Empowering your customers to take control of their financial health

What customers want from every provider

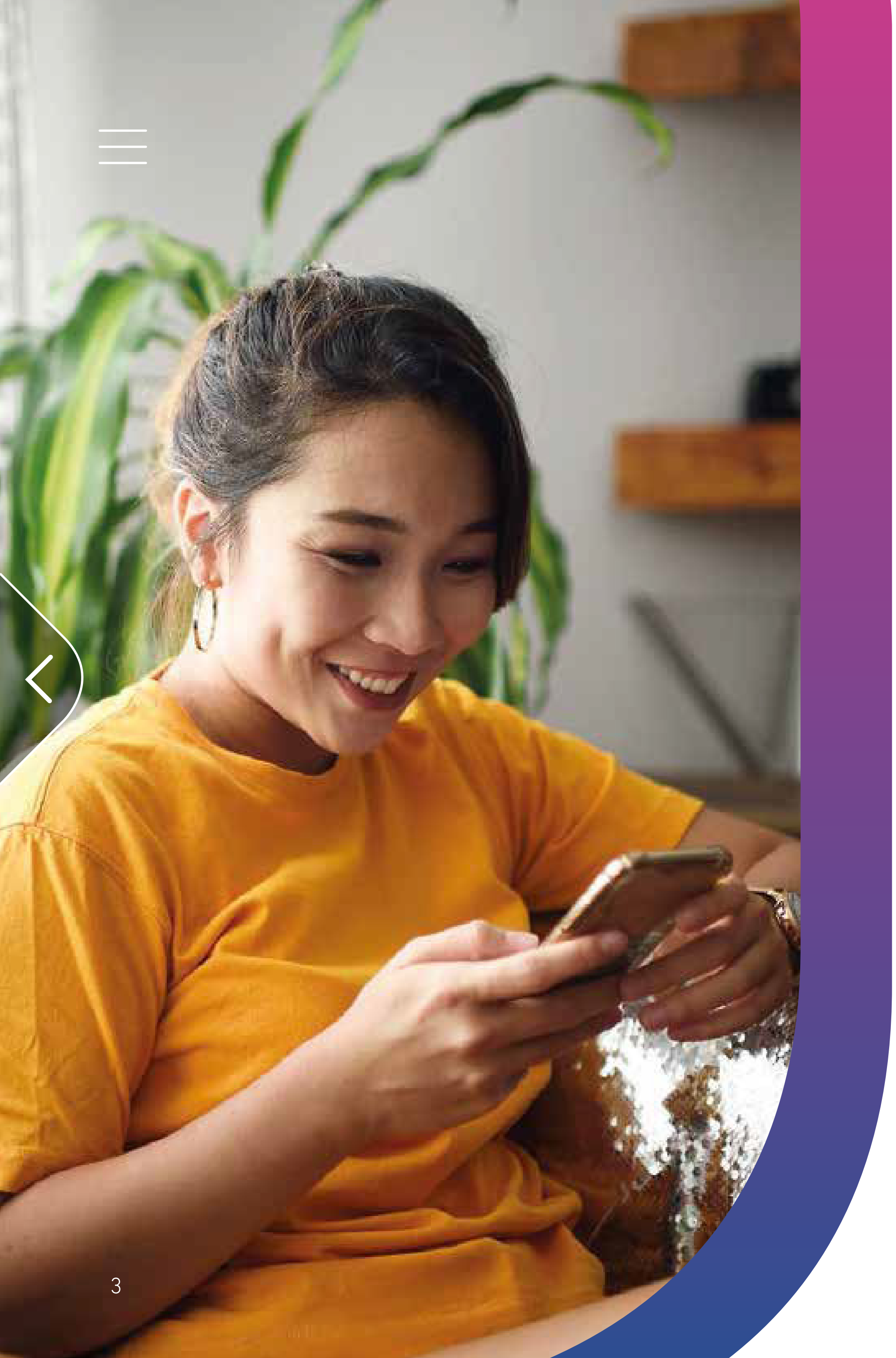
July 2020

EXPERIAN INSIGHTS

Using the power of data to help you

ADAPT, SURVIVE AND THRIVE

Contents



About this paper

In October 2019, we released a report relating to the credit economy. We detailed the shifting behaviours and attitudes in both credit use, and consumption. Today, we have seen an acceleration in those attitudes and behaviours – spurred by the Covid-19 pandemic.

Pre-Covid people were already financially exposed, and while the levels of delinquencies were stable there was stress building in the financial system – the level of financial capacity had largely reduced, spurred by a buy now pay later mentality, and overall rising level of indebtedness.

Over recent years firms' have embraced affordability as a means of measuring risk. This has led to a raft of new product design, subsequently leading to new lending. With a rise of lending (in value and volume) – people's exposure and financial capacity has become strained.

In this insight report we explore pre and post-pandemic trends, we give a view of consumer needs, and wants and explore the strategies needed that can help consumers better understand and manage their financial health.

View the 2019 credit economy report

Confidence, with little resilience

Consumer Confidence in the United Kingdom declined to -36 points in May 2020 – the biggest decline since January 2009. This is perhaps to be expected as the nation face the unprecedented impacts brought by the Coronavirus.

The recent crisis has hit at an already challenging time. Going into the crisis one in eight Britons had no savings at all, and 8.3 million people were already over-indebted *. The FCA, and many others, had already expressed concern over financial instability and the need for more debt advice. Today, such messages are reinforced and no longer for debate – but a requirement to enable.

Uncertain times, greater risk

What we see today, is an unfortunate situation of those who were financially vulnerable before the crisis seeing their situations worsen. While others with strong financial track records are looking unemployment, financial exposure and genuine hardship in the eye for the very first time.

Time to give consumers control

Research from Experian and other organisations suggests that many UK consumers are not knowledgeable enough or thinking far enough ahead about their finances. But it is possible to change this. Consumers can now easily and securely share their bank account data, savings information, transaction history and spending behaviour with lenders. By doing so lenders can access new insight helping them to design strategies to support consumers and their financial wellbeing. It can also benefit conduct and credit risk, and the economy as a whole.

* Source: www.fca.org.uk/news/speeches/financial-system-support-recovery

8.3 million consumers were over-indebted pre-Covid-19

28% of UK adults believe their financial situation has worsened in the last 3-months

8.7 million British workers have been placed on furlough

41% have suffered income shock

-36 point drop in consumer confidence

70% of consumers welcome online advice during a credit application

67% would be more likely to purchase, if prequalified

The UK consumer outlook

A climate of short-termism

Data from Experian and others is showing that people have been living their lives monthly, driven by convenience and ease of access. Consumers are thinking about their short-term affordability, with little real consideration for their future financial health. This trend is consistent amongst both younger and older generations.

While the full impacts of the Covid-19 pandemic are yet to be seen in the credit markets – it is important to consider and understand the patterns of change before the pandemic hit.

Consumers were already squeezed pre-Covid 19...

Pre-crisis, we already saw a sharp decline in spending – with the levels experienced in 2019, on average half of what they were in 2016. Since April – and the offcial UK lockdown, we experienced an even greater decline. Spurred by the UK 'locking-down' in a bid to prevent the spread of coronavirus, which was putting consumers under more short-term financial stress.

At the start of the year we explored actual demand and consumption trends. Through this analysis we could see a sharp rise in the value of lending, yet terms were stable and not increasing. For example in personal loans, we saw people borrow more, but over the same period (typically 48 months). Credit cards saw an increase in utilisation, with a greater level of revolving balances too.

Mortgage and loan terms extending

On automotive loans and mortgages, however, we saw the opposite. The term extending considerably compared to previous years. Mortgages, for example, saw a rise in people opting for mortgage terms of 30+ years – in many cases taking their mortgage borrowing into retirement years.

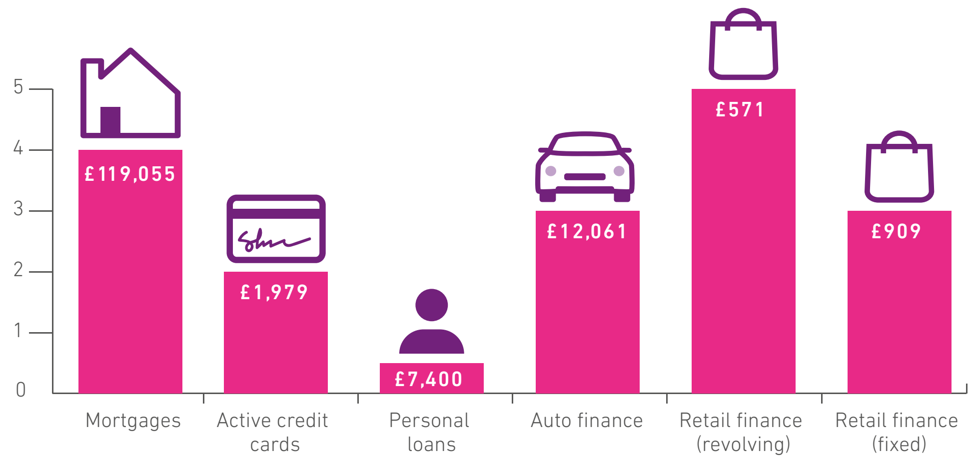
We continued to see annual trends such as post-Christmas consolidation, plus an increasing number of people using their credit cards for cash advances.

Today, emergency payment holidays are masking the real trends and over the coming months we will start to see the real-impact come through. Early signals show arrears starting to appear, and rise. The value change of lending significantly exceeds volume change indicating heightened exposure and stress.

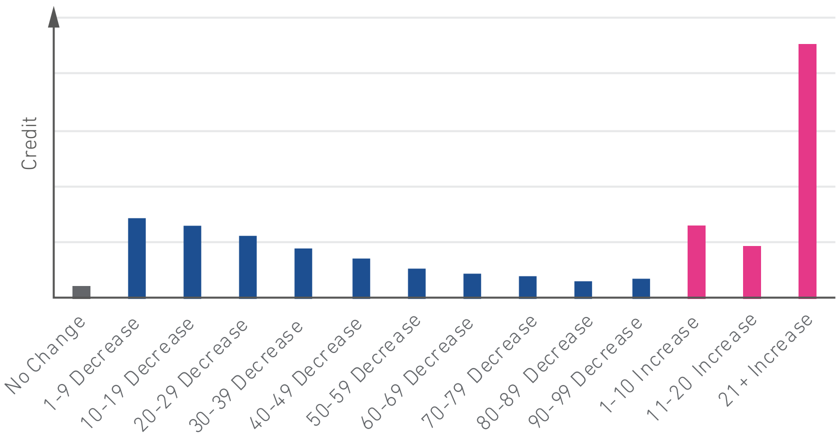
" The reason for a short-term outlook was not due to a lack of consumer desire, but a need to live in the moment, caused by inertia and people's squeezed financial capacity "

Average balances have continued to rise year-on-year, as seen in below. Today, credit utilisation is mixed. We're seeing decreases, which appear to be unstressed borrowers, paying-down cards balances (£9.1bn since 1st January), but we're also seeing an increase in the volume, and value (£), of delinquencies.

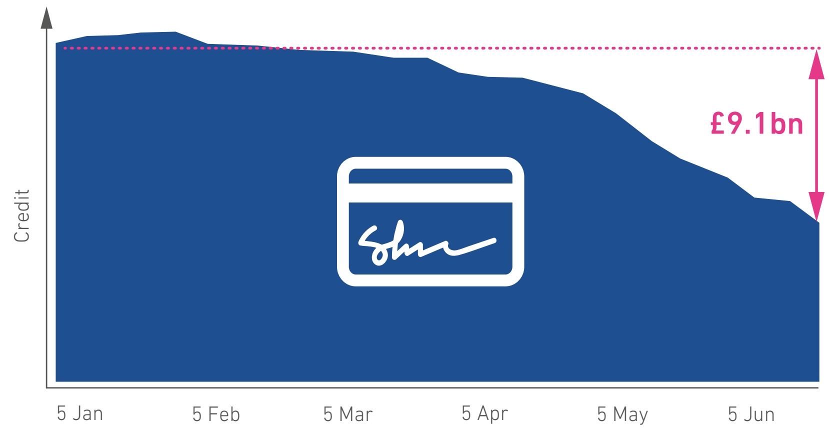
Average balances have shown an annual rise



Change in credit utilisation by % change band



Total active credit card debt (excluding defaults)



...the impact is starting to be seen

Pre-Covid, the data also suggested that consumers weren't planning adequately, or staying on plan, for their financial futures – even though they thought they were.

People typically focused on monthly spending, without considering the longer term view or impact. What's more, the few that did have savings spent them in an average of nine months, often on holidays, home improvements or unexpected bills.

No room for manoeuvre

The problem is, just a small change in their financial circumstances was already problematic. For example, research suggested that two in five people were unable to pay their mortgage or rent if it increased by any more than £50 a month.

More recent data, through analysis gathered by the Bank of England, shows the reality of this come through. Consumers have been asked about their approach to managing financial impact as a result of the pandemic, the outcomes include:

- 5% increase in consumers who plan on taking a mortgage holidays, as well as a requirement for unsecured loans
- Overdraft and credit card usage is also suggested to increase as consumers look to accessible credit to subsidise income loss and maintain financial commitments

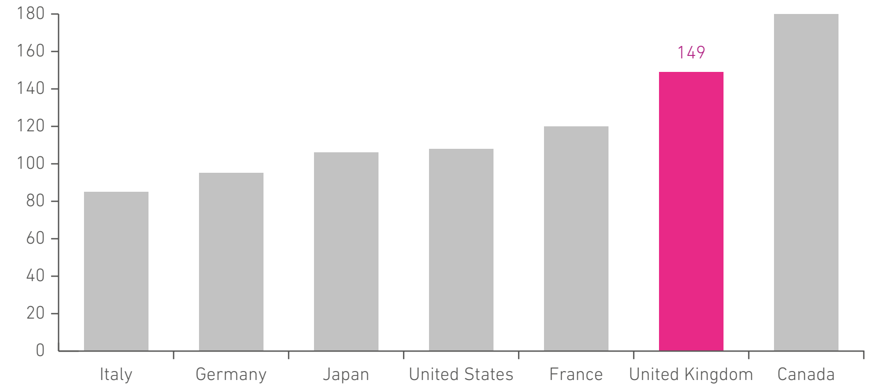
This highlights the imperative of getting customers to study their financial circumstances properly and think ahead.

With rising levels of household debt, as well as declining disposable income – consumers have already been feeling a pinch.

Household debt

Total % of net disposable income

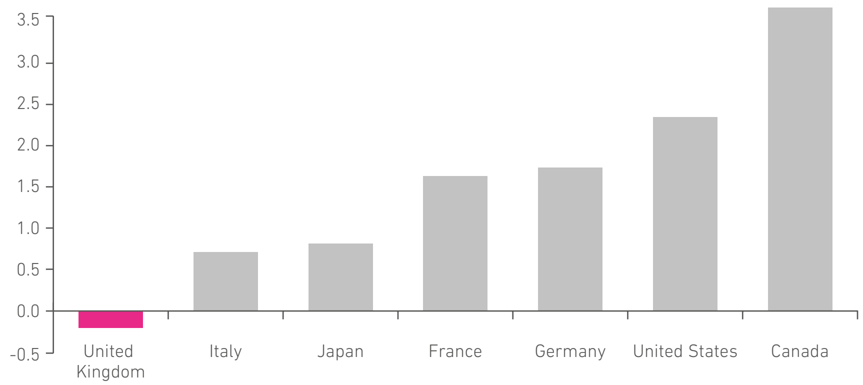
Source: OECD National Accounts Statistics: National Accounts at a Glance



Household disposable income

Total % of net disposable income

Source: OECD National Accounts Statistics: National Accounts at a Glance



The pandemic has accelerated financial concern

1 in 3 feel their financial situation has worsened

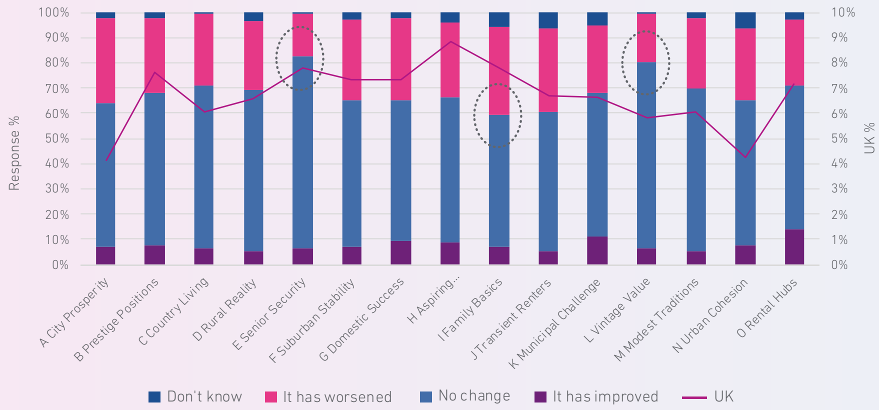
28% of the UK think that their financial situation has worsened since the pandemic hit. Whereas 61% think that there has been no change and 8% think that it has improved. The increase and decrease in financial stability is also evidenced by analysis showing income shock. While we see a third suffer income decline, we also see a third with an income increase.

The typically older Mosaic Groups – specifically E: Senior Security and L: Vintage Value – mostly believe their financial situation has either improved or hasn't changed. On the other end of things, I: Family Basics have the lowest proportion of households whose financial situation is either better or hasn't changed. The core groups here are likely to be living on their pensions, which could explain their positive attitude towards their current finances.

Conversely, families who don't have much income are the most likely to have a negative attitude towards their current finances, perhaps because they don't earn much money already.

Find out more about Experian's Mosaic capability

Financial situation changes in the last month by Mosaic UK



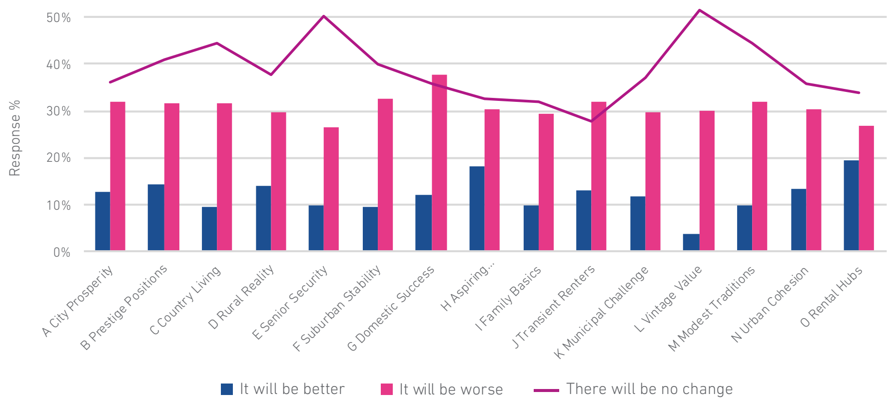
Source: Covid-19 YouGov Survey Data (w/c 6th April to w/c 27th April 2020)

A third believe it will continue to decline

31% of the UK think that their financial situation will be worse in a year. Whereas 39% of the UK think that there will be no change and 12% think that it will be better. The Domestic Success and Transient Renter Mosaic groups are the most cynical about their future financial situation.

Domestic Success, are high earning families, whereas Transient Renters, are young renters renting low cost places. The core groups here seem to be fairly different, however what they have most in common is that they are both frequent internet and mobile phone users, suggesting that their consumption of media could be playing a part in their cynical view of their future finances.

Financial situation changes in the next 12 Months by Mosaic UK



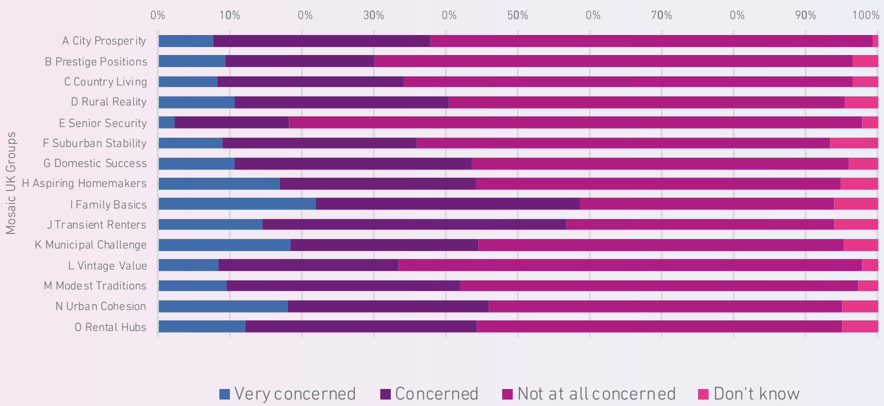
Source: Covid-19 YouGov Survey Data (w/c 6th April to w/c 27th April 2020)

Concern is mounting

41% of the UK are concerned about not being able to pay their bills. Over half of the groups have a high level of concern (40% or higher). The Mosaic groups I: Family Basics and J: Transient Renters are the groups who are most concerned about not being able to pay bills, nearing 60% of households having some level of concern.

Conversely, E: Senior Security are the least concerned about not being able to pay bills, with only 18% being concerned. The Mosaic groups I and J are lower income groups, which could be why they are concerned about not being able to pay bills as their finances are already stretched. Furthermore, group E are very likely to be retired with a healthy retirement fund and so are much less likely to be concerned.

Level of concern: Not being able to pay bills by Mosaic UK



Source: Covid-19 YouGov Survey Data (w/c 6th April to w/c 27th April 2020)

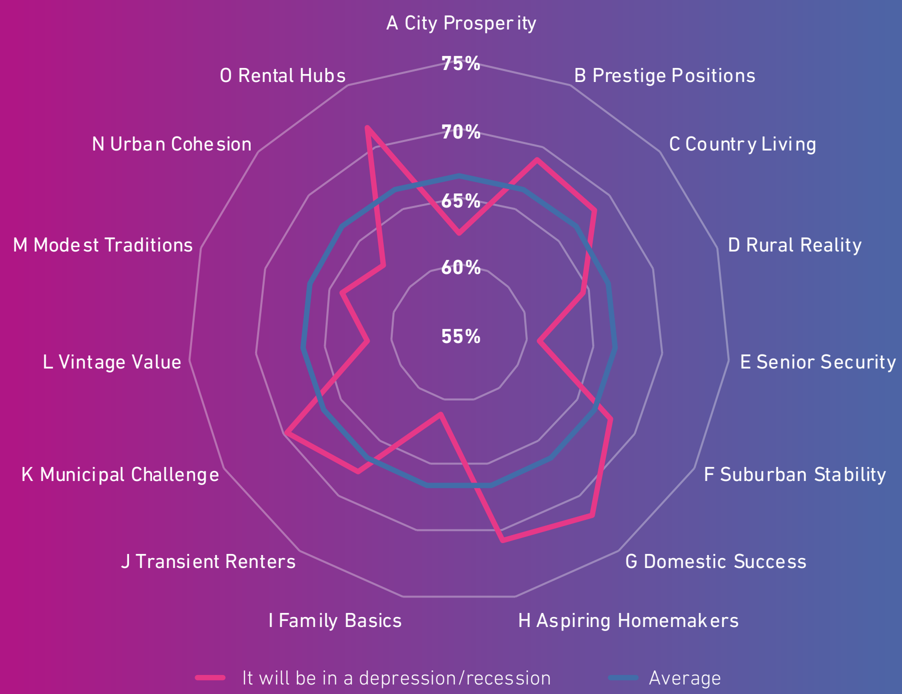
A growing concern for economic recovery

67% of the UK think there will be a depression/recession in 12 months time, only 9% think it will grow. Over half of the Mosaic groups think that the UK will be in a depression/recession in 12 months time, with wealthy family orientated groups showing that they are more concerned about the economy as a whole than their own financial situation, the opposite to groups such as I Family Basics and J Transient Renters.

Those thinking the converse tend to fall into older Mosaic groups. The only exception to this is the group A City Prosperity, who are the wealthiest group and are also very likely to live in London.

The groups who are concerned about the state of the economy tend to be wealthy family orientated groups who may be looking to protect their wealth in the future. Group A are also highly wealthy, however they are likely to be younger and so may be more optimistic about the future.

State of UK economy in 12 Months – in a depression/recession by Mosaic UK



Source: Covid-19 YouGov Survey Data (w/c 6th April to w/c 27th April 2020)

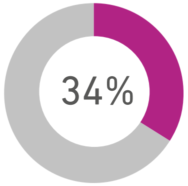
The older generation are seeing a growing risk

A trend we have been tracking for a while is ‘the bank of mum and dad’, with parents now offcially a top 10 mortgage lender in the UK. More first-time buyers than ever have been getting help from their parents for a deposit, fees or even the mortgage payments themselves.

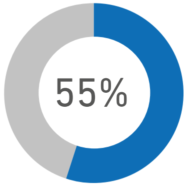
Perhaps unsurprisingly, this increase in parental support correlates with a rise in equity release; parents are likely releasing funds to help their children. Yet worryingly, our data also shows that an increasing number of people nearing retirement have been spending more on ‘living in the moment’ as opposed to saving for their future beyond work. In recent months, as the pandemic has taken hold, we have also experienced a slight incline in arrears amongst those aged 55+.

This group has been both borrowing more and consuming more, and that has put them at greater risk of either economic shock, or a change in personal circumstances.

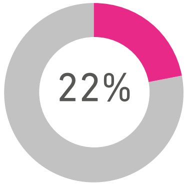
Parents are a top 10 UK mortgage lender



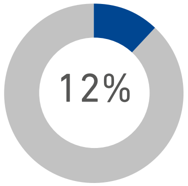
of first-time buyers receive financial support from parents or relatives



are helped with a deposit



are helped with additional fees (stamp duty etc)



are helped to pay the mortgage payment

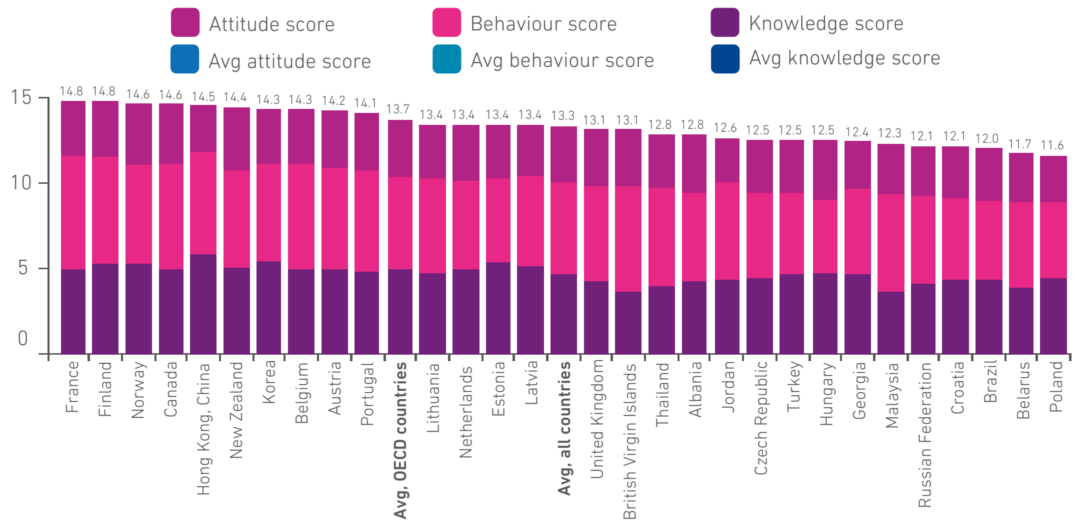
A general lack of financial knowledge

Wider industry research suggests that the UK has a 'financial knowledge gap', which may go some way to explain why people's attitude to their financial future is overly optimistic.

A report by the Organisation for Economic Cooperation and Development (OECD) revealed that the UK ranks 15th out of 30 countries surveyed for its financial literacy. Only 38% of those UK residents surveyed understood how inflation works, while only 45% said they set long-term financial goals and strive to achieve them.

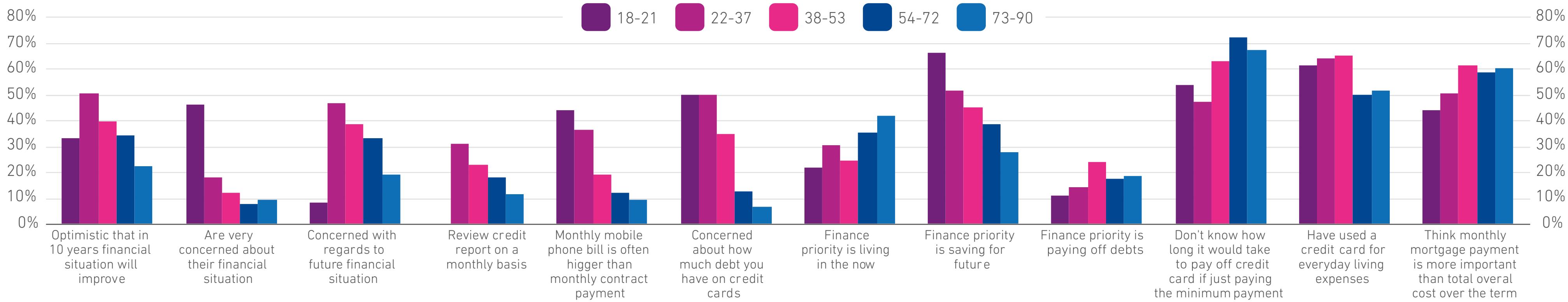
Average financial knowledge, attitudes and behaviours across 30 countries, including the UK

Source: P10, OECD-INFE-International-Survey-of-Adult-Financial-Literacy-Competencies



More than half of UK respondents say they do not set long term financial goals, while around a third do not think carefully about affordability before making a purchase decision

Source: P10, OECD-INFE-International-Survey-of-Adult-Financial-Literacy-Competencies



The younger generations are least engaged

The younger generation is potentially among the most disengaged. Not at all driven by the price of something, they also perceive less risk in their financial behaviour. For example, our own research suggests that one in three of those under 21 regards paying their debts off as their lowest priority. Their biggest priorities are purchasing clothes, and streaming services. The older generations, Baby Boomers upwards, are most in favour of food related spending, with grocery shopping and eating out being their top two priorities.

What are your priorities for your monthly expenditure?

	18-21yrs	22-37yrs	38-53yrs	54-72yrs	73-90yrs
Highest priority	Shopping clothes/footwear	Eating out/Going out	Grocery shopping	Grocery shopping	Grocery shopping
	Streaming services	Grocery shopping	Eating out/Going out	Eating out/Going out	Eating out/Going out
	Entertainment & Leisure	Entertainment & Leisure	Entertainment & Leisure	Shopping clothes/footwear	Savings
	Eating out/Going out	Shopping clothes/footwear	Shopping clothes/footwear	Savings	Shopping clothes/footwear
	Grocery shopping	Streaming services	Savings	Entertainment & Leisure	Entertainment & Leisure
	Savings	Savings	Streaming services	Streaming services	Beauty products
Lowest priority	Beauty products	Beauty products	Beauty products	Beauty products	Streaming services

6 in 10

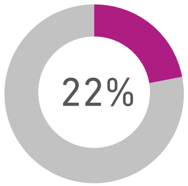
Brits have increased their financial awareness during lockdown

1/3

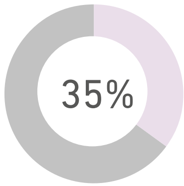
have been reading up on financial advice or guidance to help make the right financial choices during the pandemic, yet, there are still some crucial gaps in people's financial knowledge

Read the full release

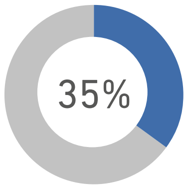
Consumers spend more than they think on flexible spending



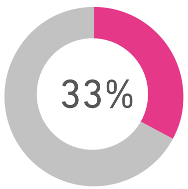
Mobile phone



TV/broadband



Food shopping



Eating out & clothes shopping

25%

of consumers

have mortgage or rent payments higher than they thought

spend less than they think each month and **25%** spend more

have found payments on their bank statement that they weren't aware of **(81%** for low-income groups and **60%** for Post-millennials)

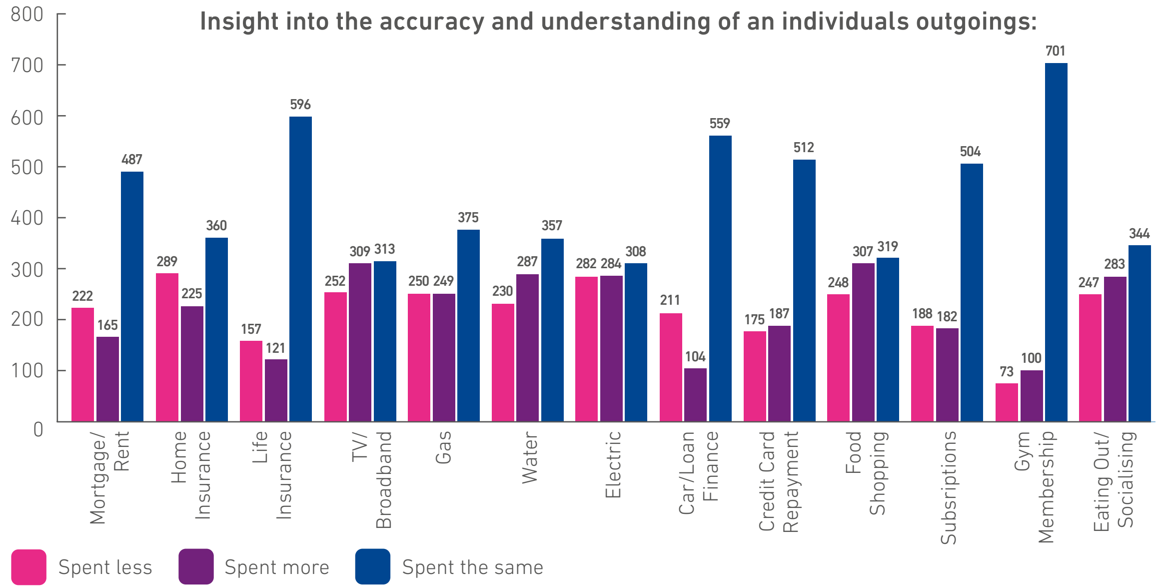
Overwhelmed with information

The velocity of credit and buying decisions – and the myriad of offers, services and products that customers buy online – means that some customers have trouble keeping track of their payments. Additionally, fees, commissions and lack of clarity about product and service costs also make it more difficult for many customers to achieve an accurate view of their finances at any particular moment.

The unknown reality

Because of these factors, customers' perceptions of their finances don't always match up with the reality. This is evidenced in our research time and time again, with many customers spending more on subscriptions and services than they think, including TV and broadband services (35%), food shopping (35%), and eating out and clothes shopping (33%).

Another indicator that consumers are finding it hard to track their outgoings is that 25% of customers found payments on their accounts that they weren't aware of.

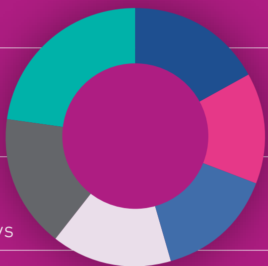


Consumers expect advice and support from lenders

Brits are open to support and guidance

The good news is that while UK consumers have a gap in their financial knowledge, they are also willing to receive help. The vast majority (80%) admit that they find their financials hard to grasp through existing account management tools, and expect lenders to offer them new and innovative means of support. Almost three quarters (70%) of people want advice while they're applying online, while those on a mobile phone would appreciate prompts to help them make better value choices. Indeed, consumers now expect to be offered more personalised offers and rates to suit their financial circumstances.

What do you expect of a firm?



76% Providers should help me better understand my financial position

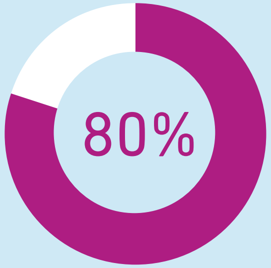
55% Providers should be transparent on pricing and terms

50% Providers should give me the best price, always

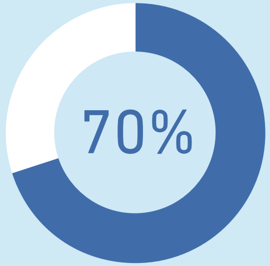
57% Providers should offer a choice of communication channels (e.g. web chat, email, phone)

46% Providers should provide a welcome incentive

50% Providers should make it easy to understand their offering



of consumers find it hard to understand their financials using existing account management tools



of consumers would like online advice during an application (e.g. live chat)

Mobile users find financial prompts helpful at the point of purchase.

- Service, and favourable pricing in return for loyalty

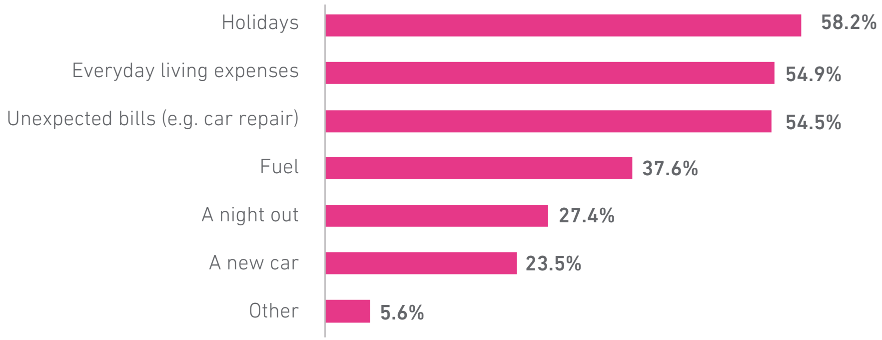
Consumers are demanding more personalised service.

- Tailored rates specific to them
- Loyalty pricing

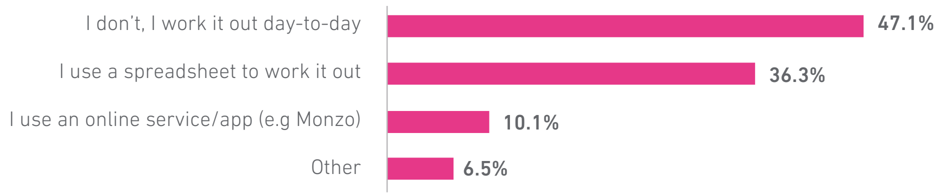
55% of consumers stated that they use their credit cards for every day living expenses, alongside purchasing holidays. 40% of consumers are concerned around how much debt they have on credit cards, with Millennials and Gen X having the most concern. These groups also switch the most, and consume balance transfer deals in order to access more affordable lending.

47% of consumers manage their monthly budget by taking a day-to-day approach, but Millennials are more organised and plan using spreadsheets and mobile apps. Gen X and Millennials are more likely to prefer a text to advise when going overdrawn at point of purchase.

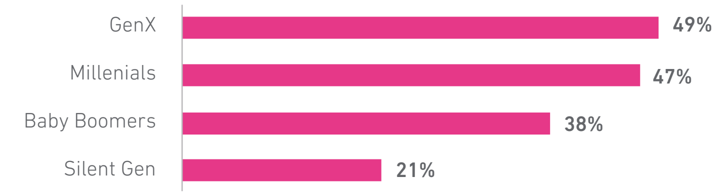
What do you use your credit card for?



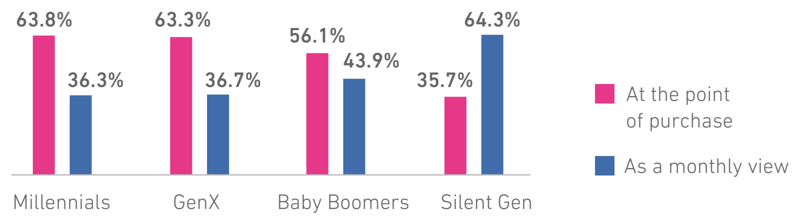
How do manage your monthly budget?



% finding a text useful when going overdrawn



At what point would a text alert be most helpful?



Enhancing personal financial knowledge

One of the most valuable things you can do with a customer’s financial data is present it back to them.

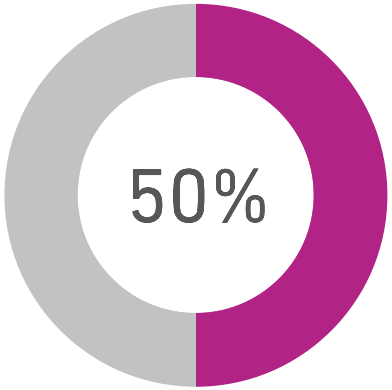
With multiple loans, a mobile phone contract, a mortgage and much more besides, most people have a large financial footprint that can be tough for them to fully grasp. So once you have access to this information, you can offer it back to your customers in a variety of ways.

Education and insight tools: for better financial health

Our research shows, for instance, that customers would value advice or prompts during the application process, including notifications about better value options.

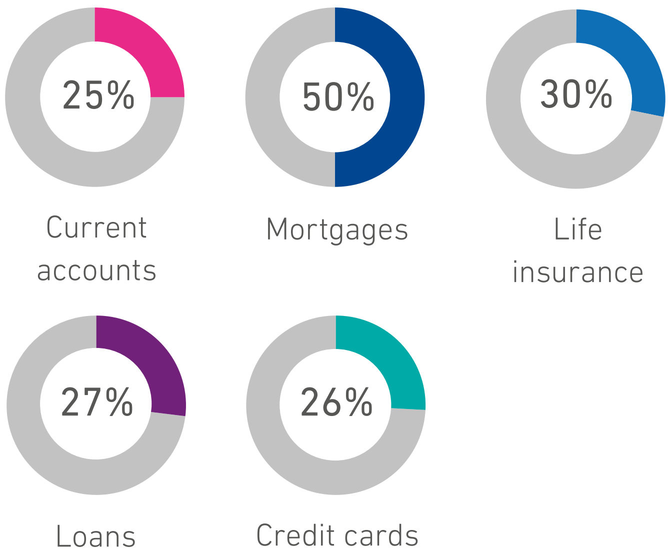
What’s more, given that some 80% of consumers find it hard to understand their financial status, you can choose to offer them a consolidated dashboard of their financial health. These Personal Financial Management (PFM) tools can make suggestions of how users might change their spending or saving behaviour, in order to help them protect their financial health and achieve their goals.

Customers want trusted advice and guidance from their providers



of consumers would like their bank to offer additional, value-added services, such as retail incentives and energy switching

Large percentages of customers want advice to help them choose the best financial products and services for their needs:

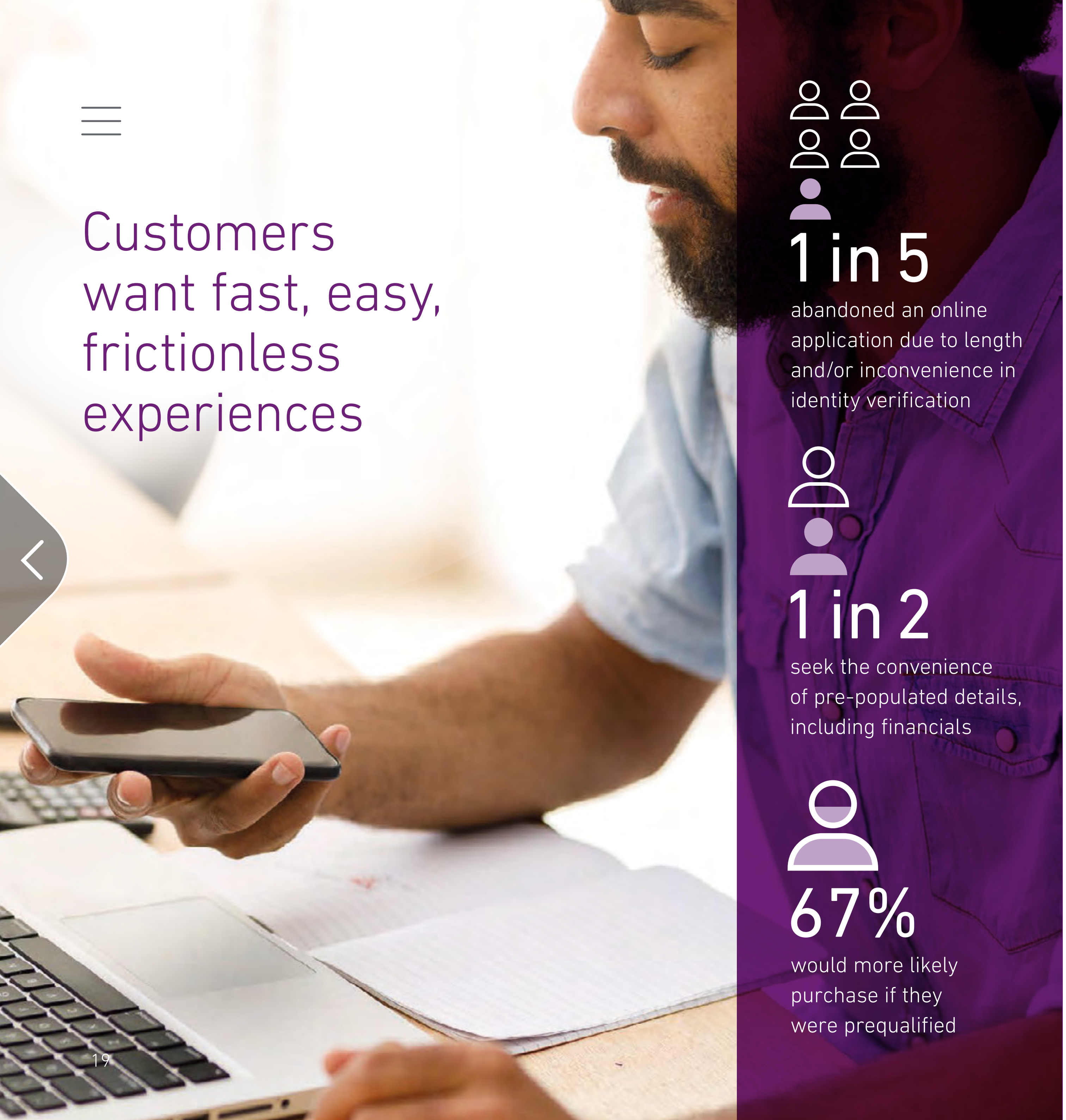


People want advice integrated into their offers

In the past, customers visited their bank managers to ask for financial advice. Today, this face-to-face contact is far less available and less desirable. However, customers still show a very strong desire for advice and support from their financial service providers, even if that advice is pre-integrated into their personalised offers, provided electronically using AI-powered chatbots, or via other innovative channels.

Our research demonstrates consumers' thirst for advice and guidance. Half of customers say they would find it helpful or beneficial if their bank was to offer value-added services, such as retail incentives or energy switching. Customers also say they want advice on the best current account to choose (25%), the best mortgage (50%), and the best life insurance to meet their needs (30%).

In addition to this, customers also said they would want their provider's help in selecting the most appropriate loan for their needs (27%). The same was true for credit cards, with 26% of customers looking for advice on which card would suit them best.



Customers want fast, easy, frictionless experiences

1 in 5

abandoned an online application due to length and/or inconvenience in identity verification

1 in 2

seek the convenience of pre-populated details, including financials

67%

would more likely purchase if they were prequalified

Certainty can be just as important as value

One of the most telling findings of our research is that 67% of customers would like to know which financial products they are pre-approved for, before they apply. This is, in some cases, an even more important consideration for customers than the overall value of the product. Pre-approval saves them time, reduces anxiety in the application process, and ensures that their credit rating is never compromised due to a failed application.

Consent brings convenience to all

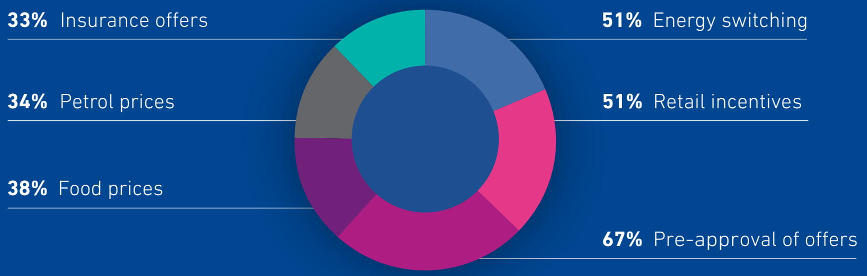
Another highly significant statistic is that 47% of customers would welcome pre-population of application forms with their data. This is supported elsewhere in our research; a significant percentage of customers making online applications dropped out because they were asked for information that was too detailed or not readily to hand.

Innovative value-added services

Our research also shows that people want financial services providers to support all of their spending decisions – from which credit card to choose, to how to spend less on fuel, or which supermarket will offer them the best value weekly shop. Once equipped with their data, you have the potential to deliver such innovative suggestions to your customers, helping them to make more sensible financial choices across their whole lives.

In this way, you can add value, while empowering your customers to be responsible for their overall financial wellbeing.

What incentives would you want from a financial provider?



Putting your customers in control

Through Personal Financial Management (PFM) tools, you can support customers in their journey to better financial health. This can include helping them to pay off debts quickly, explaining where they could reduce their expenditure, and setting targets for their purchasing goals.

The power of data to reveal and address hidden risk

Being equipped with transactional data can provide unexpected insight into specific people that are over-exposed – and support you in addressing their challenges.

Lets explore three typical, but different profiles and possible scenarios.

Successful – but overcommitted

Take James and Sarah. Based on past behaviour, this couple is very financially reliable. They are in their early 40s, have a mortgage, work in professional jobs and have an extremely high combined income. They pay their debts on time every month, and excellent credit scores. They also seem to have a lot of spare cash left over at the end of the month.

However, they are actually financially vulnerable due to the sum of their commitments. With some 80-90% of their income allocated towards paying off their mortgage, loans and credit cards, just a small shift in the interest rate could see this successful couple going into serious arrears very quickly.

By getting insight into this, their creditors are equipped to strike up a conversation with them about different ways they could protect their financial health, all while protecting the health of their own business.

High earnings – but high risk

John applies for a car loan. He appears to be very financially stable, with a high level of monthly income, and a job he has held down for a long time.

But on closer analysis of his bank account data, he is spending a great deal of money on gambling sites. There are also large sums of money being transferred between him, his friends and his family members.

It's likely that he has a gambling problem, or in fact is running a gambling book. This fact based analysis completely changes John's risk profile.

Low earnings and vulnerable

Sam falls into arrears with his mortgage, and his mortgage lender's collections team needs to get in touch.

Before the agent calls, they have a look at Sam's bank account data, and notice that recently he's been spending money at a DIY shop, in a carpet store and also at a toy retailer for the first time. The system therefore suggests that Sam and his partner could have had a new baby.

This provides a valuable context for the call, and enables the agent to ask the right questions in order to tackle the issue sensitively.

Conclusion: personalising traditional values

To provide the insights and support that customers need in order to achieve their financial goals, the key is data. This ranges from traditional sources, such as customer credit scores, to new data sources such as Open Banking data, which provides a granular, transactional view of customers' spending and affordability.

As seen in this report, attitudes towards spending are changing, and behaviours are also shifting. By being able to access such granular insight and integrating this into your decision-strategies, you can gain a better view of a person's credit risk – and their opportunity for growth.

Build the right data strategy and grow your long-term success

If you act now to implement the right data collection, aggregation and analytics capabilities, you will be in a position to make faster, lower-risk lending decisions. Even more importantly, however, you can become a trusted adviser to your customers, helping them to grow financially and building a longer-lasting relationship that delivers higher revenues for your business in the long term.

Digitalising tradition

Digital has become the pulse of customers' interactions, and it continues to influence their behaviours and needs. Done well, it can also be an opportunity to transform your business processes and identify new areas of opportunity for upsell, cross-sell and more. By making digital platforms a core focus for your business, you can achieve competitive advantage and boost market share.

Understanding the person behind the data

It goes without saying that products need to be appropriate for the individual, whether that be loans or service-led products like insurance and telecommunications. People have a right to access the ideal product or service for them, for the best price. Today's advances in analytics and technology can empower you to deliver the personalised services that customers demand, by accelerating information capture and boosting accuracy.

Making applications convenient

Prepopulating data, including income and expenditure, can help you to be certain the information supplied is accurate. You can interrogate it, determining what income comes from earnings, and what is extra. You can access signals from the data, which can be modelled into triggers to help you provide pre-emptive, or proactive, customer treatments. And from here, you can revolutionise your opportunity to grow life-time value while reducing risk.

The future was yesterday

Digital interactions are not new or disruptive: they are more than a decade old. The disruption has been done. It is now time to harness this opportunity and capitalise on the requisite power that digitisation has brought to data, analytics and technology. People want to be known, to be understood, and to be given personalised offers with integrated value. While security and cost-efficiency are strong motivators for business, the true value of digitalisation is what it can do for your customers.

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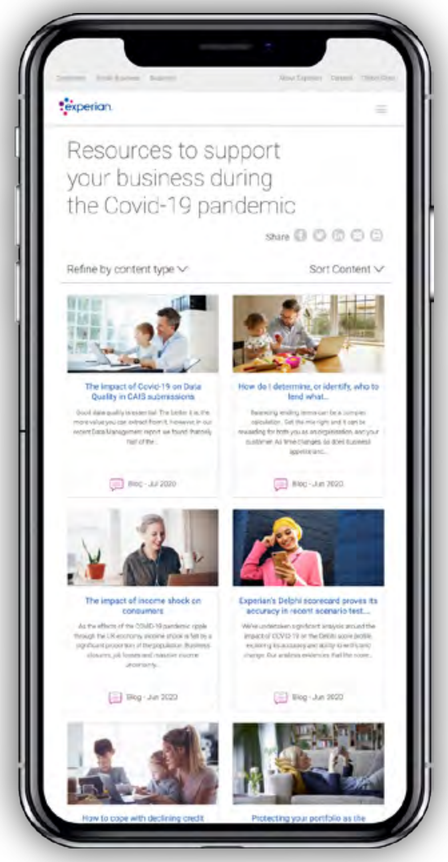

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The insight contained within this report is prepared using research performed on both Experian data and external data sources, in addition to market research. All sources, unless referenced, are from Experian insight.

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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