapting their monthly payments, moving them to more affordable products, or helping them manage their finances better to meet their existing payment schedules.

LEEDS BUILDING SOCIETY AND EXPERIAN PIONEERING COLLABORATION HELPS FIRST TIME BUYERS' MORTGAGE HOPES

Aspiring homeowners can improve their chances of getting on the housing ladder thanks to extra evidence of a borrower's good financial track record being factored into mortgage checks by a leading lender.

Leeds Building Society has become the first UK mortgage provider to partner with Experian and connect to the free **Experian Boost service**. This means it can access consumers' last 12 months' of regular debit payments, council tax and subscriptions to digital entertainment services like Netflix or Spotify – all information that can now contribute to credit scores and be factored into mortgage applications to Leeds.

The service uses open banking to link the borrower's current account payments to their credit score which is then connected to the Society's lending systems. During testing, 7.5% of Society applicants would have gained an improvement in their credit score by using Experian Boost. No credit scores are ever reduced as a result of Boost.

We're proud to be the first mortgage lender in the UK to make it easier for aspiring homeowners by incorporating free, 'boosted' credit scores that include regular payments. This will particularly help younger borrowers, first time buyers and anyone on lower incomes who face the toughest challenge to prove their ability to repay.

Richard Fearon,
Chief Executive,
Leeds Building Society

EXPERIAN'S OFFERS FOR COMMERCIAL LENDERS

Experian helps many of the UK's leading commercial lenders to mitigate credit risk across their portfolios whilst at the same time helping them identify and onboard 'good risk' customers for sustained growth with a suite of products, including Experian **4D Credit**.

This product helps you create a single view of customers or prospects based on multiple, rich data sources, including our **Delphi** score profiles, marketing insights from our **BusinessView** database, open-banking and other publicly available data, and – if required – information from sector-specific databases, such as restaurant or hospitality data.

Experian's Commercial Credit Bureau is a market-leading source of information on British businesses and their financial health. This data sits at the heart of Commercial Delphi, our commercial risk score which calculates a business' ability to pay. Commercial Delphi transforms bureau data into effective lending decisions: providing small businesses access to a wider, fairer range of credit services, and helping lenders to reach new customers and get the most out of their existing portfolio without increasing risk. Bureau compiles information on credit consumption, payment behaviour and current account turnover.

With Experian, you can get the actionable insights you need to navigate fast-changing market conditions, protect your business and customers and grow your portfolio. Our tools are purposely designed to be sliced and diced to help you solve the particular challenges facing your organisation. Commercial Delphi Generation 6, for example, is highly predictive and very powerful for understanding a business's current financial and credit situation, beyond publicly available information – so you can make more informed lending decisions.

To turn this rich data into the decisioning insights organisations need – and to provide a long-term view of customer affordability – we integrate predictive macro-economic forecasts from our teams of in-house experts.

To find out more about how Experian can help you navigate out of the cost-of-living crisis, grow your business, and protect and support your customers better, **please click here contact us.**

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