THE NEW CONSUMER CREDIT ECONOMY

2021 EXPERIAN INSIGHT REPORT

An Experian insight report

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

Click here to view our summary video

OUR METHODOLOGY

This insight report contains a thorough and in-depth look at the consumer credit market from a number of different viewpoints. It has been prepared using research and analysis performed on both Experian data and external data sources, integrating Experian's own economic insight and foresight.

The views expressed in this paper are supported and qualified by the following sources of insight:

- Analysis of Experian's own unrivalled breadth of data.
- B2C research conducted throughout the pandemic, including surveys conducted in partnership with YouGov, and Experian's own online survey run in December 2020 with 2,013 adults from across the UK.
- Independent market analysis from external sources.
- B2B research commissioned with third parties and via Experian's own market engagement programme.

All sources are referenced throughout.

INTRODUCTION

From the moment Coronavirus reached across the globe to become a pandemic, forcing the UK Government to introduce unprecedented measures, Experian has been tracking the virus' impact on the UK economy, and the businesses and consumers that drive it.

Experian has always paid close attention to credit and economic trends, as well as closely tracking market conditions and needs. But the last year has seen an increase in the need to understand change, the cause of that change, and how it impacts risk.

The economic impact of the pandemic was swift and severe, giving rise to numbers we are now all too familiar with: a staggering 20.4% drop in GDP in April – an impact greater in 10 days than in a whole quarter during the 2008 crisis. 25% of businesses were forced to pause trading in April, and by May 30% of the workforce were on furlough.

Beneath these national headline trends are sectoral and regional disparities that mean it's become imperative to take a granular view of data to derive the insights needed to support decision-making.

Sectors like Arts, Entertainment and Recreation, and Accommodation and Food Services have been affected much more severely than others. According to the Office for National Statistics, 41% of businesses in the latter sector had temporarily closed or paused trading at the end of December 2020, compared with 13% across all industries. Businesses in non-essential retail, and the people they employ, continue to be subject to the changing restrictions associated with regional tiers, and local and national lockdowns.

These are the sectors that rely most heavily on the Government's job retention scheme, which, as our analysis will show, is an important indicator of unemployment risk.

INTRODUCTION

So there is clearly risk associated with the sectoral composition of lenders' portfolios. But there is also a regional lens to this risk, as the areas of the UK where these industries are in highest concentration are looking at a very different recovery path to those where the concentration is lower.

Nine months on, Experian has a better perspective on the short- and long-term effects of the Government's measures, and insight into their influence on consumer attitudes and behaviours.

This paper brings together our data, insight and market knowledge, supplemented with other relevant industry research, to give you a comprehensive view of the changing consumer.

- How the measures put in place to mitigate the impact of the virus have accelerated some of the trends seen before the pandemic and brought about some new ones.
- How they've materially affected the nation's household finances, but also the way consumers think about them.
- How spending, borrowing, payments and managing money have all changed, in some instances for good.
- And crucially, what this means for lenders as we all face the dawn of a new consumer credit economy.

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
-
Modeled 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[1].

11%

of the UK's workforce still on furlough as of December 2020[2].

20.4%

record drop in GDP in April, following a fall of 5.8% in March – surpassing the 3.1% drop seen in 2008[3].

Almost **25%**

of businesses temporarily ceased or paused trading in April 2020[4].

82%

of businesses in Arts, Entertainment and Recreation temporarily closed or paused trading in April 2020[4].

31%

of the UK's workforce working remotely as of December 2020[2].

4.9%

currently unemployed as of November 2020[5].

7.8%

our prediction for peak unemployment[6].

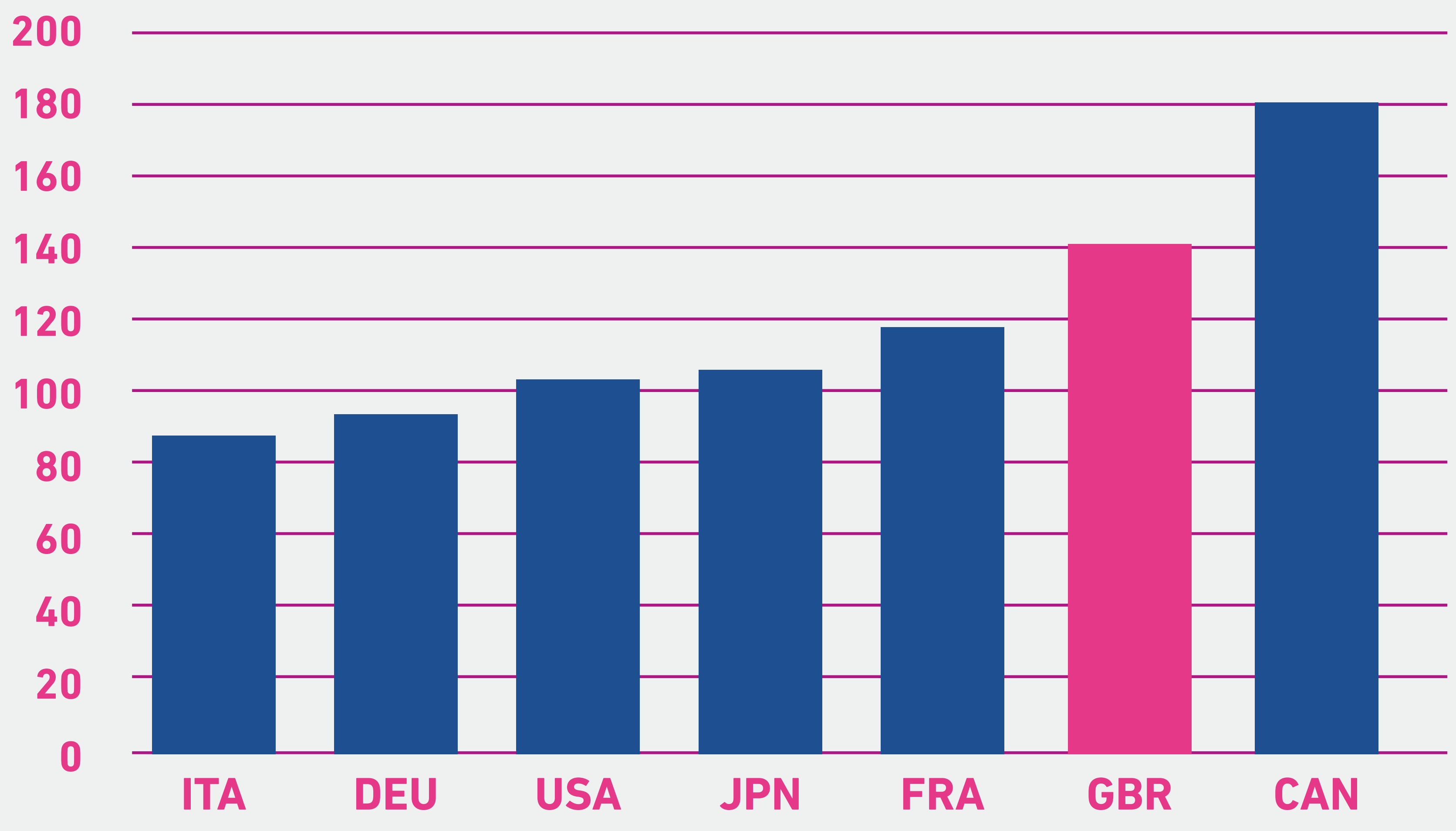
THE PRE-PANDEMIC CONSUMER ECONOMY

In the run-up to the general election at the end of 2019, consumer confidence had increased by three points to reflect a new optimism amongst consumers about the year ahead[7]. This was bolstered by record levels of employment and low inflation but only held at the average UK level. When it came to people's own personal finances, the general outlook was more pessimistic. And when we look at the state of consumer finances and the credit economy going into the pandemic, we can see why.

High levels of indebtedness.

Household debt was second highest amongst the G7 countries; disposable incomes were falling; real wages had remained static for a decade; and we were saving less and less.

FIGURE 1.
G7 - HOUSEHOLD DEBT AS A % OF GDP
Source: OECD - 2019



BRITISH HOUSEHOLD DEBT IS THE 2ND HIGHEST AMONGST G7 COUNTRIES

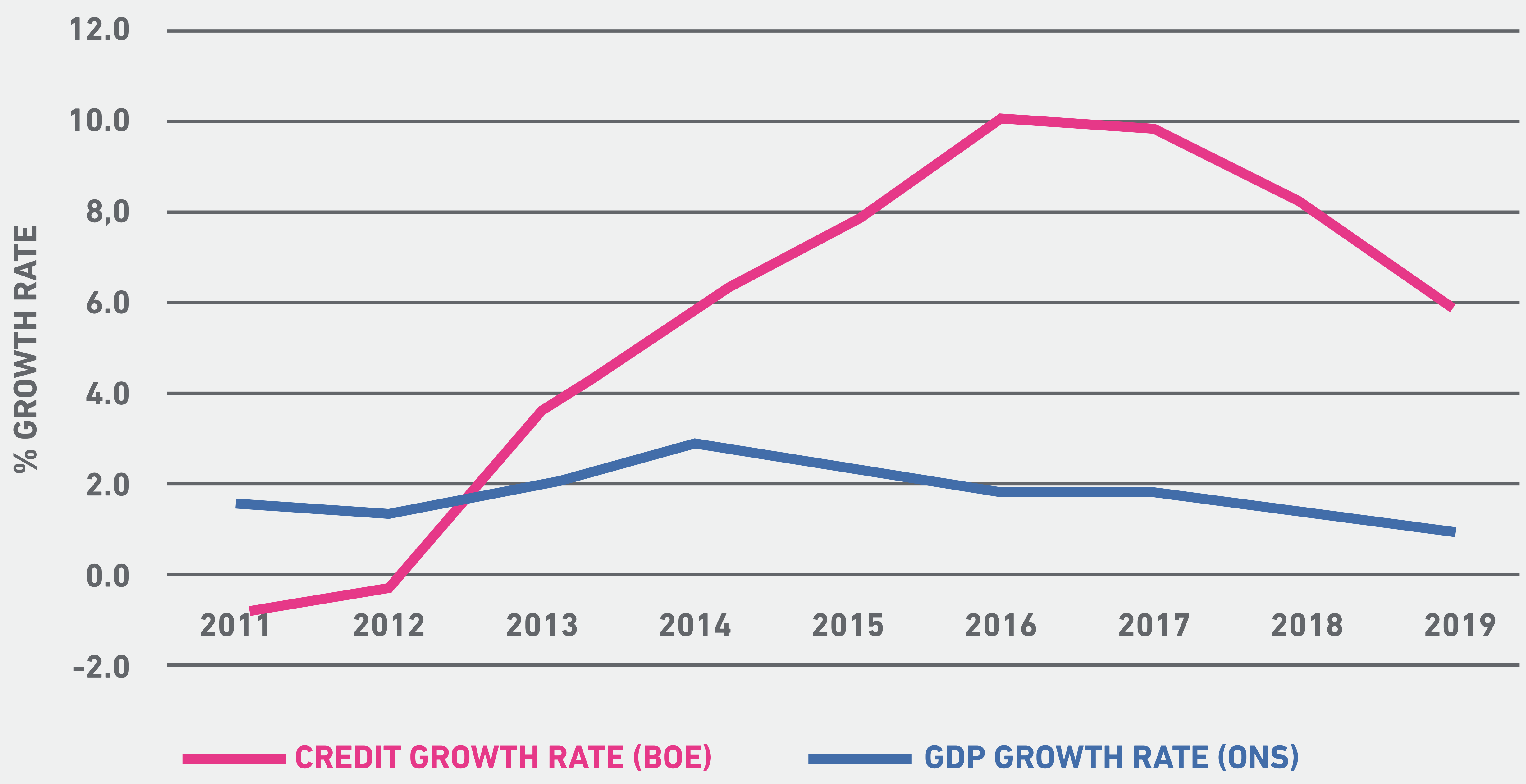
ACCORDING TO THE FCA, GOING INTO THE PANDEMIC ONE IN EIGHT BRITONS HAD NO SAVINGS AT ALL AND 8.3 MILLION PEOPLE WERE OVER INDEBTED[8].

THE PRE-PANDEMIC CONSUMER ECONOMY

But we were still voracious consumers.

Affordability pressures were being relieved through increased borrowing over longer terms and at low interest rates. Consumers were borrowing to facilitate their lifestyles rather than saving, even if that meant paying into retirement. In fact, consumer credit was growing at a significantly higher rate than the economy and had been since the credit crisis of 2008.

FIGURE 2.
CONSUMER CREDIT AND GDP GROWTH
Sources: BoE, ONS



CONSUMER CREDIT WAS GROWING AT A SIGNIFICANTLY HIGHER RATE THAN THE ECONOMY SINCE THE CREDIT CRISIS OF 2008.

THE PRE-PANDEMIC CONSUMER ECONOMY

The Bank of Mum and Dad was stretched.

Those trying to get on the property ladder were tapping the Bank of Mum and Dad, the UK's fifth largest lender. But accessible cash was running out, meaning Mum and Dad were borrowing, or releasing equity in their own homes to help their children buy theirs. Increasingly, we were seeing signs of stress in this traditionally stable group with arrears starting to climb.

Affordability was limited.

We saw people living their lives from month to month and thinking about short-term affordability rather than future financial health.

The result was very little resilience within the nation's finances. Our own research showed that two in five people wouldn't be able to pay their mortgages or rent if they increased by any more than £50 per month. Any spare affordability capacity was already being used up. And that translated to a reduced capacity to withstand economic or credit shock.

Then Covid-19 hit. And our analysis will show, the consumer position going into the pandemic has had its own important part to play in the way personal finances, spending, borrowing, payments and use of digital services have changed.

FIVE KEY CONSUMER TRENDS PRE-COVID:

1. LOAN TERMS EXTENDING
2. LENDING INTO RETIREMENT
3. BORROWING ON EVERYTHING
4. SUPER-LOW INTEREST RATES
5. BANK OF MUM AND DAD

PERSONAL FINANCES

People's personal finances have been significantly impacted by the Coronavirus pandemic. Sometimes for the better, but detrimental for many. Experian has been tracking the effect of the pandemic on incomes, household finances and affordability, as well as risk. But beyond the facts, how do consumers feel about their financial situations? And how have behaviours changed to adapt?

PERSONAL FINANCES: THE FACTS

THE PANDEMIC HAS CHANGED MANY PEOPLE'S FINANCIAL POSITIONS.

Many have seen their incomes decline.

With work suspended or hours reduced for such a large proportion of the population, income shock was bound to follow. In fact, impact on incomes was seen almost immediately as the country went into its first national lockdown. April 2020 incomes were the lowest in 13 months and, by May, 40% of the UK population had experienced pandemic-related income shock.

Since then, there has been a lot of movement. And while the data doesn't yet show any sustained deterioration, we believe incomes are highly likely to fall again as unemployment reaches its highest level in a decade and Government protections come to an end.

Already in short supply before the pandemic, spare cash will become even scarcer for many.

AS SECTORS AND REGIONS ARE AFFECTED DIFFERENTLY, RECOVERY WILL BE UNEVEN AND FELT AT AN INDIVIDUAL LEVEL.

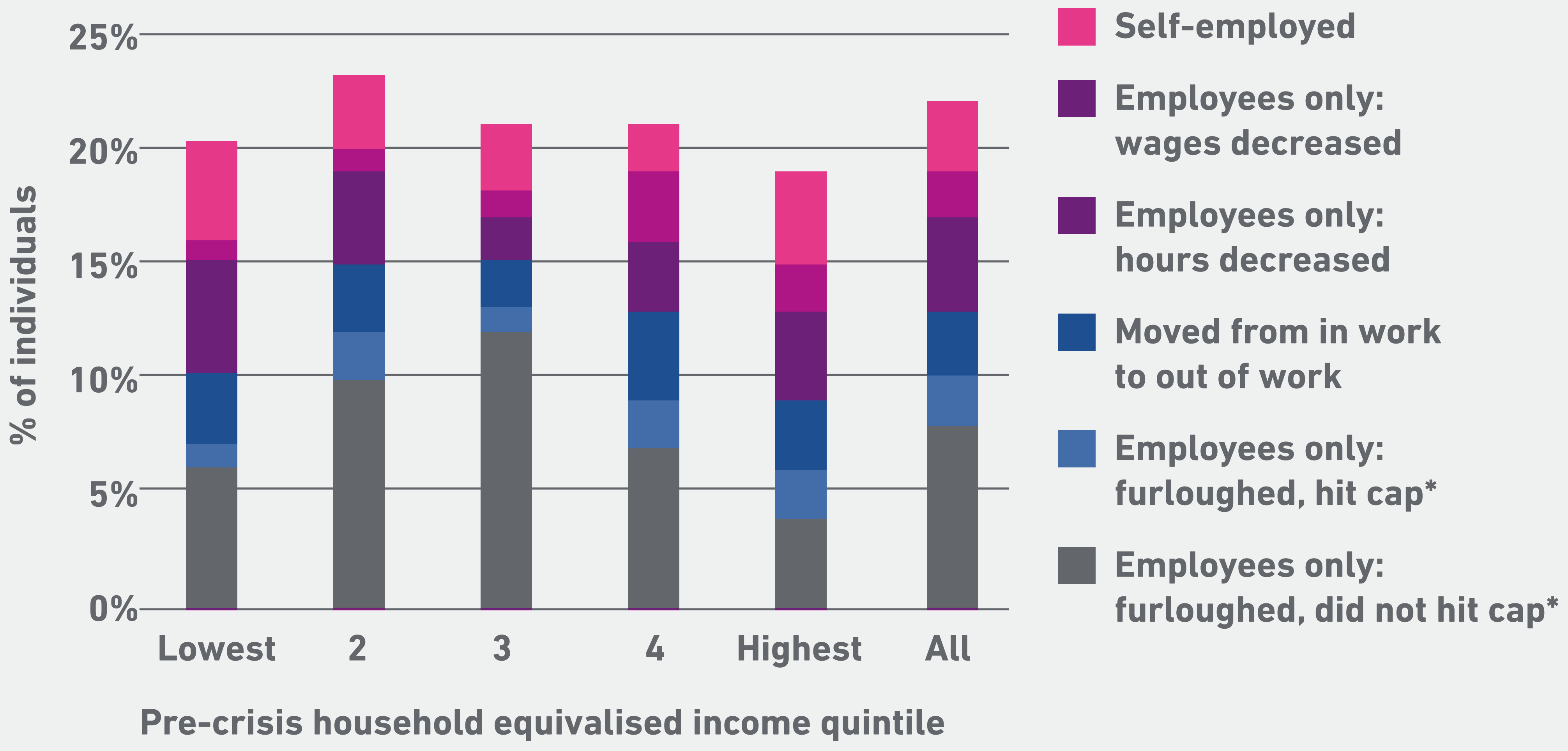
PERSONAL FINANCES: THE FACTS

The furlough effect.

Real earnings fell back for the first time since January 2019 as a result of various pandemic-related impacts on the labour market, but primarily because of furlough.

FIGURE 3.
REASONS WHY INDIVIDUALS SAW A FALL IN THEIR NET EARNING OF A LEAST 10% IN APRIL 2020

Source: *IFS The effects of Coronavirus on household finances and financial distress*



FURLOUGH IS THE PRIMARY CAUSE FOR DECLINE IN EARNINGS.

A relatively unknown term before March of 2020, furlough is still a reality for many. As of December 2020, 11% of the UK's workforce was still furloughed and the extended scheme is due to run until the end of April 2021.

It is likely that there will be a pick-up in unemployment when the furlough scheme comes to an end. We currently expect 5-10% of furloughed jobs to convert into unemployment towards March 2021.

BEFORE THE FURLOUGH SCHEME WAS EXTENDED ABOUT 9.6 MILLION PEOPLE HAD BENEFITED FROM IT AT ONE TIME OR ANOTHER, WITH A STEEP TAKE-UP IN THE FIRST FEW MONTHS[9].

While we're able to identify income shock, the job retention scheme is effectively masking the real and longer term impact of the pandemic on people's incomes. It is also supporting businesses who may well close once the scheme ends. For those on furlough whose jobs will ultimately be made redundant, income shock will be considerably worse. How much worse, remains to be seen.

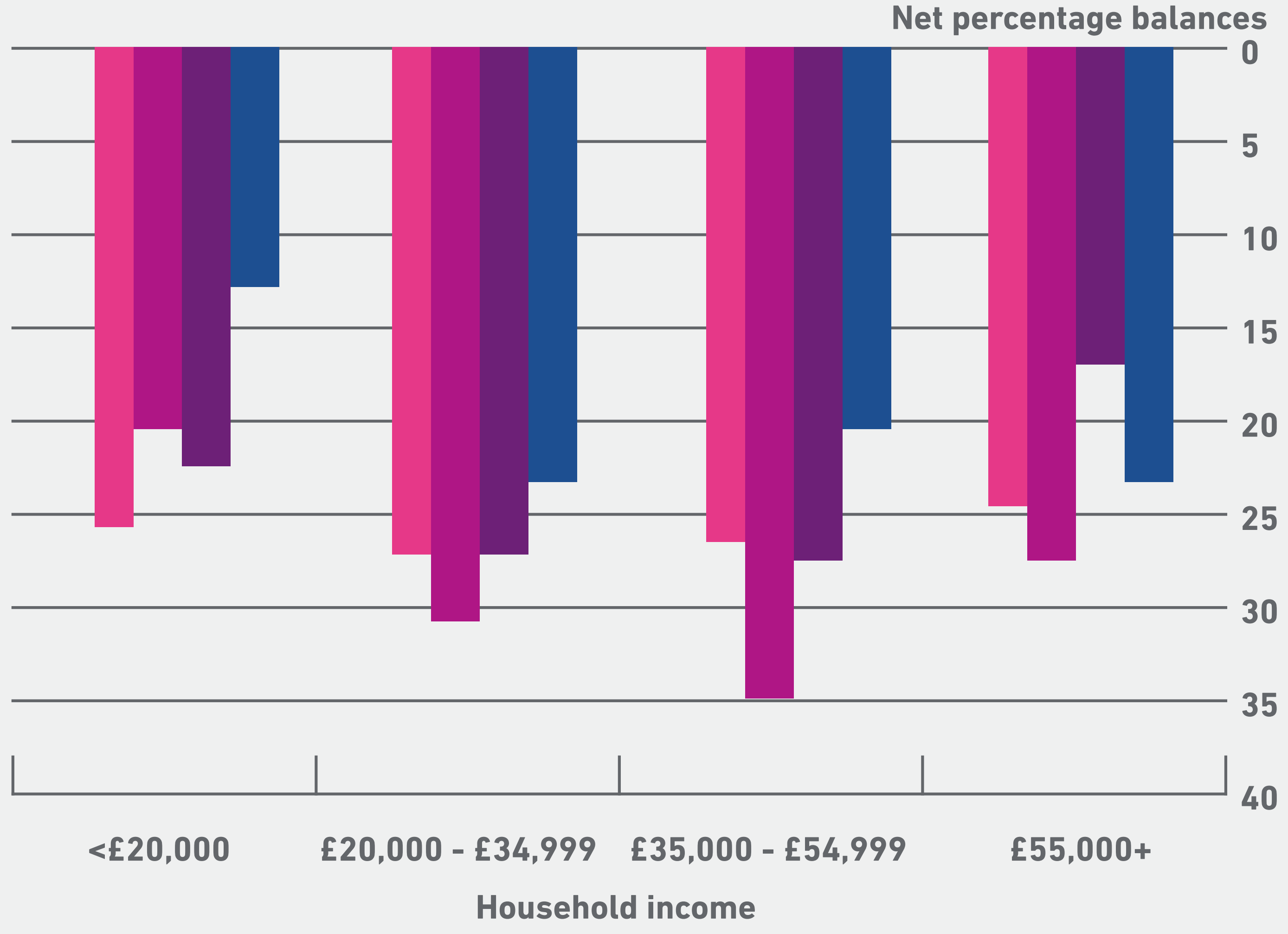
* Under the Coronavirus Job Retention Scheme, the Government pays 80% of wages up to a cap of £2,500.

PERSONAL FINANCES: THE FACTS

Impact isn't evenly spread.

As the poorest households typically work in the low-skilled consumer-facing industries that have been hit hard during the lockdowns, their earnings have been impacted the most. But as they are supported by benefits, their overall incomes have remained more stable. The squeeze on incomes is actually hitting the middle income band the hardest. In July, 57% of higher income households were showing a decrease in income, compared with 26% of lower income earners.

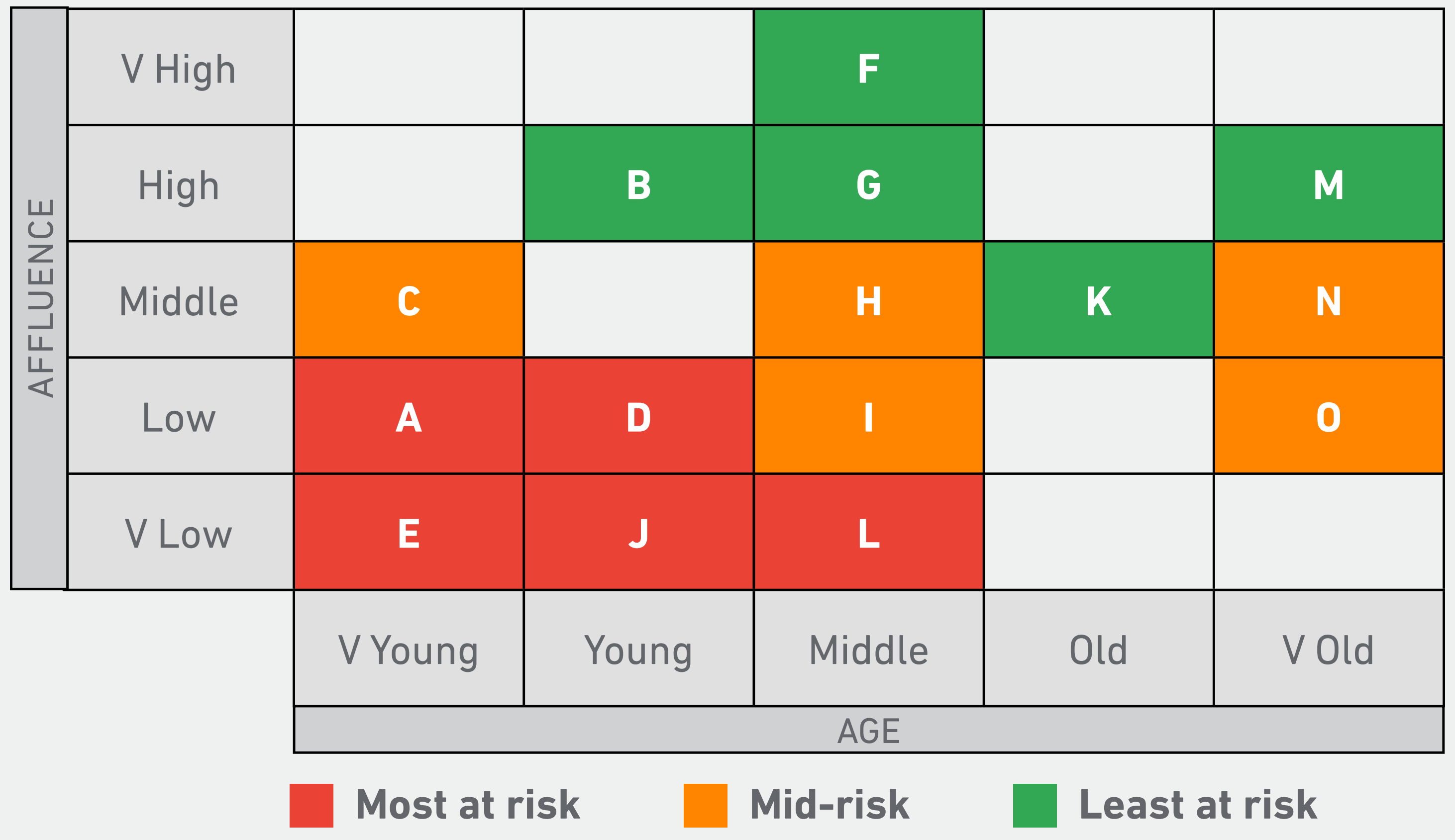
FIGURE 4.
REPORTED CHANGES IN HOUSEHOLD INCOME TO COVID-19



THE MIDDLE INCOME BAND IS BEING HIT THE HARDEST.

This came through again when we mapped impact against our FSS segmentation to understand the demographic spread. And it hasn't changed. As the middle income bracket represents such a significant portion of the active credit population, this is clearly a concern for lenders.

FIGURE 5.
ANALYSIS OF RISK, AGAINST FINANCIAL STRATEGY SEGMENTS



A Earning Potential
B Money Makers
C Growth Phase
D Deal Seekers
E Family Pressures
F Established Investors
G Career Experience
H Small-scale Savers
I Mutual Resources
J Single Earners
K Respectable Reserves
L Cash Economy
M Golden Age
N Home-equity Eledrs
O Declining Years

PERSONAL FINANCES: THE FACTS

A prolonged strain on household finances.

Depressed income levels are inevitably putting strain on household finances, and increasing households' concerns about making ends meet. At the beginning of lockdown 41% of the UK population was concerned about not being able to pay bills. Particularly lower income groups, where that percentage rose to nearly 60%[10].

Research we commissioned in December 2020 shows that concern still exists. 37% of those we surveyed said they were worried about being able to afford what they needed to cover over the next 12 months. Rising to 48% for those on the lowest incomes, and 56% for those where the main earner has been furloughed, experienced income decline, or been made redundant.

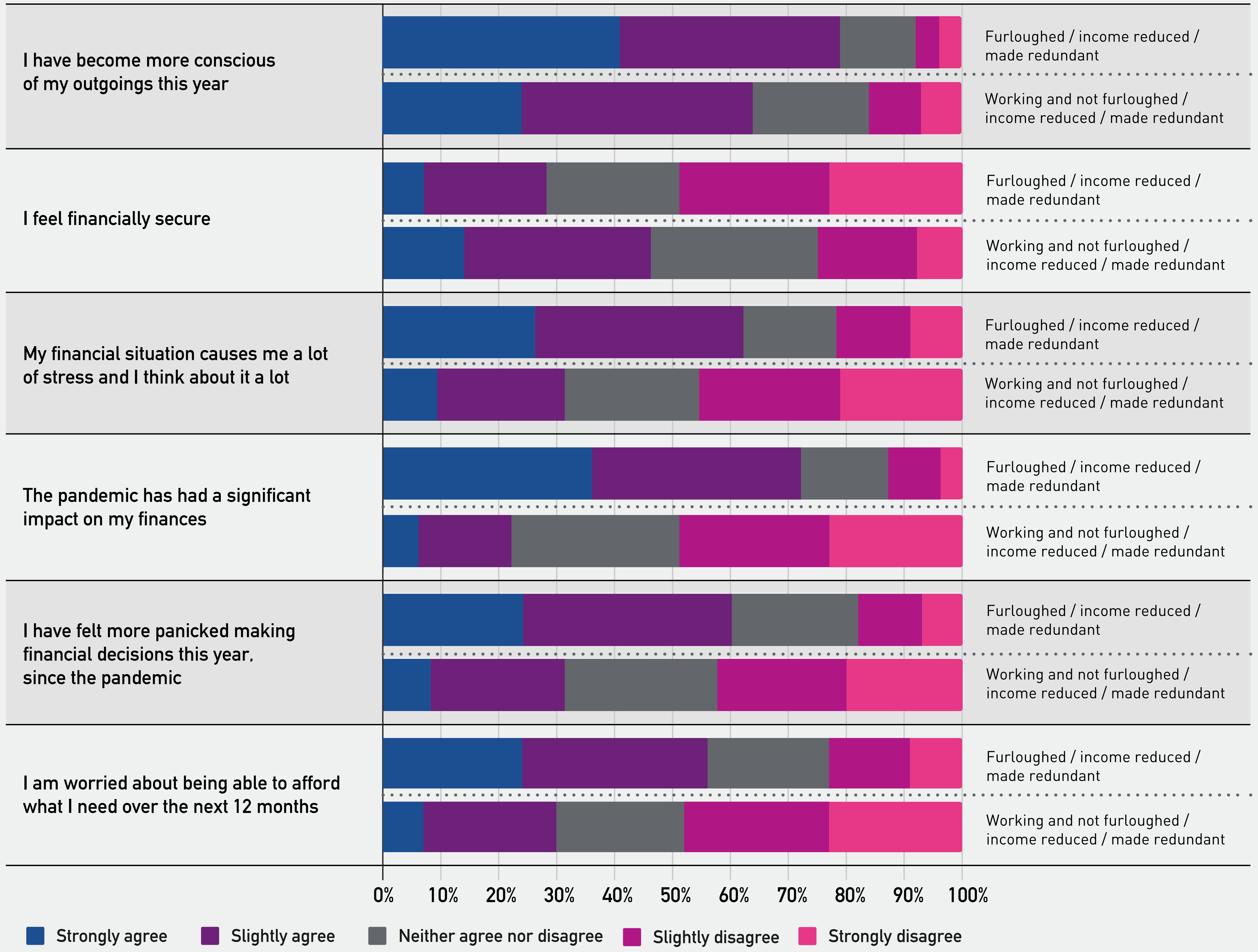
ALL GROUPS AGREE THEY HAVE BECOME MORE FINANCIALLY CONCIOUS, WHEREAS THE FURLOUGHED GROUPS HAVE FELT MORE 'PANICKED'.

FIGURE 6.

CONSUMER SENTIMENT TOWARDS FINANCES

Q3 To what extent do you agree or disagree to the following statements?

Base: Total (2,013), Furloughed / income reduced / redundant since Covid (551), Working and not furloughed / income reduced / redundant (875)



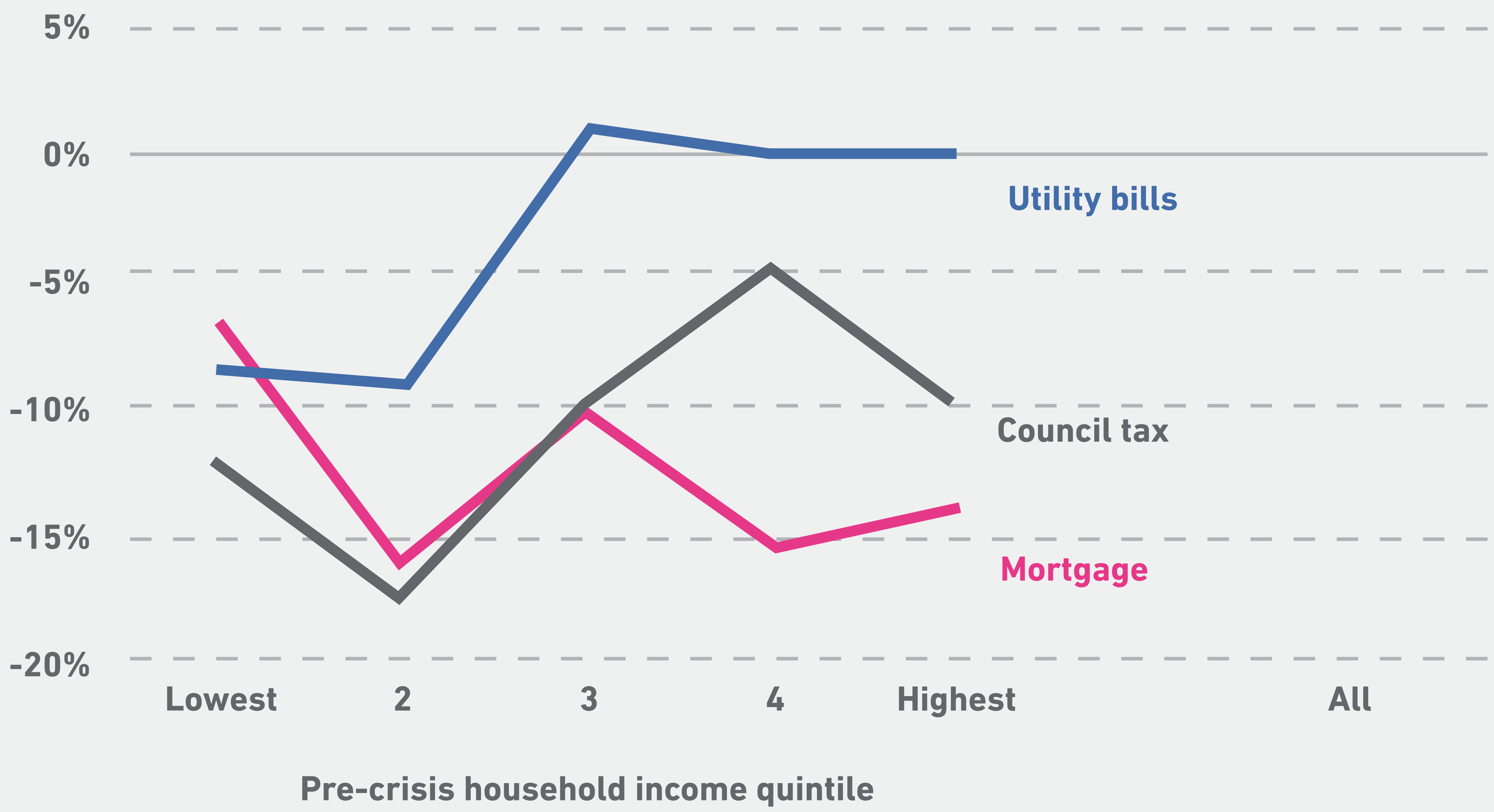
PERSONAL FINANCES: THE FACTS

Non-payment of household bills increased sharply after lockdown, and increased further between April and May. Poorer households seemed to be falling behind by more on council tax and utility bills. While non-payment of mortgages were spread more evenly across the income distribution[5].

FIGURE 7.

MAY PERCENTAGE DEVIATION FROM PRE-CRISIS TREND IN THE SHARE OF HOUSEHOLDS MAKING BILL PAYMENTS, BY PRE-CRISIS INCOME QUINTILE

Source: Institute of Fiscal Studies (IFS)



POORER HOUSEHOLDS ARE FALLING FURTHER BEHIND IN THE PAYMENT OF COUNCIL TAX AND UTILITY BILLS.

PERSONAL FINANCES: THE FACTS

Making ends meet.

Inevitably households are finding alternative ways to cope with income strain. Data from the Bank of England shows how lower income households have run down their savings. Retirement funds have also taken a hit.

Our own research shows that 15% of people surveyed have used an existing credit card more than usual for daily spending. This rises to 17% for our squeezed middle income bracket, and 21% for those who are furloughed, made redundant, or have seen a reduction in income.

These behaviours, alongside the non-payment of bills are part of an aggregated view on stress, and demonstrate how affordability is increasingly being exceeded.

FIGURE 8.

USE OF CREDIT CARDS IN 2020

Q8 Have you done any of the following this year, since March?

Base: Total (2,013), Household income <£20,000 (587), £20,001 - £40,000 (676), £40,001+ (606), Furloughed / income reduced / redundant since Covid (551), Working and not furloughed / income reduced / redundant (875)

INCREASED USE OF CREDIT CARDS DURING THE PANDEMIC IS PARTICULARLY MARKED AMONGST THE SQUEEZED MIDDLE AND FURLOUGHED POPULATIONS.

PERSONAL FINANCES: THE FACTS

Forbearance measures have helped. But they've masked risk.

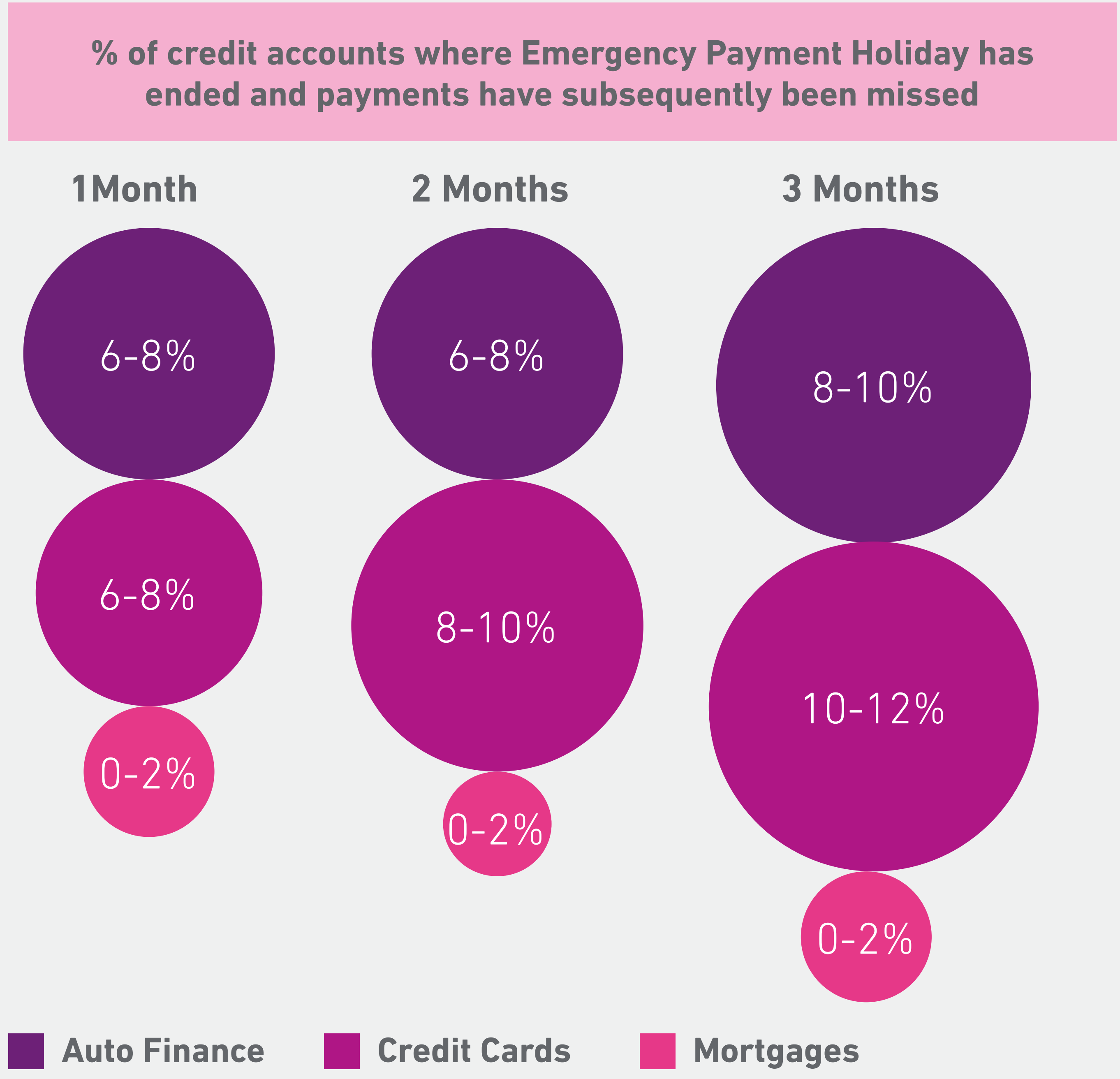
Government measures have supported many in the face of these dramatic changes to household income – most notably Emergency Payment Holidays (EPHs).

By May over 6% of consumers had already requested payment holidays. And overall, 3.5 million borrowers took advantage of EPHs across credit products.

As of the end of November, when some EPHs were coming to an end, we're seeing delinquencies for customers who we have modeled as on an EPH flowing into collections at three to eight times the normal delinquency rate*. Making up more than 20% of all collections stock for autos, cards and mortgages.

This is notable, against the wider trend of declining arrears and a reduction in the flow of new accounts into delinquency overall. Albeit that we expect to see a rise in delinquencies in the near future. New EPHs continue to be granted, although in October the number of active accounts had dropped to 323,000.

FIGURE 9.
EMERGENCY PAYMENT HOLIDAY DELINQUENCY COMPARISON



DELINQUENCIES FOR CUSTOMERS MODELED AS BEING ON AN EMERGENCY PAYMENT HOLIDAY ARE FLOWING INTO COLLECTIONS AT THREE TO EIGHT TIMES THE NORMAL DELINQUENCY RATE.

*Alongside other credit-reference agencies and the UK finance sector, we agreed with the FCA not to record payment holidays on consumer credit scores. However, as the pandemic has continued and a significant number of consumers and businesses are applying for credit, there's a growing need to understand risk. As such, we have continued to work with all parties to develop a solution which can lead to better supporting consumers in the time of need. With the support of the FCA, we have created model indicators of financial difficulty that combine a number of factors. While not suited to informing credit decisioning, these indicators can provide vital information for you to be able to identify, and support, customers who are experiencing financial hardship.

PERSONAL FINANCES: THE FACTS

The flip side: pockets of resilience.

There is another side to the income story. Significant segments of affluence and resilience exist. People whose finances haven't been significantly affected by the pandemic, and even those whose income has risen, supported, in part, by a general slowdown in spending.

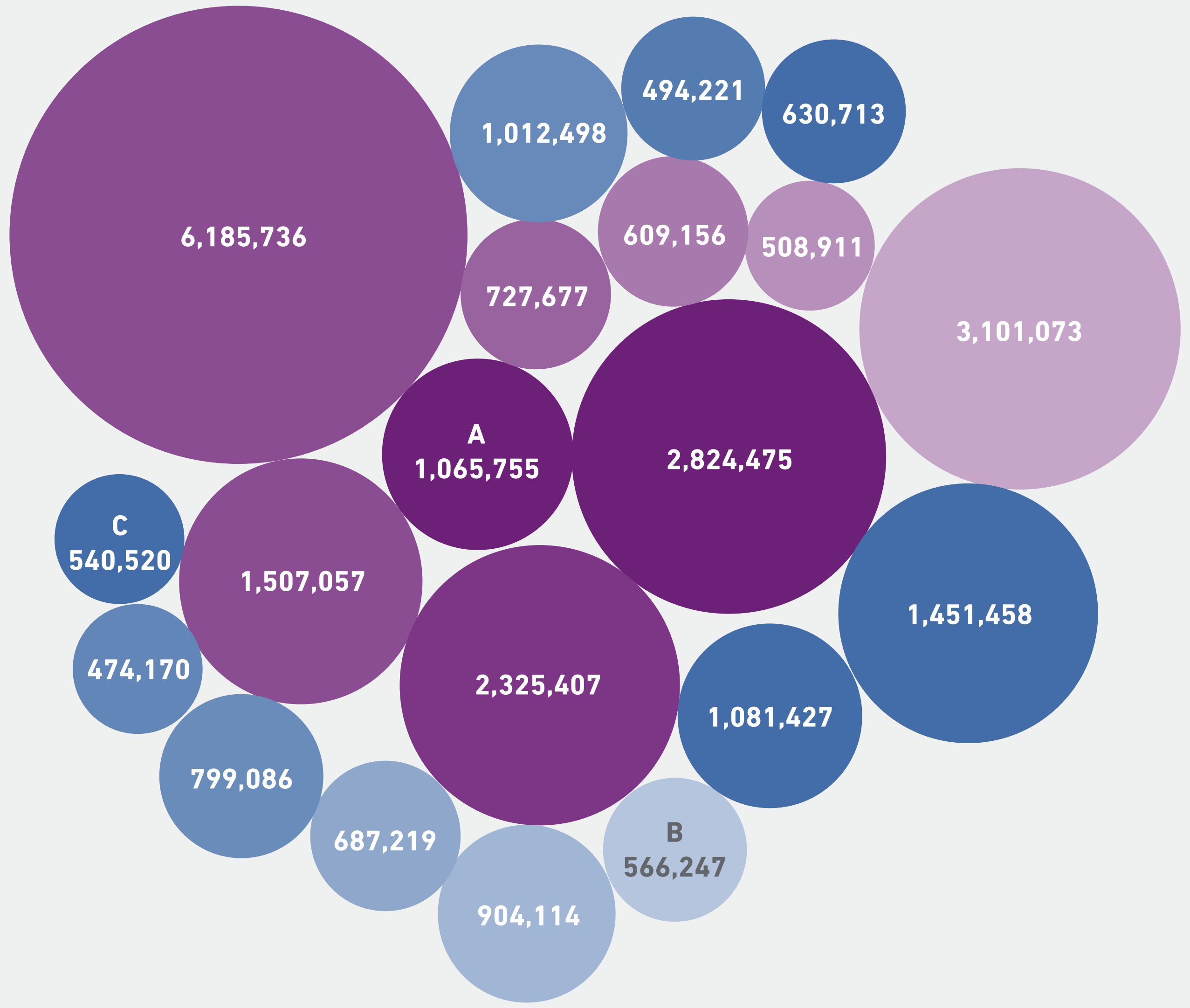
This group has built up savings and paid off credit card balances. If they've taken an EPH at all, it appears to be on a precautionary basis. 30% of households with payment holidays have not faced a change in their earnings.

MORE THAN £10BN HAS BEEN PAID OFF CREDIT CARDS SINCE JANUARY 2020

By using a combination of data sets across credit, income, property and economics we have segmented the Experian bureau and identified these pockets of affluence and resilience, and therefore low risk – c.1.6m people representing good or excellent credit risk, with equity in their properties and low to medium unemployment risk.

FIGURE 10.

SEGMENTATION OF THE EXPERIAN CONSUMER BUREAU BY CREDIT RISK



UK Population % - 52.32%

Segment A
Excellent credit risk, not taken a payment holiday, equity in their property, no income shock, unemployment risk is low

Segment B
Good credit risk, have taken an EPH, Equity in the property but unemployment forecast risk is medium

Segment C
Poor credit risk, highly indebted with forecast unemployment risk being high

WITHIN OUR CONSUMER BUREAU WE HAVE IDENTIFIED 1.6M CONSUMERS WHO REPRESENT GOOD OR EXCELLENT CREDIT RISK.

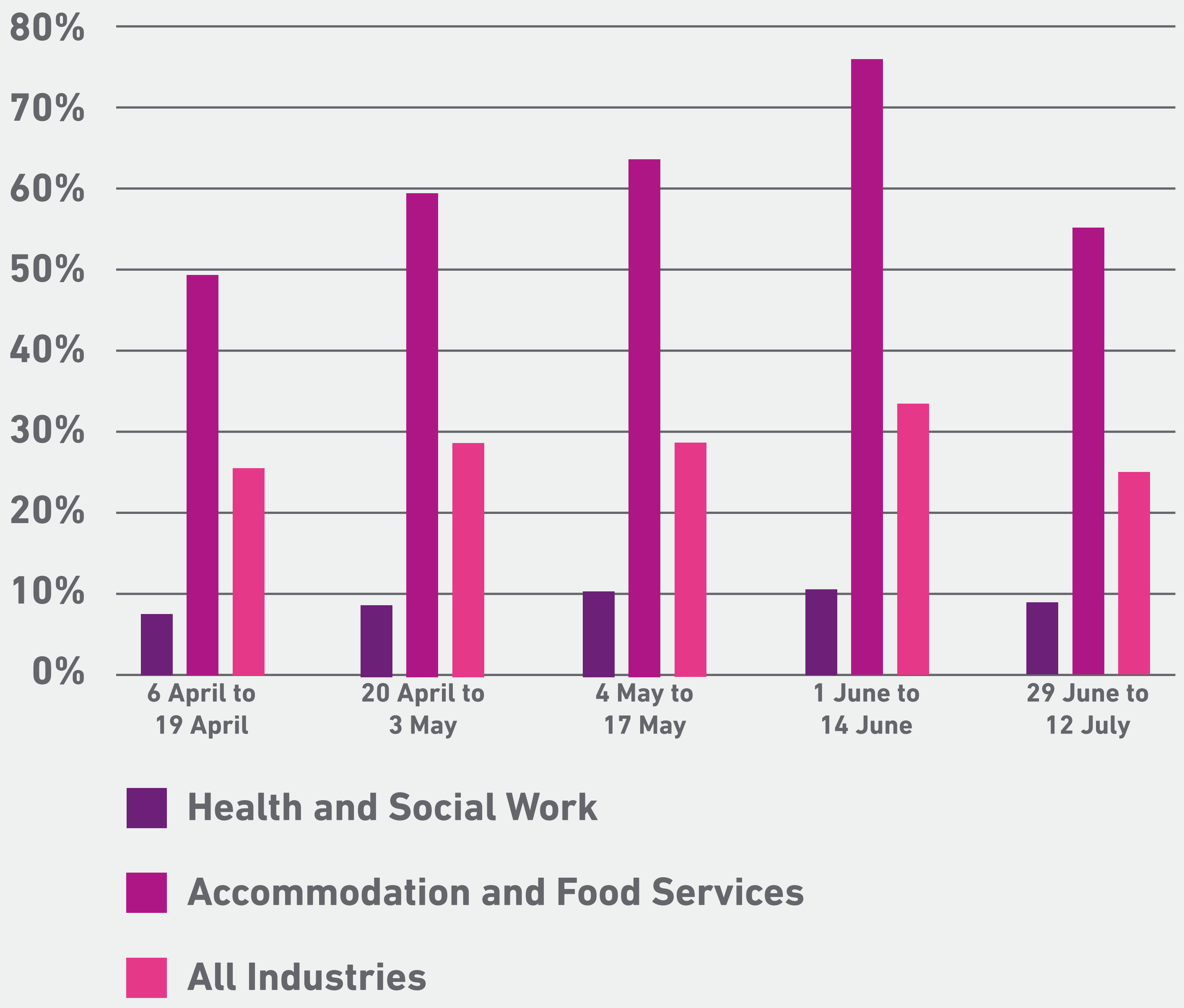
PERSONAL FINANCES: THE FACTS

Increased polarisation in society.

This stark contrast in people's financial outlook is creating a very real division in society.

At one end of the scale there are those on low incomes working in the sectors most at risk, and the regions with the highest concentrations of these sectors. A high proportion of this group will be (or have been) furloughed and are therefore at higher risk of unemployment. We estimate 5-10% of unemployment will come from the furloughed population.

FIGURE 11.
FURLOUGH VARIATION BY SECTOR



At the other end we have those financially unscathed by the pandemic and at very low risk of unemployment, as we saw in the previous section.

Leaving our squeezed middle. This significant group is feeling the financial strain of the pandemic, and exploring alternative options when it comes to making ends meet. They're increasingly reliant on credit, but their long term financial prospects have the potential to be more positive.

For lenders, the challenge will be differentiating between those who've been impacted in the short and long term, and identifying future risk.

THE MOST RECENT DATA SUGGESTS THAT THE 3.4M JOBS IN RECREATION, AND ACCOMMODATION AND FOOD SERVICES ARE AT FURTHER RISK FOLLOWING LOCKDOWNS 2 AND 3.

PERSONAL FINANCES: PEOPLE'S ATTITUDES

CONSUMER ATTITUDES REFLECT A POTENTIALLY MISPLACED OPTIMISM.

Early pessimism seems to be waning.

Our surveys with YouGov conducted at the beginning of the first lockdown showed considerable pessimism about people's finances. 28% of the UK thought their financial situation had worsened. And 31% thought their situation would be worse in a year[11].

Eight months on, and our research is showing signs of a return to optimism (seen on the next page), albeit that many people are still experiencing financial challenges.

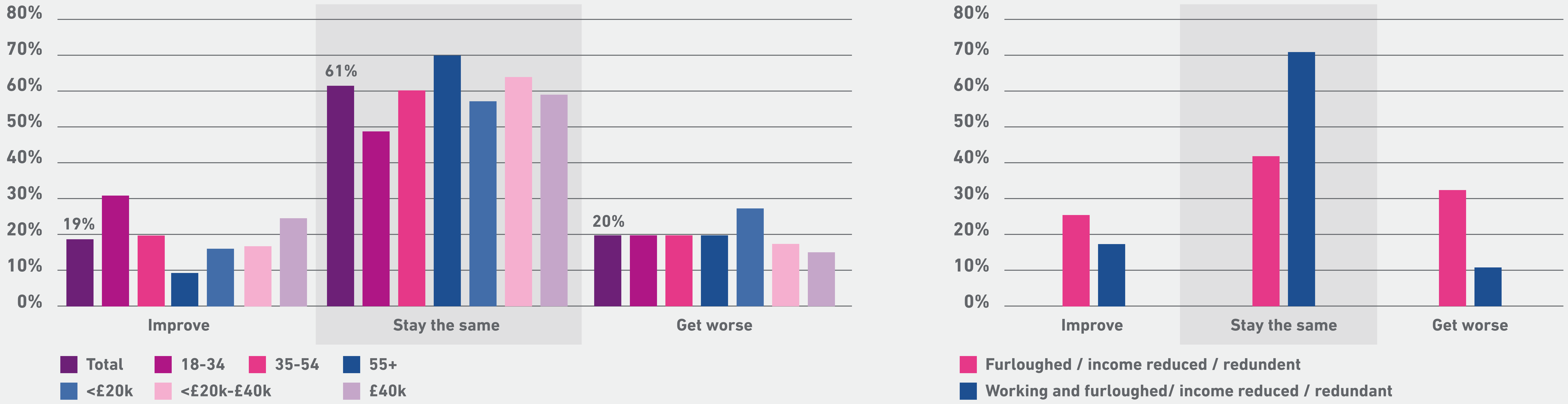
PERSONAL FINANCES: PEOPLE'S ATTITUDES

37% of consumers surveyed in December agreed that the pandemic has had a significant impact on their finances. But only 20% expected their finances to worsen over the next six months, and a similar percentage (19%) thought it would improve, compared to only 12% in April. The percentage of those who thought there would be no change has risen from 39% to 61%.

Given that we're yet to see the full economic effects of the pandemic, this optimism seems premature and suggests people aren't engaging with the reality of their situations. This chimes with research we conducted last year, where 50% of respondents had miscalculated their outgoings, failing to account for two or three subscriptions.

FIGURE 12.

CONSUMER EXPECTATIONS OF THEIR FINANCES IN THE SHORT TERM



PERSONAL FINANCES: PEOPLE'S ATTITUDES

More financially aware.

A research report published by Experian in October 2019 suggested that many UK consumers were not knowledgeable enough or thinking far enough ahead about their finances. In fact, a report by the Organisation for Economic Cooperation and Development (OECD) revealed that the UK ranked 15th out of 30 countries surveyed for its financial literacy.

It seems the pandemic has turned some of that around. Research conducted by us earlier in the year suggests that people are taking a more proactive approach to their finances in this Covid era.

And this improved financial knowledge appears to have positively influenced behaviour. The percentage of respondents who managed to save more money than they did pre-pandemic rose from 35% to 40% for those who had improved their financial knowledge during lockdown[12].

SIX IN TEN (61%) BRITS INCREASED THEIR FINANCIAL AWARENESS DURING THE FIRST LOCKDOWN, RISING TO 71% AMONG THOSE ON FURLOUGH.

A THIRD READ UP ON FINANCIAL ADVICE OR GUIDANCE TO HELP MAKE THE RIGHT FINANCIAL CHOICES DURING THE PANDEMIC.

PERSONAL FINANCES: PEOPLE'S ATTITUDES

More proactive.

As we'll see later in this paper, there have been significant increases in registrations for both online and mobile banking. And people are using both more frequently.

Some of this uplift is down to necessity, and indeed, according to research conducted by Virgin Money in May 2020, avoiding using a branch during lockdown is the most common reason for using digital banking more frequently (40%).

But the other drivers point to a more proactive mindset:

- The need to check transactions as a result of increased online shopping (36%)
- The need to keep a closer eye on their bank accounts due to concerns about money (35%)[13]

Our own research supports this, with 66% of consumers saying they have become more conscious of their outgoings in 2020.

But maybe less savvy?

Interestingly, switching – of utilities and bank accounts etc. – has declined during the pandemic. As a potential means of saving money, we might have expected to see this increase, but it's not the case. Switching electricity suppliers during 2020 is 7% lower compared to 2019[14]. And a comparison of current account switching volumes between April and June 2020 and the previous quarter show a fall of 65%[15].

Those who did switch current accounts were looking for better service, and preferable mobile banking systems, rather than the best financial deal[16]. Which suggests people are looking for more support at this difficult time.

PERSONAL FINANCES: KEY TAKE-OUTS

- More of the population are likely to be financially compromised for the long term
- Forbearance measures are masking risk and making it more difficult to identify the vulnerable versus the resilient
- There's a collections crisis on the horizon, which will require lenders to develop new tools and processes
- But there are pockets of resilience and profitable business to be done
- Consumers are looking for support and favouring brands that help fill the advice gap

An Experian insight report

SPENDING & BORROWING

With lower levels of disposable income, it is to be expected that discretionary spending has taken a hit. But how has that changed what consumers are buying, and where they're buying from? And when it comes to credit, are we seeing a continuation of the trends coming into the pandemic? Or are consumers borrowing for different reasons?

SPENDING AND BORROWING: SPENDING

THE PANDEMIC HAS CHANGED WHAT WE'RE SPENDING OUR MONEY ON.

A rise in retail sales, boosted by online shopping.

In our own analysis, we see a big spike in retail spending. In fact at time of writing, they were higher than pre-Covid levels.

And while it's a positive sign, it's not without its own set of new risks. Over 25% of retail transactions are now being made online, a 5% improvement on what we would usually see. Recovery is therefore dependent on online sales and ecommerce, removing the need for physical stores, with a potential impact on those employed within retail stores.

Online purchasing surpassed bricks-and-mortar sales for the first time in 2019. And it's reported that this pandemic-related explosion in online shopping has accelerated the trend by up to five years.

SPENDING AND BORROWING: SPENDING

But a drop in consumer spending overall.

Retail sales are only one aspect of consumer spending, which, going into this crisis, was already trending downwards. A 30% decline across most sectors in March 2020 has only partially recovered. According to the IFS, since the end of July, spending has stalled at around 90% of the level we would have expected in the absence of the pandemic.

> "I'm only spending money on essentials. And even then it's the basics."

> "No impulse buys, fewer treats. I'm only buying the stuff I need."

> "I've cancelled all my streaming services and subscriptions."

> "I'm trying to save money by using more offers and discounts."

A change in spending priorities.

Our research shows that 23% of consumers have reconsidered how they prioritise day to day spending. When asked how the pandemic has impacted this, how they spend day to day, responses ranged from: generally trying to spend less, only buying what's essential, and spending less on luxuries, to planning more, saving more, and looking for cheaper options.

SPENDING AND BORROWING: SPENDING

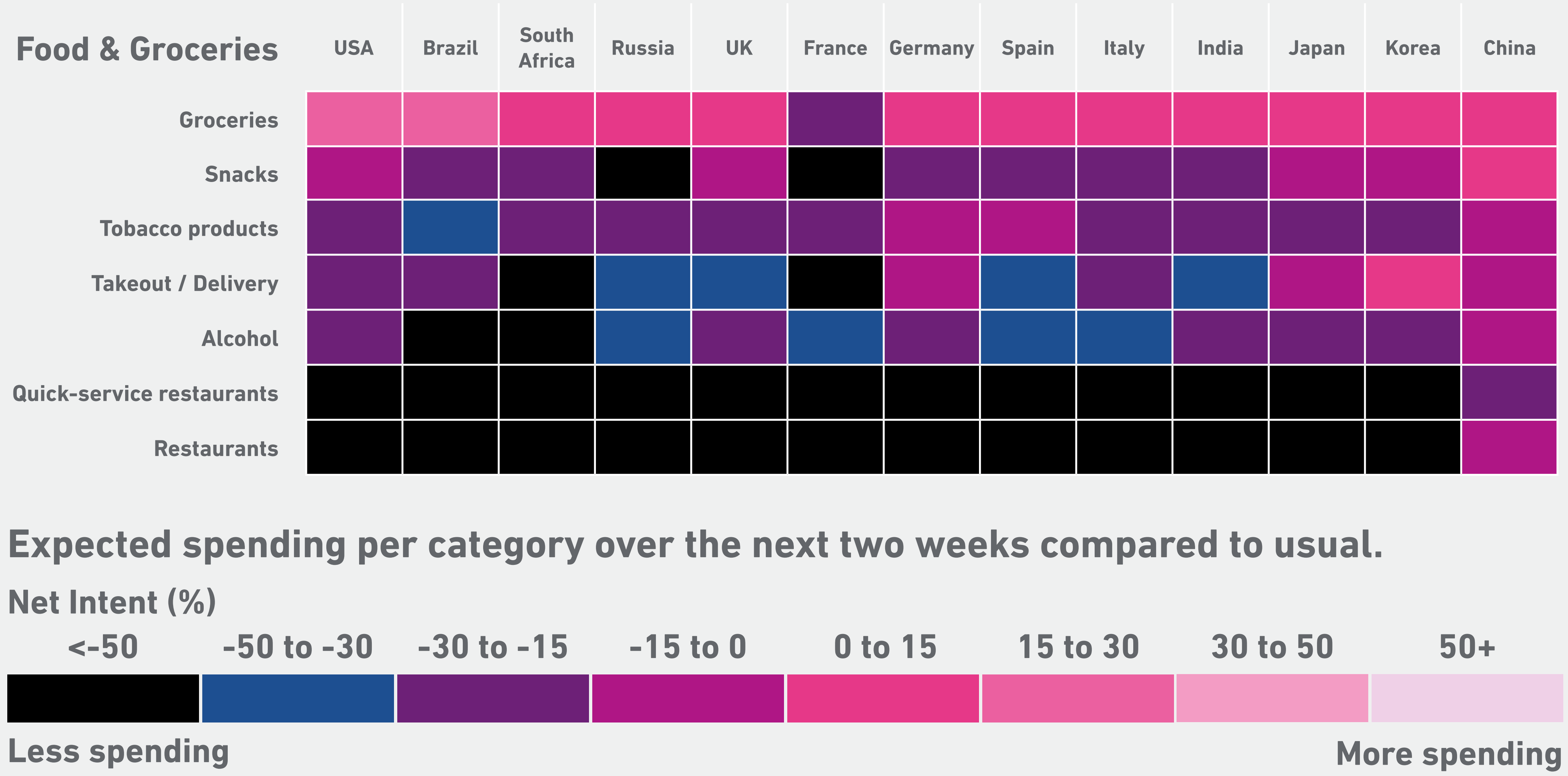
Essentials vs. luxuries.

Spending on groceries rose during lockdown and remains higher than in 2019; the opposite is true for spending on restaurants, pubs, holidays and transport, in which the recovery after reopening stalled at around the end of July[10]. This is a pattern that's been seen all over the world.

FIGURE 14.

HOW COVID-19 CONSUMER SPENDING IS IMPACTING INDUSTRIES AROUND THE WORLD

Sources: McKinsey, Statista, Oxford Economics



THE UK TREND FOR INCREASED SPENDING ON GROCERIES AND REDUCED SPENDING IN RESTAURANTS IS REFLECTED IN SPENDING BEHAVIOUR AROUND THE WORLD.

SPENDING AND BORROWING: SPENDING

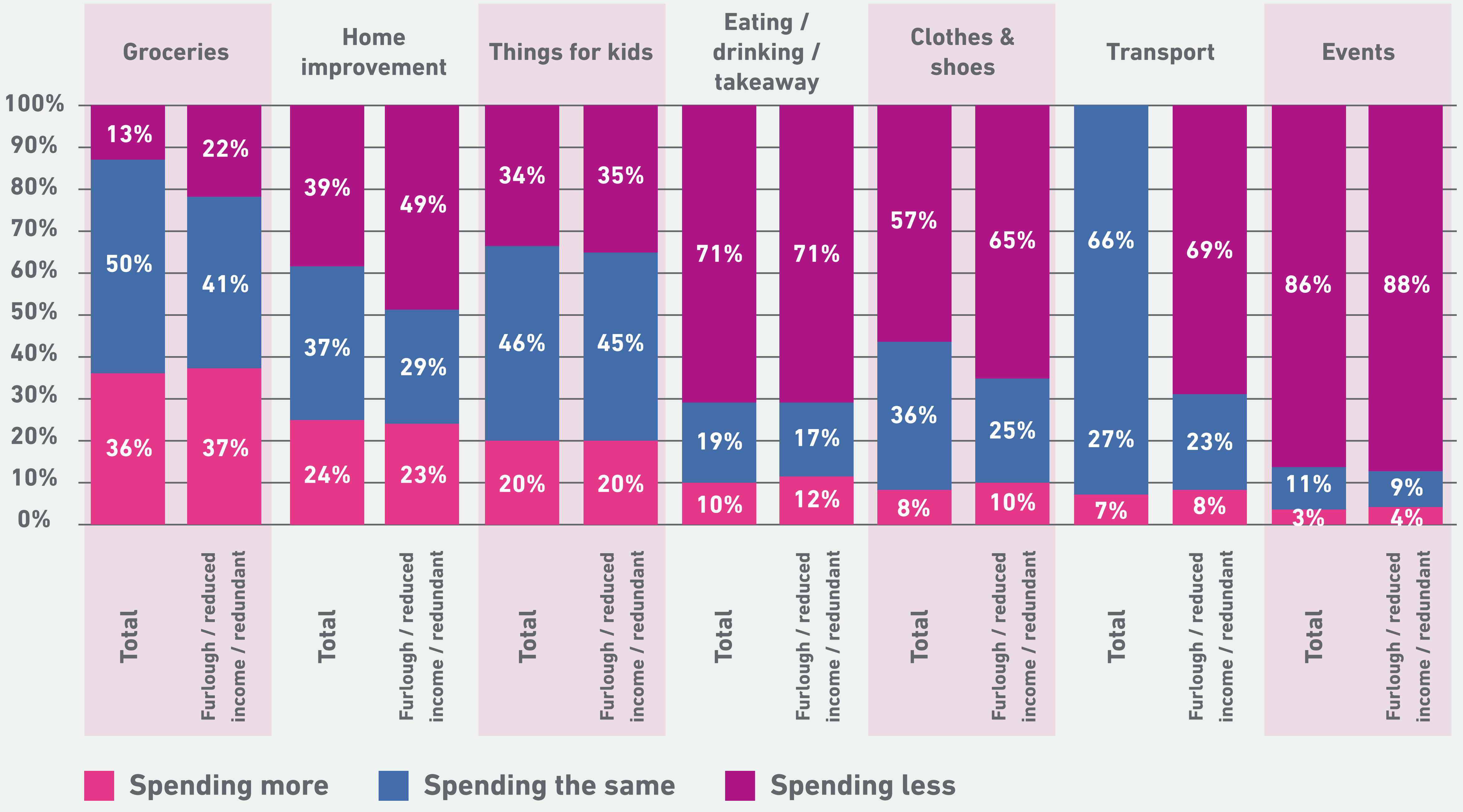
Our own research reinforces it. It shows people are spending more on groceries (36%), but significantly less on clothes and shoes (57%), transport (66%), eating and drinking out (71%), events like the theatre and days out (86%).

And while some are using this decrease in expenditure as an opportunity to save (72% of the 25% that said they were saving more than previously), others are redirecting their spending on things like home improvements. In total 24% said they were spending more on this than previously – and 23% of furloughed respondents.

Consumers are undoubtedly adapting their spending habits in accordance with their new financial situations, but not always taking the opportunity to build the resilience they may need in the coming year.

FIGURE 15.
CHANGES IN DAILY EXPENDITURE

Compared to last year, what are you spending on...?



SPEND ON GROCERIES HAS INCREASED FOR EVERYONE, WHETHER FURLOUGHED OR NOT. BUT, AS WE WOULD EXPECT, SPEND ON TRANSPORT FOR THE FURLOUGHED POPULATION IS MARKEDLY DOWN.

SPENDING AND BORROWING: BORROWING

DEMAND FOR CREDIT CONTINUES TO BE STRONG.

A market in recovery.

After a major decline during the first part of lockdown, credit applications and new lending have recovered well, although lending volumes are around 600k (17%) below pre-Covid levels. Demand and supply factors continue to suppress applications and new lending.

Secured lending application volumes have recovered from the Covid shock. Mortgages in particular are up to pre-Covid levels and a very buoyant housing market continues to drive demand for now.

This reflects a rebound in lender confidence, reflected by the accessibility of the Bank of Mum and Dad (as we will see) and the removal of restrictions around job length in some cases. That said, we are likely to see a decline in demand after 31 March 2021 when the stamp duty holiday ends.

A rise in short term loans could be seen as a sign of stress.

While in the unsecured market, cards and loans remain significantly below pre-Covid levels but are recovering slowly.

Mail order and retail finance continue to perform strongly as home shopping strengthens, but may see a decline if we return to the shops in force.

SPENDING AND BORROWING: BORROWING

Extended loan terms continue to rise, but more slowly.

The pre-Covid upward trend in loan terms on secured lending has softened through the Covid period – likely due to changes in the mix of applicants and those accepted.

And lending into retirement continues to increase.

One trend that seems to be accelerating as a result of Covid is the percentage of new loans that will extend into retirement. Over the past five years these loans have risen significantly and are now rising at a faster rate.

The Bank of Mum and Dad is open for business again.

Despite signs of strain from the Bank of Mum and Dad in 2019, more homebuyers are turning to their families to fund deposits as their own finances suffer under the pandemic.

Research from Legal and General shows that the proportion of house sales reliant on funds from the Bank of Mum and Dad will rise from 19% in 2019 to 23% in 2020[17]. Overall, 85,000 fewer home purchases have been made, so the total amount lent by the Bank of Mum and Dad will be £3.5bn compared to £6.3bn in 2019.

BANK OF MUM AND DAD LENDERS HELPED FAMILY AND FRIENDS BUY £50BN WORTH OF PROPERTY IN 2020[17].

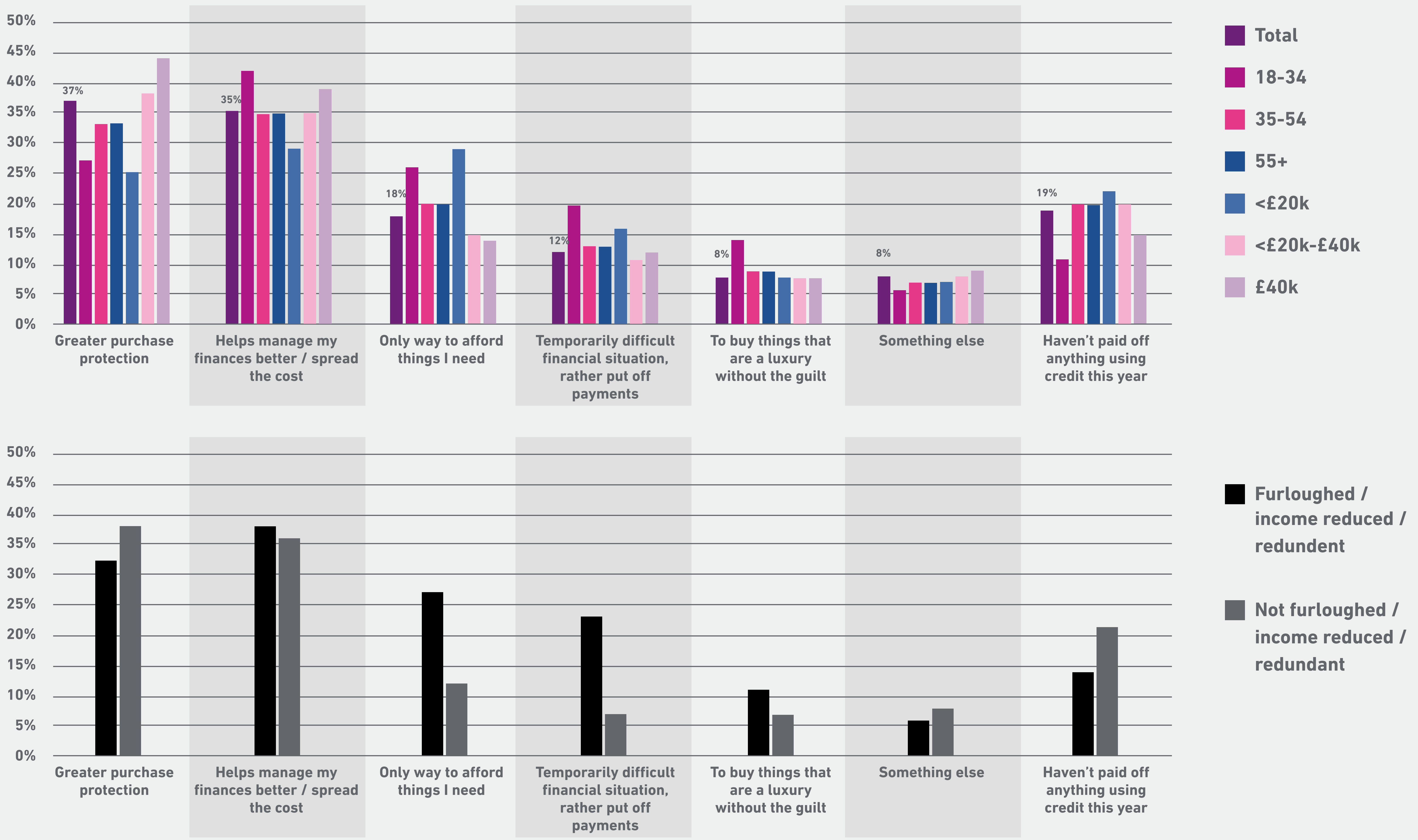
SPENDING AND BORROWING: BORROWING

There's an increased reliance on credit.

Our research shows a higher use of credit during the pandemic, with 26% of those surveyed saying they'd used more credit than previously.

If we drill into the reasons for using credit they are split. 30% have used it out of necessity (to afford things they need, or to defer payments); but 72% have used it for more practical purposes (for purchase protection, or to better manage their finances). 8% admitted to using credit to pay for luxuries without the guilt.

FIGURE 20.
MOTIVATIONS FOR USING CREDIT IN 2020



SPENDING AND BORROWING: BORROWING

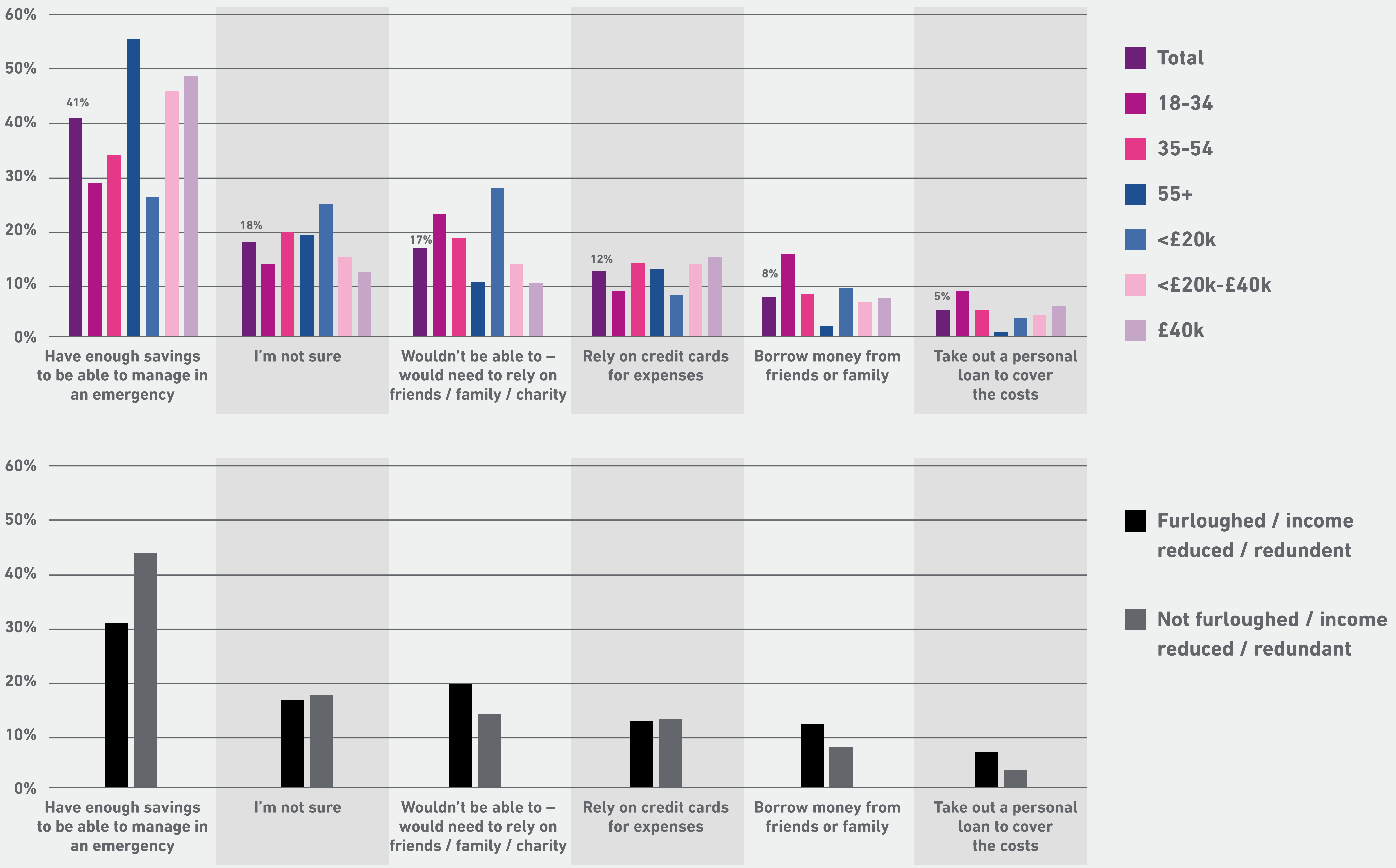
Particularly for unseen expenses.

We also asked how respondents would fund unexpected expenses like household damage in the event of a flood. 17% said they wouldn't be able to fund it without help from family and friends. While 12% said they would rely on credit cards.

As climate change takes hold, climate-related risk in your portfolios is also critical to understand.

> "The transition to a greener economy could negatively affect lower income households who may struggle to afford the measures required. For example, insulation, double glazing, the switch to electric vehicles."
>
> Mohammed Chaudhri, Chief Economist, Experian UK&I

FIGURE 21.
COPING WITH HOUSEHOLD DAMAGE IN A FLOOD EMERGENCY



SPENDING AND BORROWING: BORROWING

Credit is becoming less easy to access.

The tightening of lending criteria has made it more difficult to access credit and will likely reduce the number of credit options available. And it will have excluded a portion of the population, who nonetheless see credit as a necessary lifeline during this difficult time.

The concern is that we'll see a shift in lending types, with the demand for subprime credit growing amongst those groups who are unable to access prime credit, now that their financial position has been squeezed by the pandemic.

While the credit market is recovering, we're unlikely to get back to 2019 levels of lending until 2022. That means consumers in general 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.

Reduction in delinquencies: a false sense of security.

A glance at delinquencies in 2020 versus 2019 would lead you to believe that we're in a drastically improved position – 5 million compared to 6 million. But as with some many of today's headline figures, the truth is in the detail. Delinquencies are down, but as a result of EPHs; the pay down on credit cards; and the decline in applications at the beginning of the pandemic. Inevitably this will change, and we are predicting a surge in delinquencies once real unemployment takes hold.

SPENDING AND BORROWING: KEY TAKE-OUTS

- Retail sales are high, but consumer spending is down at 90% of pre-Covid levels
- Consumers have altered their spending habits in the face of reductions to discretionary income and are prioritising the essentials, but redirection of spending for some suggests they're not preparing for future financial hardship
- Recovery in applications and new lending shows there is continued demand for credit, albeit for different reasons. New product development is required to cater for these changing drivers of credit consumption.
- Enhancements to traditional credit scores are needed to accurately assess creditworthiness

PAYMENTS

The pandemic has accelerated changes to the way we pay.

Two national lockdowns have fundamentally changed the way we pay for goods. The closure of non-essential retail stores have pushed consumers online. And to minimise touchpoints, contactless payments have been encouraged, precipitating a rise in the contactless limit to £45. As you would expect, all methods of payment were in decline during lockdown. But have some fared better than others since? Has the long predicted death of cash finally come to pass? And are we seeing a shift to a very different way to pay?

PAYMENTS

Use of cash continues to decline.

There has already been a gradual decline in the use of cash for transactions over the last decade, but Covid appears to have accelerated this trend.

Both the volume and value of cash withdrawn from ATMs were approximately 60% lower in late March 2020 than in the same period in 2019. And although cash withdrawals increased slowly over subsequent weeks, they've remained well below previous levels.

Electronic payments have recovered.

From June onwards, electronic payments recovered at a faster rate than cash. Suggesting the pandemic may have a long term effect on cash usage.

PAYMENTS

Buy Now Pay Later (BNPL): The fastest growing online payment method in the UK.

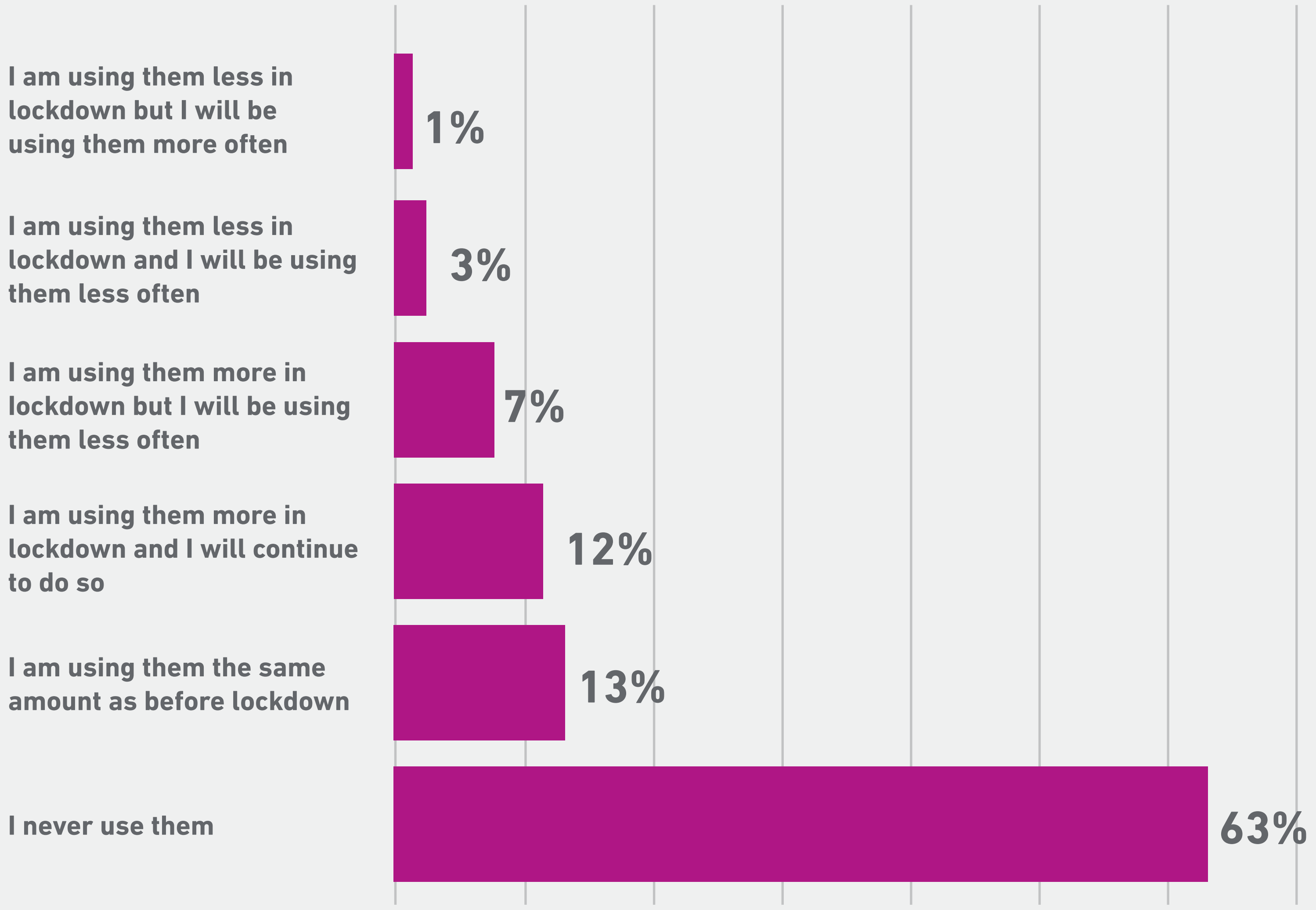
The shift to online shopping has given a boost to alternative payment methods – most notably Buy-Now-Pay-Later (BNPL). Already gaining in popularity, particularly amongst millennials and the Generation Z population, use of BNPL as a way to pay has accelerated during the pandemic.

BNPL IS THE FASTEST GROWING ONLINE PAYMENT METHOD IN THE UK – AT DOUBLE THE GROWTH RATE OF BANK TRANSFERS AND MORE THAN THREE TIMES THAT OF DIGITAL WALLETS.

A survey of 2,000 consumers conducted by Finder found that 24% changed their use of BNPL services during lockdown, with a fifth (19%) claiming to have used these schemes more than usual during this period. What's more, 13% said they planned to use BNPL services more in the future.

FIGURE 23.
SHOPPERS' USE OF BNPL SERVICES IN LOCKDOWN AND INTENTIONS FOR USING THEM AFTER LOCKDOWN

Source: Finder

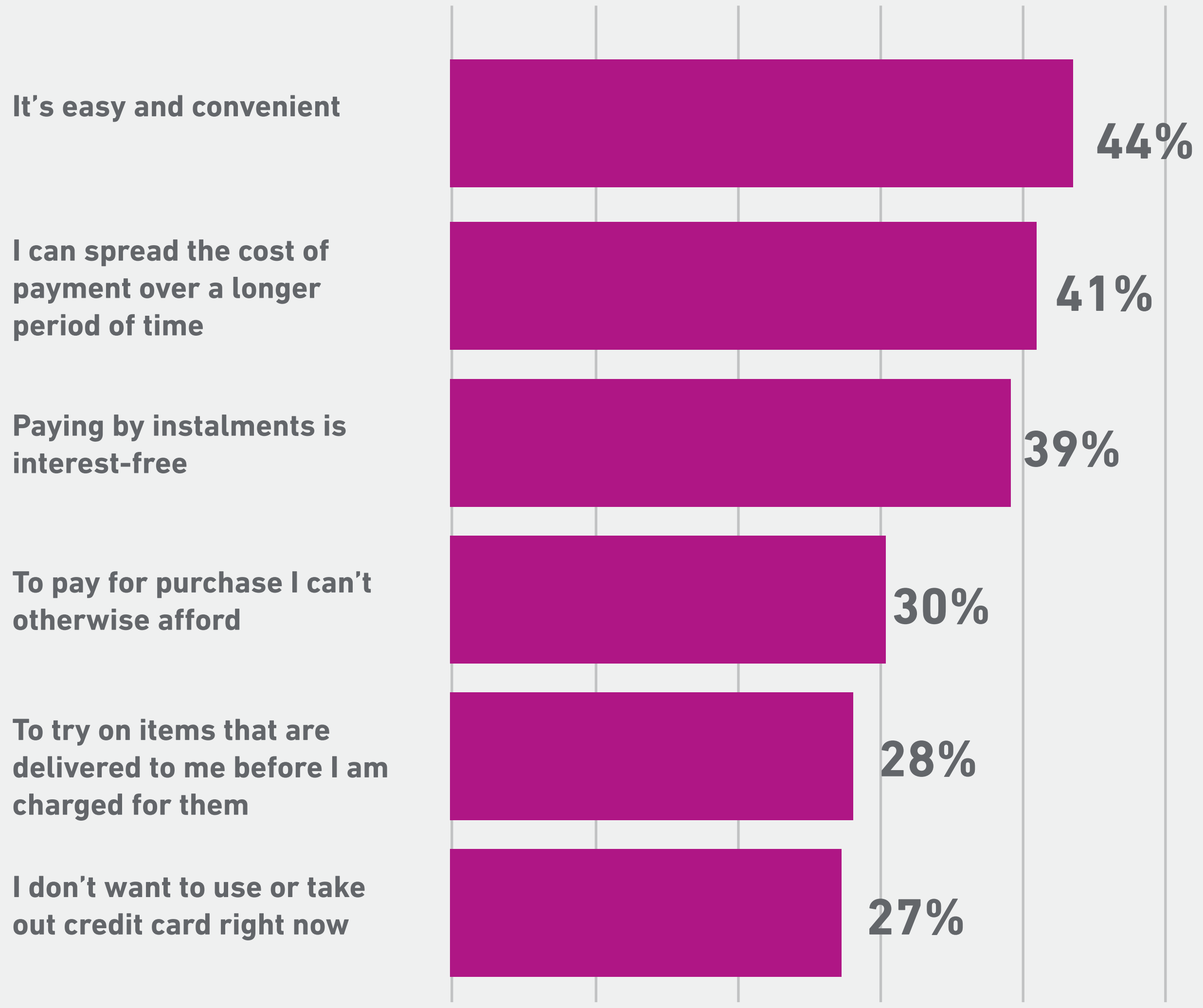


PAYMENTS

Its appeal in this time of uncertainty is understandable, and in keeping with the monthly expenditure mindset consumers were adopting pre-pandemic.

The ability to spread out the cost of online purchases using interest-free installments gives consumers an easy and convenient way to pay without the same payment commitment associated with credit cards.

FIGURE 24.
WHY SHOPPERS HAVE PREFERRED BNPL
Source: Finder



Are credit cards under threat?

The decline in use of credit cards over lockdown was aligned with the decline in other payment methods following a drop in consumer spending across the board. But also because big ticket items like holidays and white goods, often paid for on credit cards, were off the table.

Certainly, credit card usage seems to have recovered to pre-Covid levels according to Visa and Barclaycard. But how it will ultimately fare against the likes of BNPL remains to be seen.

ACCORDING TO FINDER, THE USE OF CREDIT CARDS FELL BY 46% DURING THE FIRST MONTH OF LOCKDOWN COMPARED TO THE SAME TIME LAST YEAR, DOWN TO 163 MILLION TRANSACTIONS, THE LOWEST FIGURE RECORDED IN NINE YEARS.

PAYMENTS: KEY TAKEOUTS

- Lockdowns, and the corresponding boost to online shopping, have ushered in alternative payment methods and compounded the decline in the use of cash
- Online payment methods like Buy Now Pay Later (BNPL) are changing the point at which credit is accessed and reflect a growing distrust of credit (particularly credit cards) amongst Millennials
- The focus on monthly affordability over long term financial considerations continues, along with the trend towards instant gratification

DIGITAL ADOPTION

The pandemic has forced us to become more comfortable with digital.

Consumers have turned to digital channels and services en masse during the pandemic, some for the first time, and largely from necessity. But how has the adoption of digital technology changed in the wake of Covid? And what does that mean for reaching and engaging with consumers long term?

DIGITAL ADOPTION

Lockdown's legacy.

Our surveys with YouGov during the first lockdown showed an increase in online channel usage across the board.

44% of the UK had increased their social media browsing. 49% searched for news online more often. And 45% were watching more on-demand entertainment[18]. Clearly, furlough and more time spent at home generally has fed into these trends, but did these behaviours stick when lockdown ended? And is there a lasting change in behaviour?

Working from home is the new norm.

In the week ending 29 November 2020, the proportion of working adults in Great Britain who worked exclusively from home remained stable at 30% (ONS). To put this in context, only 5.2% of the UK workforce reported working mainly from home prior to lockdown. While 30% represents a significant decline from April's 46.6%, it still represents a major shift in working practices, especially as employers begin to embrace the potential of more flexible working.

This has obviously meant an increased reliance on digital means of communication, especially email, instant messaging and video conferencing. In March, video conferencing apps saw a record 62 million downloads. And much of the growth is due to increasing adoption of platforms like Google Hangouts Meet, Microsoft Teams and Zoom as businesses switched to remote working[19].

It has also meant a decline in spend on travel.

DIGITAL ADOPTION

New engagement models are needed.

This seemingly lasting trend towards home working has implications for engagement models. It may be years before people return to public transport in the same numbers as before the pandemic; and commuter volumes may never return for certain sectors.

So targeting will need to change, with a renewed focus on social and digital channels. A review of out-of-home advertising. And even potentially a return to more traditional direct marketing tactics.

What it could mean for where people live.

It also has implications for where people choose to live in the future. We were already seeing a migration of the more affluent demographic groups from urban to rural areas.

Now that digital tools are negating the need to go into the office, and more businesses are seeing the benefits of a remote workforce, travel will become much less of a consideration when it comes to where we live. And we could see the growth of the rural suburbs, or 'ruburbs', accelerate.

DIGITAL ADOPTION

Take-up of digital banking has accelerated.

McKinsey research suggests that digital banking usage has accelerated by two years as a result of the pandemic. And according to EY, there's been a 72% rise in the use of FinTech apps since lockdown.

In the UK, around three quarters of adults are using online banking, with mobile banking apps also growing in popularity. The Lloyds Bank Consumer Digital Index 2020 shows how this is reflected across age groups.

In the week commencing 22 April 2020, three times more 70-year-olds registered for online banking than in the same week in 2019. Similarly, prior to lockdown, online banking registrations hadn't changed much from 2019, but from 16 March registrations amongst people aged 40+ grew significantly.

Confidence in using digital is also growing.

Research conducted by Virgin Money in May 2020 showed that more than one in three digital banking users say they have become more confident using it since lockdown began.

It also showed that almost 30% had downloaded a mobile banking app and over 40% of digital banking users have used it more than they did before lockdown. 83% of digital banking and mobile banking app users intend to use it the same or more frequently post-lockdown[20].

DIGITAL ADOPTION: KEY TAKEOUTS

- While digital adoption has increased out of necessity, it's likely this trend is here to stay
- With more people using digital financial tools there's increased demand for a faster more customised service
- Consumer targeting and engagement strategies need to change to cater for a growing home workforce and a continued decline in commuting
- The onus on lenders is for real digital transformation. 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)[21].

34%

the percentage of renters that are aged 25-34[22].

2.3

The average family size in Great Britain[23].

30%

the percentage of the UK workforce currently working remotely[24].

50.4%

The percentage of the population over 16 married or in a civil partnership (England and Wales)[25].

65

the average retirement age for a man[26].

64

the average retirement age for a woman[26].

A NEW CREDIT ECONOMY

As we embark upon 2021, it's with hope in our hearts that the worst of the health crisis will be behind us soon. With vaccinations rolling out across the UK, there is light at the end of the tunnel. The peak of the economic crisis, however, is yet to come.

Experian forecasts that unemployment will rise to 7.8% during this year, putting considerable pressure on the incomes of many. Added to which, both the cost of living and taxes are likely to rise. In addition, Brexit will undoubtedly change the British economy too.

The reality is, we're unlikely to see a return to pre-Covid levels of GDP until at least 2022.

The squeeze on the nation's affordability that we've seen over the last decade has only intensified with the coming of the pandemic and the measures put in place to mitigate its spread. This has, in turn, increased indebtedness and will ultimately see a steep rise in delinquency.

There is a new credit economy, but it hasn't been brought about by Covid-19 on its own. Rather, a decade of shifting behaviours post 2008, culminating in the pandemic that's compounded or accelerated them, has delivered a changed credit landscape. And a permanently changed consumer.

One who's more aware of their spending, but still living from month to month rather than taking a long term view. One who's increasingly reliant on credit but using it to make ends meet, rather than funding bigger purchases. And while we're seeing this consumer take a more proactive approach to their finances, there are also few signals that would suggest reversing the trend is imminent.

There's no doubt that we're going to see more financial hardship over the coming year, with some households experiencing that hardship for the first time. It's a tough climate to lend in.

TWO KEY CHALLENGES

For lenders we believe your key challenges are twofold:

1. Identifying future risk

We've only had a taste of the full economic crisis as Government measures continue to mask and delay the real impact. Many of the people moving into your collections environment will be different from the ones you've seen before. People who've previously represented a good credit risk, but have had the rug pulled from under them as a result of the pandemic. The tools you've been used to using aren't necessarily appropriate for a consumer that may well be profitable again in the future, but whose future risk you're unable to see.

2. Finding pockets of opportunity

We know there are people out there who've thrived since the pandemic, and represent excellent risk, but how can you differentiate them from your other customers when traditional methods are no longer effective?

We believe the answer, as always, lies in the right use of the data available to you. The more granular the better.

Regulatory response and requirement

The FCA has called for a reassessment of our approach to consumer debt, high risk retail investments and financial exclusion. And believes that the UK financial markets and businesses are well placed to help the country and the world to recapitalise. The FCA itself is making these ways of working its new normal in its bid to transform for the future.

At Experian, we continue to invest in innovation to solve complex problems like these. And our commitment is to help businesses and consumers create strategies and action plans for the future as it continues to evolve.

With our data, insight and market knowledge we believe we can help you face the challenges of the new credit economy and thrive within it.

IN CONCLUSION

2020 was poised to be the world of transformative change. Endless predictions were made for 2020. All centering around the expanding datasphere and requisite advancing power of advanced analytics and technology. What was not predicted, was the COVID-19 Coronavirus global pandemic.

The effects of COVID-19 were immediate and brought long-lasting effects. It accelerated an already turbulent economy, required firms to create immediate response strategies, and businesses and households to close their doors as nations faced 'lockdown' for the first time in living history.

One of the most important things we learnt in 2020 was the need to look beyond the headlines to understand what's really going on at a granular level. Trends that appear at a national level vary significantly when we start to look at the data on a sectoral and regional level. The fact is that the economic impacts of the pandemic have not affected everyone equally. Analysis at a household level is critical to understanding the real impacts on your portfolio now, and resilience and affordability in the future.

What makes things even more challenging is the rate at which things continue to change. Successive national lockdowns and different levels of tier restrictions mean we're in a state of constant flux. Not to mention the masking effect of many of the Government's forbearance measures, which is making it so difficult to identify signs of financial distress and accurately assess risk.

Therefore, being able to accommodate change within your models and decisioning journeys is crucial to responding quickly in the short and long term. As is the development of new products and services that reflect how the consumer has changed. When the Government's forbearance measures come to an end you will need to be ready to respond, and be prepared.

Understanding insight from data at a granular level will not only give you the visibility you need of the risk and resilience present in your portfolios, but will also ensure you're able to continue treating customers fairly; engaging with them in a personalised and relevant way as their circumstances change.

As we enter 2021 we're still wrangling with the effects of the pandemic shock, and subsequent economic shock. But the aftershock will continue to influence the economy and how consumers behave for years to come. Insight driven from the analysis of comprehensive, granular data, applied throughout the customer journey, is critical to thriving within this era of turbulence.

IN CONCLUSION

At Experian, not only do we have this extensive data, but we also have the value of an in-house economic team. The point of difference with that team though, is how they are using economic analysis on credit data, and supplementing with additional insight. The outcome is a much more robust and granular view of forward risks.

Our breadth of capability combined with a continued investment in innovation makes us ideally placed to support your end-to-end journeys; from data and insights to decisioning. Added to which, we can support you in the ongoing monitoring, testing and deployment of lending lending strategies. By investing in tools like these, you'll not only have the ability to visualise and assess the impacts on your portfolios but, crucially, to act quickly as circumstances and market conditions change.

We're a few years away from a return to normality, and some consumer behaviours and the way we do business have changed forever. Experian is committed to helping you navigate this new landscape so you can return to confidence and growth.

ABOUT EXPERIAN

Experian is a global innovation company with a simple mission to transform people's lives and help shape the societies we live in.

Our world is built on data; it is everywhere, growing in power and influence. At Experian we have always believed that data has the potential to transform lives and create a better tomorrow. To do this, data needs to be understood, interpreted and acted on. We work to do just this: unlock the possibilities that data holds and help people and organisations realise the opportunities within.

We are continuing to innovate with data to help you navigate the crisis.

We have continued to invest in COVID-19 specific innovations which provide additional clarity into risk management, capital adequacy and credit provisioning. Our latest innovations enable you to understand your customer circumstances, and plan for potential spikes in arrears. Enabling you to allocate the right resources to combat such spikes.

Building a better tomorrow

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How we're helping our customers adapt, survive and thrive

Watch Now

Pioneering innovation to solve problems on a global scale

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ABOUT THE CONTRIBUTORS

Andy Wills
Director of Data Insights

Dave Kerry
Head of Data Insights

Mohammed Chaudhri
Chief Economist

Derek Garriock
Director of Strategy, Design & Innovation

Dushyant Dar
Head of Enterprise Strategy

Andrew Oldham
Director of Market Consultancy

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An Experian insight report

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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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