THE NEW CONSUMER CREDIT ECONOMY

2021 EXPERIAN INSIGHT REPORT
EXECUTIVE SUMMARY

INTRODUCTION

From the moment Covid-19 swept across the globe and became a pandemic, Experian has been tracking the impact of the virus on the UK economy, and the businesses and consumers that drive it.

We have brought together our market-leading data and enthused it with insight from our experts to deliver a comprehensive view of the changing consumer. This executive summary provides an overview of the key findings from our report.

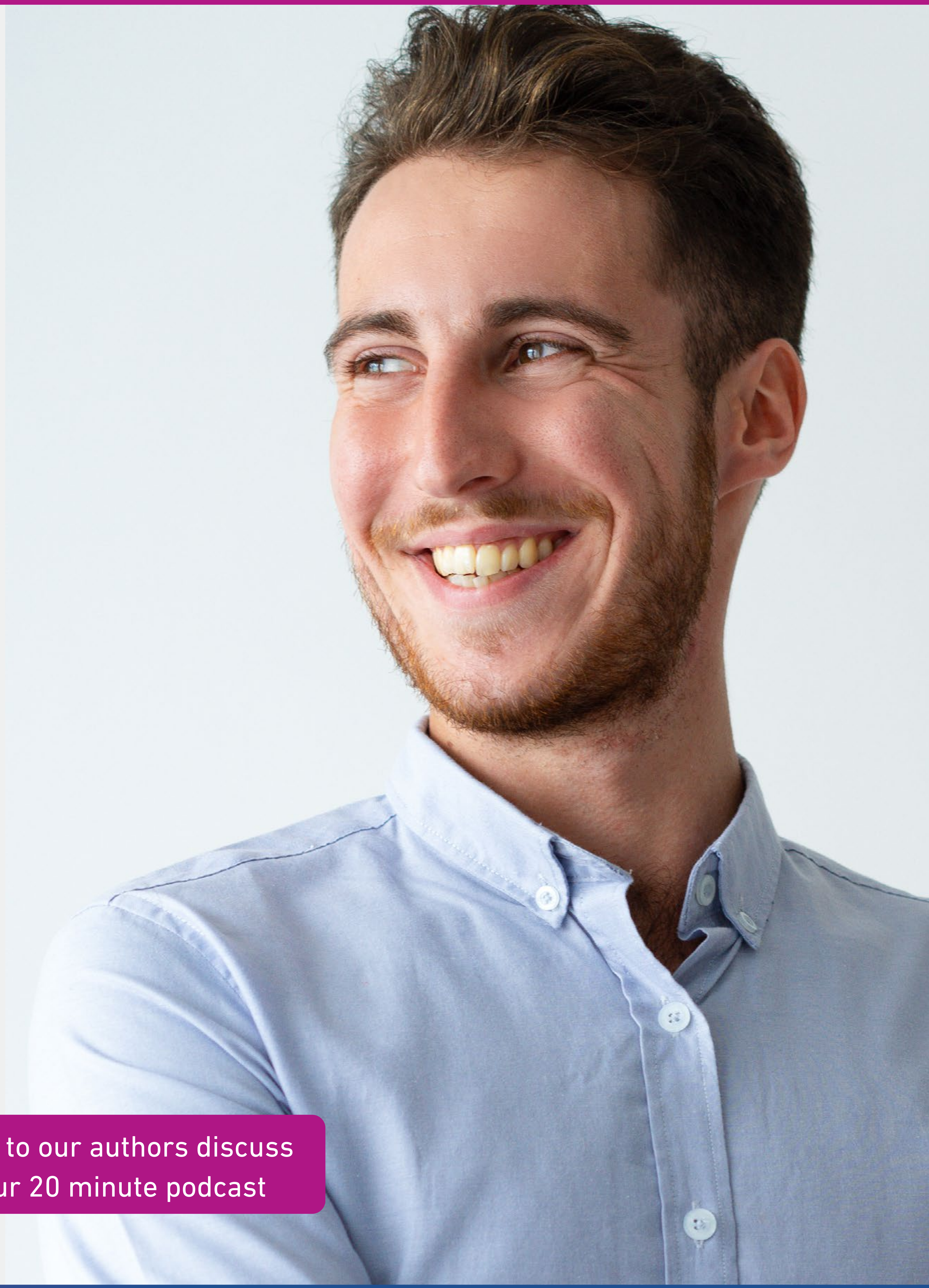
Before the pandemic hit, household debt in the UK was the second-highest[1] among the G7 countries, and people were borrowing to facilitate their lifestyles with few households able to save.

At the time, we found that 40% of people[2] wouldn't be able to pay their mortgage or rent if payments increased by more than £50 per month. There were increasing signs of stress across most demographics, with even the once-solid Bank of Mum and Dad seeing a drift up in arrears.

Then the pandemic hit with economic growth coming to an instant stop. In fact, the first 10 days of lockdown led to a bigger hit to output than the worse 90 days of the 2008 financial crisis. Away from GDP, 34% of the workforce was placed on furlough, and nearly 25%[3] of businesses were forced to pause trading; it was truly unprecedented times.

Click here to read the full paper and watch our summary video

Click here to listen to our authors discuss the findings in our 20 minute podcast



A TIMELINE FOR THE PANDEMIC AND ANNOUNCEMENT OF KEY MEASURES

MAR – APR 20
COVID LOCKDOWN BEGINS
-
Interest rates cut to 0.1%
-
Grant rebates begin
-
Furlough scheme starts
-
CBILS starts
-
GDP drops by a record 20.4%
-
c.25% of businesses temporarily cease or pause trading

MAY – JUN 20
LOCKDOWN EASING
-
BBLS starts
-
Average incomes are the lowest for 15 months
-
Jobs furloughed peak at 8.9 million
-
Retail sales climb for second month to pre-Covid levels (but consumer spending down)

JUL – AUG 20
BACK TO WORK FOR NON-CRITICAL BUSINESS
-
Interest rates cut to 0.1%
-
Credit activity recovering but still well below pre-Covid levels
-
Mortgage application levels exceed 2019 levels
-
28% of people have experienced income decline*
-
Unemployment hits 4.5% (13.1% for 18-24 year olds)

SEP – OCT 20
FURLOUGH SCHEME CHANGE
-
Furlough change 10% employer contribution (Sept), increasing to 20% in October
-
2m Emergency Payment Holidays (EPH) remain active
-
Modelled figures show delinquencies on EPHs are 3x-8x the normal figures
-
New lending volumes 600k below pre-Covid levels

NOV – DEC 20
2ND LOCKDOWN BEGINS
-
Furlough scheme and payment holidays extended to spring 2021
-
30% of the UK workforce working from home
-
9% of UK workforce still furloughed and UK redundancies rise to record high

JAN – APR 21
3RD LOCKDOWN BEGINS
-
Brexit deal official
-
Stamp duty holiday finishes
-
Extended furlough scheme and payment holidays expected to finish
-
Unemployment expected to increase further

*On a sample size of 19M current accounts in September 2020

THE IMPACT OF THE PANDEMIC IN NUMBERS

30%

of the UK's 27.9 million employees placed on furlough in May[4].

11%

of the UK's workforce still on furlough as of December 2020[5].

20.4%

record drop in GDP in April, following a fall of 5.8% in March – surpassing the 3.1% drop seen in 2008[6].

Almost

25%

of businesses temporarily ceased or paused trading in April 2020[7].

82%

of businesses in Arts, Entertainment and Recreation temporarily closed or paused trading in April 2020[7].

31%

of the UK's workforce working remotely as of December 2020[5].

4.9%

currently unemployed as of November 2020[8].

7.8%

our prediction for peak unemployment[2].

PERSONAL FINANCES

As Covid-19 swept the economy, it had a swift and severe impact, with 40%[2] of people experiencing a pandemic-related income shock.

The poorest households, typically working in low-skilled consumer-facing industries, were hit the hardest from a wage perspective but as they also receive benefits, which were made more generous, their overall incomes remained more stable. It was actually the middle income band which was impacted the most.

Policymakers promoted the use of Emergency Payment Holidays (EPHs) across all credit products to help households. By the end of May, over 6% of consumers had requested payment holidays with 3.5 million borrowers requesting an EPH[2].

When some EPHs came to an end in November 2020, it brought with them an uptick in delinquencies. We estimate that consumers with an EPH roll into collections at 3x-8x the normal delinquency rate[2]. This is significant when compared to the wider trend of declining arrears and a reduction in the flow of new accounts into delinquency overall.

A further rise in delinquencies is expected in the near future. Though new EPHs continue to be granted, the number of active accounts has dropped to 323,000[2], indicating a collection crisis on the horizon. This will require lenders to develop new tools and processes to tackle the crisis and more accurately understand their consumer base and its behaviour.

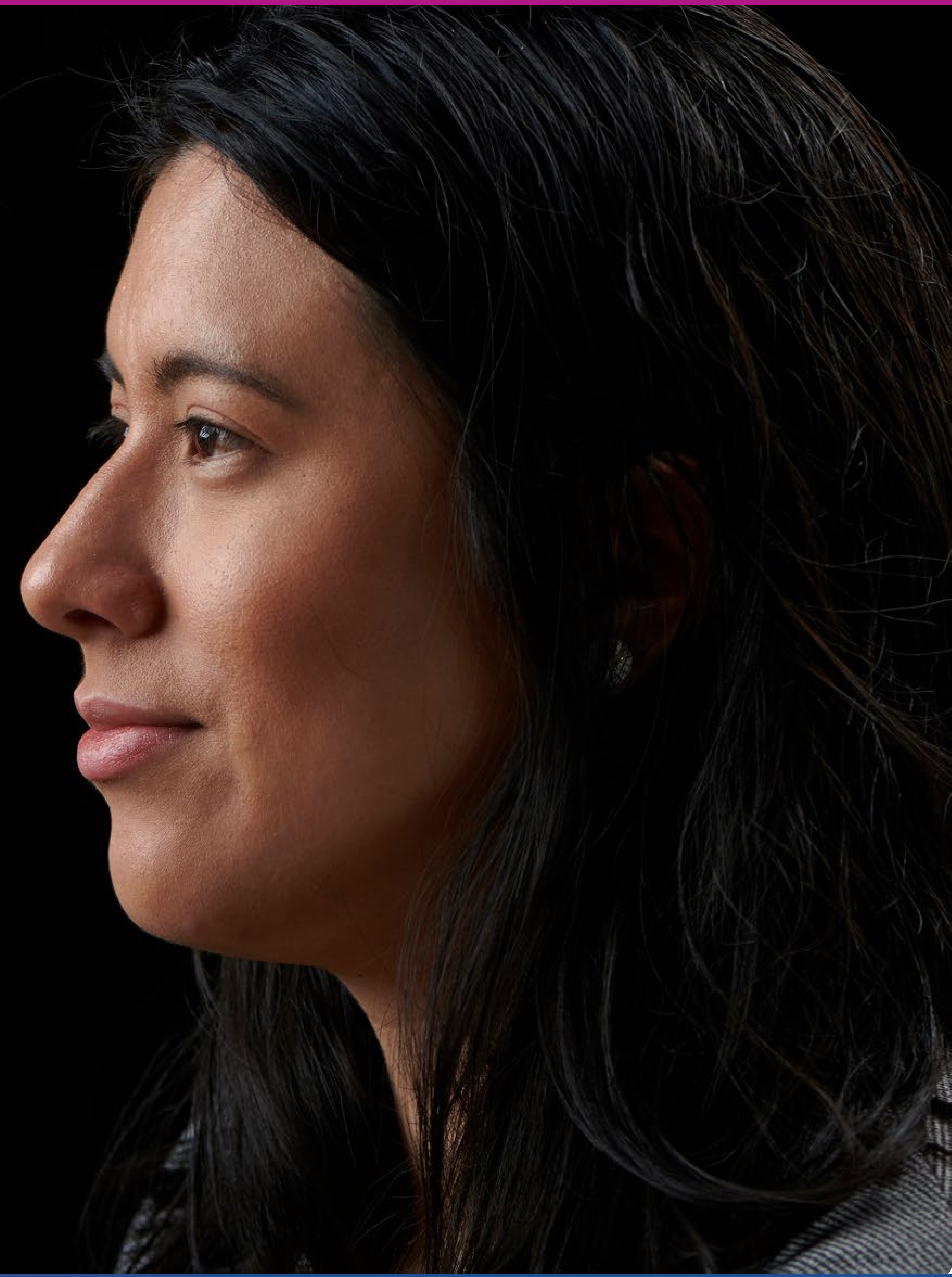
SPENDING & BORROWING

After a major decline during the first national lockdown, credit applications and new lending have recovered well, with mortgage lending back up to pre-Covid levels.

The two key trends we have seen are the slow increase in extended loan terms and the continuation of lending into retirement being on the rise. The Bank of Mum and Dad has also reopened for business after restrictions seen in the early part of lockdown have been relaxed.

However, while the credit market is recovering, it is unlikely to get back to 2019 levels of lending until 2022. This means consumers will find credit less easy to access than before the pandemic.

Lenders are likely to tread carefully over the next couple of years as the true impact of the economic shock starts to play out in the credit market. Further, uncertainty around Brexit and climate change are likely to suppress lenders' risk appetite. With various Government schemes in play, enhancements to traditional credit scores are needed to assess creditworthiness accurately.



PAYMENTS

Lockdown restrictions have seemingly fuelled alternative payment methods such as the Buy-Now-Pay-Later (BNPL).

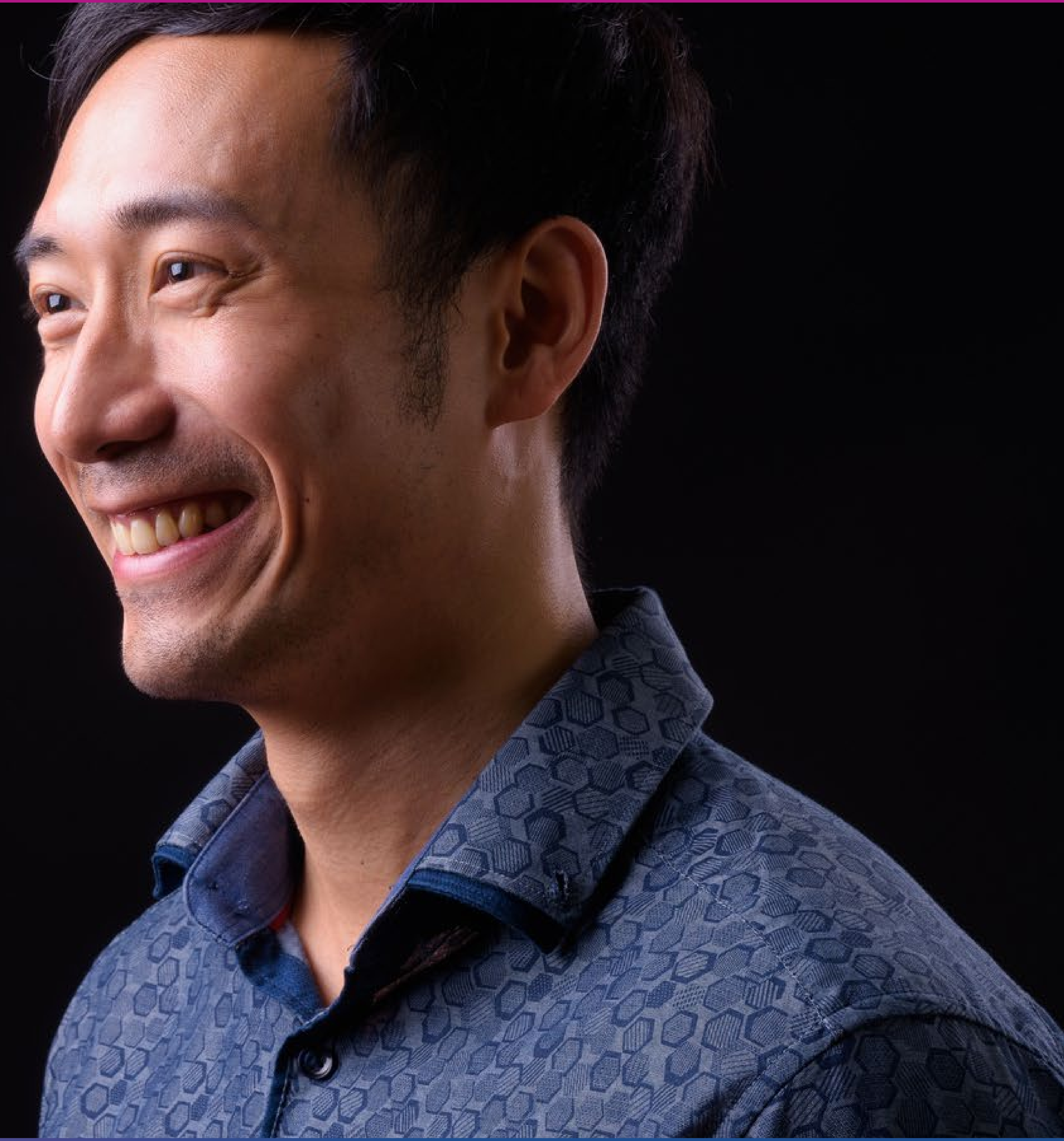
BNPL is proving to be popular among Millennials and the Gen Z population. It has benefitted from the boom in online shopping as it fits perfectly with the monthly expenditure mind-set of consumers. The ability to spread the cost of a purchase using interest-free instalments means consumers have an easy and convenient way to pay without the commitments associated with credit cards.

BNPL is the fastest growing online payment method in the UK, at double the growth rate of bank transfers and thrice that of digital wallets[2].

DIGITAL ADOPTION

In the UK, around 75% of adults are now using online banking[9], with mobile banking apps growing in popularity.

Registrations among 70-year-olds were up three times compared to the same period in 2019, while the 40+ age group's registrations also saw significant growth. While it's true that many lenders have adapted to the new digital norm, true transformation still needs to take place for firms to cater to the needs of the changed consumer, and harness efficiencies in the way they operate.



THE 2021 CONSUMER IN NUMBERS

894

the average credit score of a Millennial (compared to 860 pre-Covid)[10].

34%

the percentage of renters that are aged 25-34[11].

2.3

The average family size in Great Britain[12].

30%

the percentage of the UK workforce currently working remotely[13].

50.4%

The percentage of the population over 16 married or in a civil partnership (England and Wales)[14].

65

the average retirement age for a man[15].

64

the average retirement age for a woman[15].

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A NEW CREDIT ECONOMY

The last decade has seen a shift in consumer behaviours further compounded by the pandemic, resulting in a faster-changing credit landscape than ever seen before.

Today's consumer is more aware of their spending but still living month to month rather than taking a long term view. They are increasingly reliant on credit to make ends meet, rather than funding bigger purchases. And while consumers take a more proactive approach to their finances, there is also a sense of denial about what's to come with Government support schemes to end and unemployment still to peak.

CHALLENGES FOR LENDERS

Our research has found that lenders are finding it difficult to understand future risk using traditional credit metrics.

The tools previously used to predict collections aren't necessarily appropriate for today's consumer. Government measures continue to mask and delay the real impact of the economic crisis. Lenders need to look to other data sources to try and differentiate with risks from opportunities. The answers are in the data; lenders just need to know how to use the data available to them.

REFRENCES

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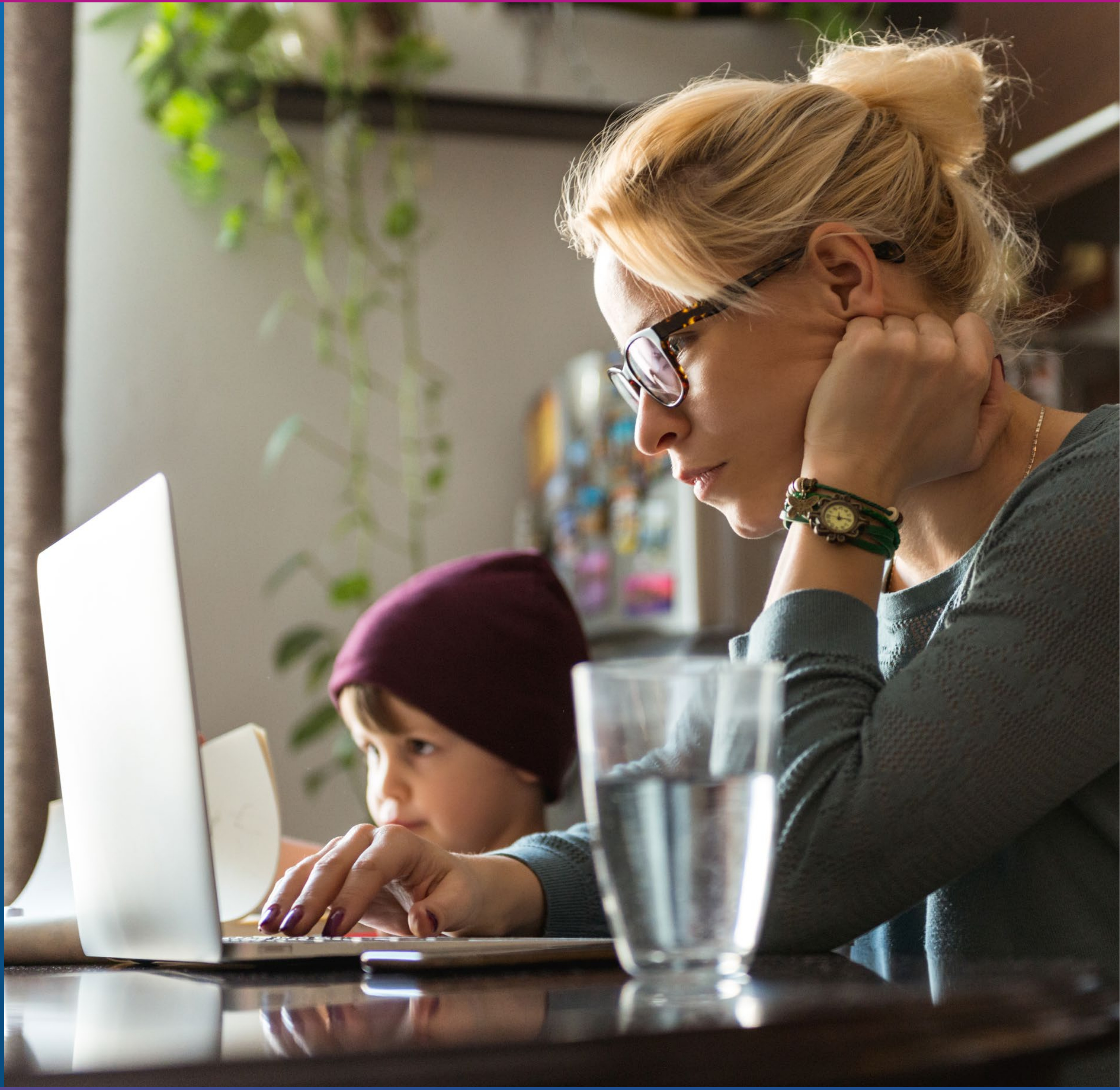

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Contact us: **businessuk@experian.com**

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www.experian.co.uk/business/newcrediteconomy

The information contained within this report is designed to help businesses manage the complexity brought by a national crisis - and is a summary of key areas and capabilities. Experian are making this information available, in the public interest, to help firms understand the breadth of change and requirements needed in order to better support, and protect, consumers and businesses nationally.

To understand more about the breadth of market-leading capability Experian has, or to access further detail on the impact of Covid-19 on, consumers, business and lending portfolios – please contact us.

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