TDX GROUP CONSUMER DEBT REPORT 2017

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Executive summary

In an uncertain economic climate where personal borrowing had reached an all-time high in the UK by the end of 2016[1], Britain may be heading towards a debt crisis and more than ever the ability to assist struggling good consumers is imperative. An extended era of unprecedented low interest rates has to some extent masked the scale of Britons' borrowing, but many households are growing increasingly anxious about the parlous state of their personal finances. Some have already begun to struggle to make debt repayments.

This study, conducted jointly by TDX Group and the market research organisation YouGov, attempts to chart the scale of the problem now facing Britain – and to help organisations think about how to respond more effectively to the challenges that lie ahead.

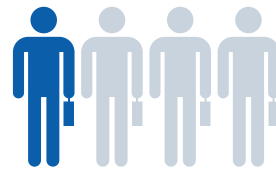
The study is divided into two sections. Part one charts the state of the nation today, with data on the scale and breadth of consumer debt, the extent to which people are concerned about their household finances, and the number of borrowers already facing financial difficulties. Part two sets out borrowers' views on how they believe organisations should behave towards struggling customers – and how they would respond to good or bad experiences; it also poses a challenge to creditors, too few of whom are making effective use of data to identify potential problem borrowers ahead of time, or to differentiate between different groups of borrowers.

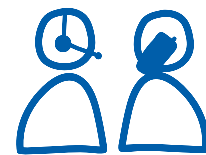
44% of Britons are concerned about their current personal finances.

25% of Britons would turn to their bank for advice about financial difficulties.

19% of Britons with personal debt spend 30% or more of their income each month on debt repayments.

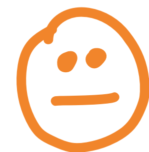
25% of workers are worried about losing their job in the next 12 months.





46% of Britons would never give an organisation their business again if it failed to support them at a time when they owed it money.

16% of Britons have already missed a repayment, half of whom have done so since the EU referendum. 30% of these people said this was their first ever missed repayment.



28% of Britons are worried about missing future payments on debt they already hold.

About this study

All figures, unless otherwise stated, are from YouGov Plc. Total sample size of 2,162 adults. Fieldwork was undertaken between 05 – 06 December 2016 and the survey was carried out online. Figures have been weighted and are representative of GB adults (aged 18+).
Please note some chart totals may be greater than 100% due to rounding or being based on multiple choice answers.

[1] The Bank of England, Statistical Release, published 04 January 2017

PART ONE

Indebted Britons fear for their financial security

Debts are mounting

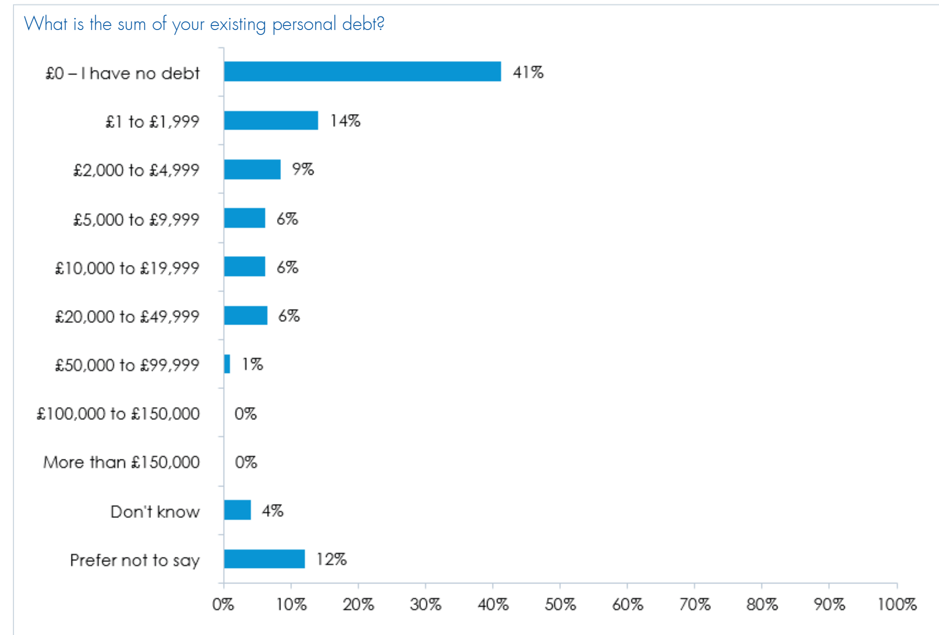
Debts are mounting, and in general people have relatively little savings

While Britons borrowed less in the immediate aftermath of the financial crisis of 2007 and 2008, more recently personal unsecured debt has risen dramatically, with the pre-crash peak eclipsed by the end of 2014[2]. Our research suggests that for many people, unsecured debt now tops average monthly earnings[3], with more than one in four (28%) Britons owing in excess of £2,000 (see Figure 1). A further 14% owe up to £2,000.

That debt is held with a variety of organisations, ranging from credit card providers to family and friends, as well as utility and telecoms companies (Figure 2).

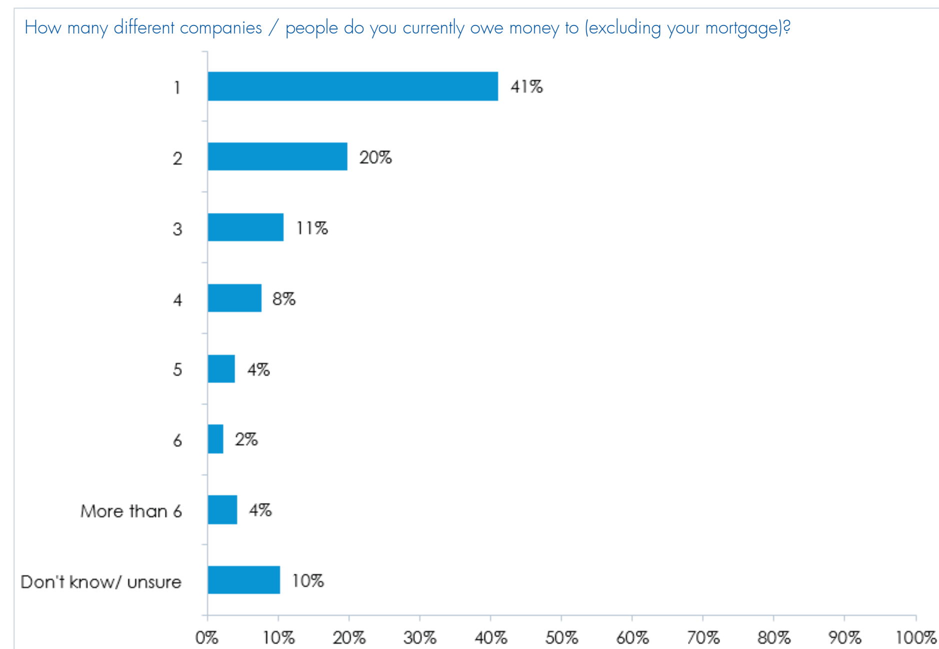
> More than one in four Britons owe in excess of £2000 – when compared with average earnings at £2197 per month, it is clear that a small change in personal circumstance would have a dramatic impact on the ability of many to meet debt repayments.

Figure 1: Levels of unsecured household debt



> With multiple creditors seeking repayment from the same individuals in the majority of cases, and personal finances in a perilous state, a meaningful change in the economic environment would reverberate through multiple creditors very rapidly.

Figure 2: Many Britons are in debt to several organisations

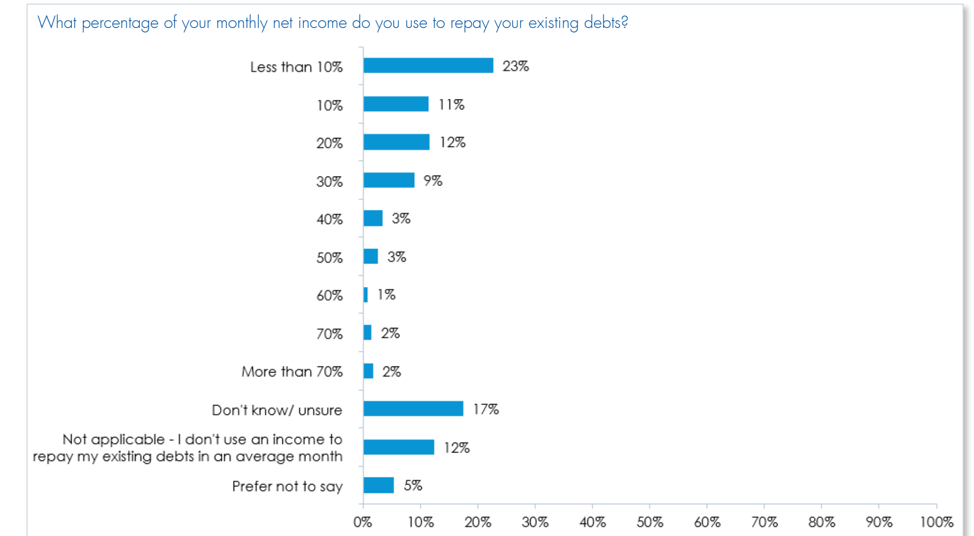


The result is that a worrying number of people are now having to cope with debt repayments that swallow a large proportion of their disposable income. Debt advice services suggest people should spend no more than 25% of their income on mortgage repayments, and no more than 33% of their income on total debt repayments. Yet our research shows that even in the current ultra-low interest rate environment, one in five Britons (19%), with personal debt are already at or above this latter threshold (see Figure 3).

Nor do most Britons have savings and investments that they could draw upon to pay down debt, should this prove necessary. As Figure 4 reveals, less than a third of people (31%) have savings and investments worth more than £10,000 – and what assets people do have may not always be available or accessible.

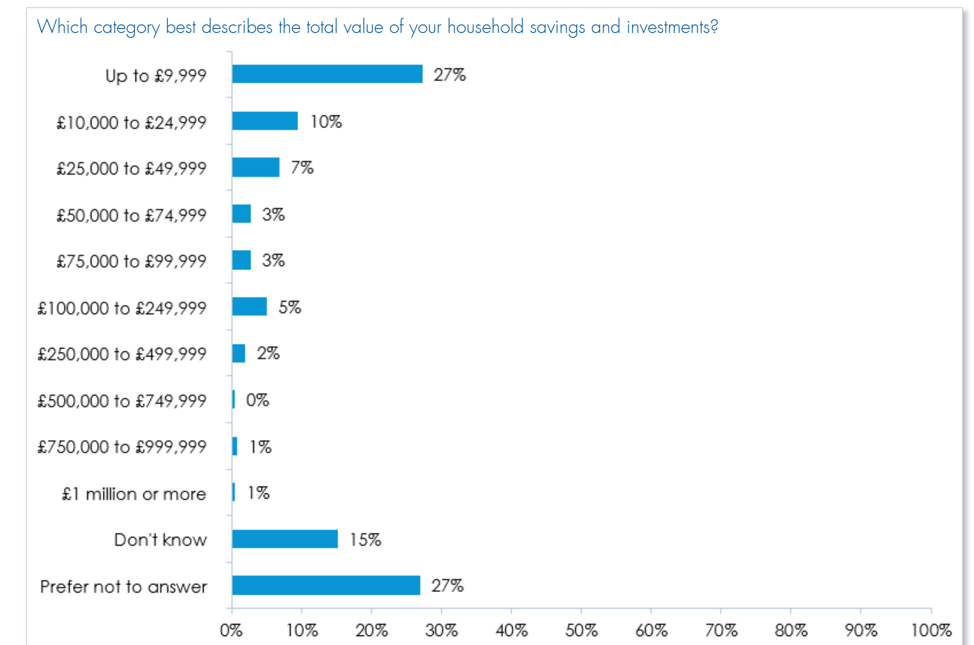
> One in five Britons are already using more than the recommended proportion of their income on debt repayments. A shift in interest rates would be catastrophic for many.

Figure 3: Debt repayments consuming a large chunk of income



> With less than a third of Britons having a meaningful level of savings, there is no buffer in place against personal or wider economic change.

Figure 4: Savings and investments are in short supply



[2] PwC Precious Plastic 2015 (https://www.pwc.co.uk/industries/financial-services/insights/precious-plastic-2015.html)
[3] Office for National Statistics data suggests average monthly earnings in the UK now stand at £2,197 (https://www.ons.gov.uk/employmentandlabourmarket/peopleinwork/earningsandworkinghours/timeseries/kab9/emp)

Britons are increasingly worried about the immediate future

With indebtedness mounting and increasing uncertainty about the outlook for the economy in 2017, particularly during a period of unprecedented political upheaval, many Britons are worried about the state of their finances. As Figure 5 reveals, almost half (44%) are now fairly or very concerned about their current personal finances. That finding chimes with other indicators – most notably the dip in consumer confidence seen in the second half of 2016[4].

Already, more than one in four Britons (28%) with personal debt fear they may not be able to keep up with the repayments they need to make on their personal debt (see Figure 6).

> It is positive that many are aware that their personal finances are in a delicate state. The key question is whether they, as individuals, or creditors as a group, can do anything to pre-empt issues and take appropriate action.

Figure 5: Britons growing anxious about their finances

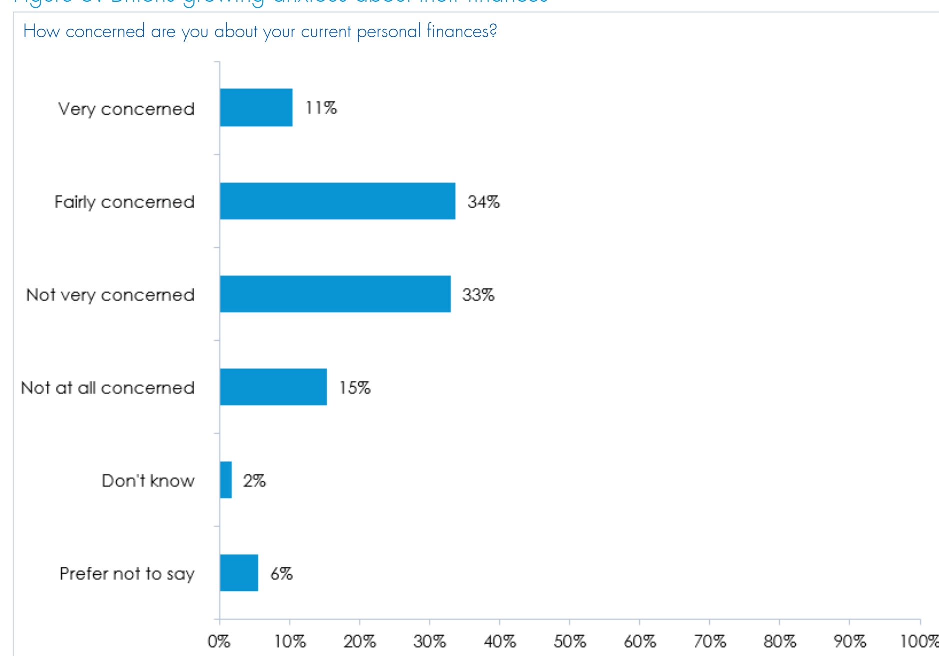
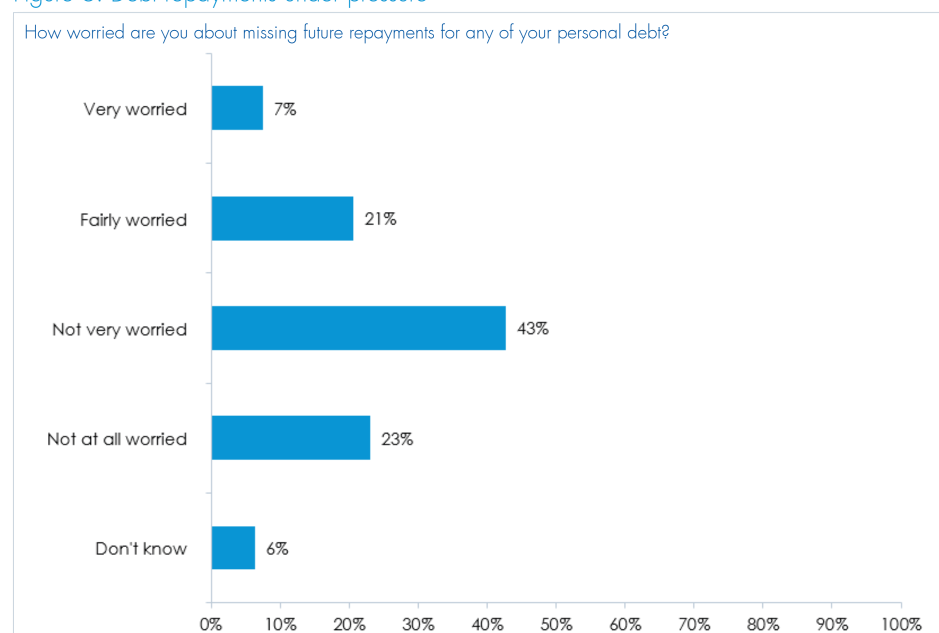


Figure 6: Debt repayments under pressure

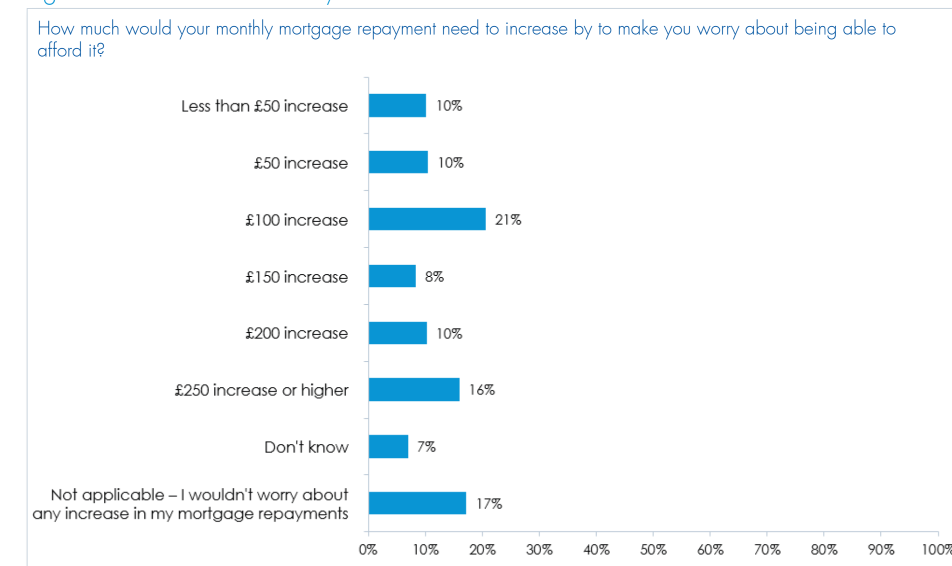


As Figure 7 reveals, even a relatively small increase in the cost of borrowing would cause real difficulties for many people with mortgage repayments; one in five borrowers (20%) fear that even increases of up to £50 in the monthly cost of repaying the mortgage might not be affordable.

There are mixed views on whether interest rates will rise in 2017, however, as Figure 8 shows, many Britons nevertheless feel vulnerable, largely because of concerns about their jobs and wages. One in four workers (25%) are concerned they could lose their job over the next 12 months, while almost one in five (18%) are worried their pay might fall back.

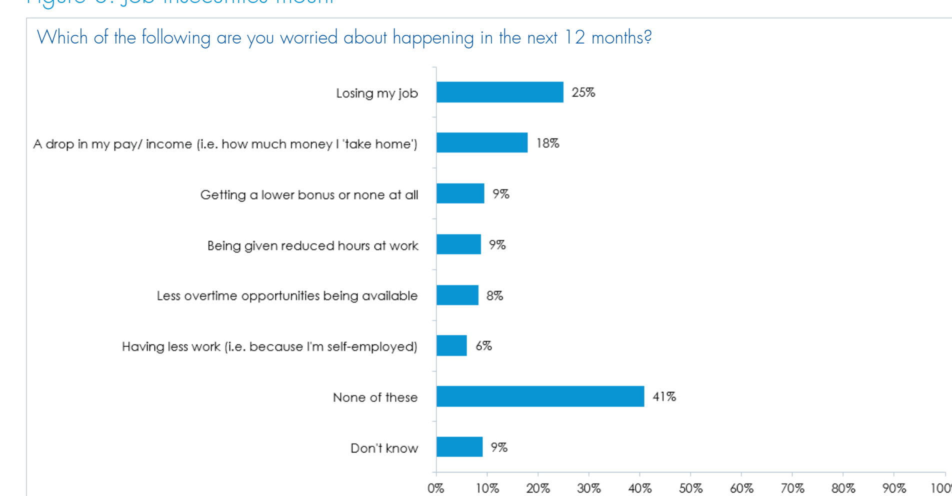
> With one in five Britons are worried about meeting their mortgage repayments even when faced with just a £50 increase, it is critical that creditors recognise quite how perilous many individual's finances currently are.

Figure 7: Interest rate rises may not be affordable



> The key drivers of consumer concern are levels of pay and job security.

Figure 8: Job insecurities mount



[4] Markit, November 2016 (http://uk.reuters.com/article/uk-britain-eu-consumersentiment-idUKKBN13H0SH)

Many people are so anxious that they have already begun to take action. Although a few may turn to more borrowing (Figure 9), almost one in five (18%) are now considering taking on a second job and a further 13% who think they may have to work extra hours. (Figure 10).

Although some are likely to turn to further borrowing – many more intend to take action by moving job or taking on a second job. Creditors need to be aware of volatile income levels and varying sources of income.

Figure 9: Debt could mount further

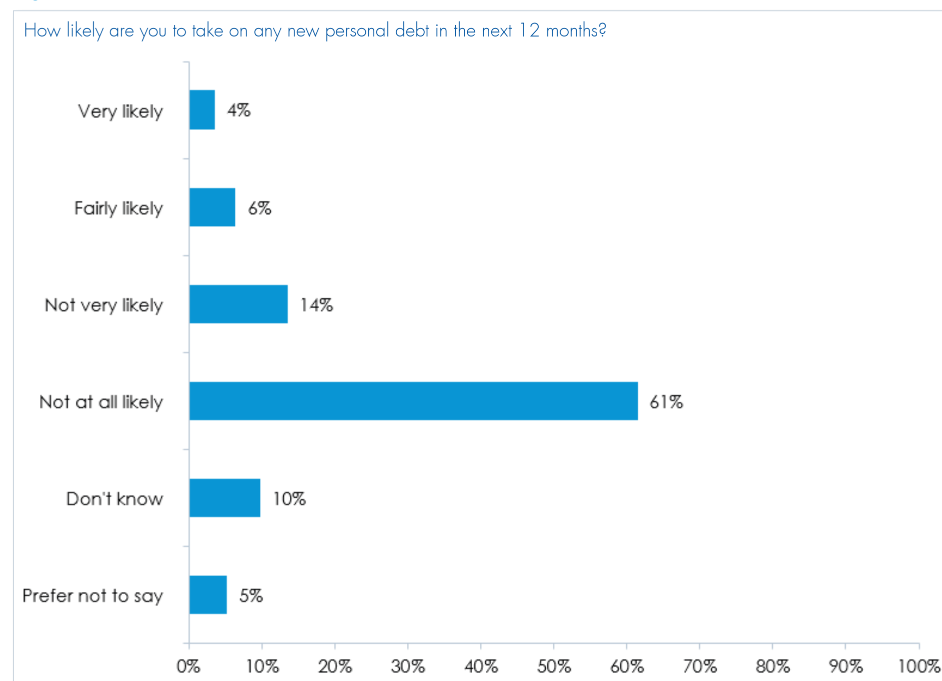
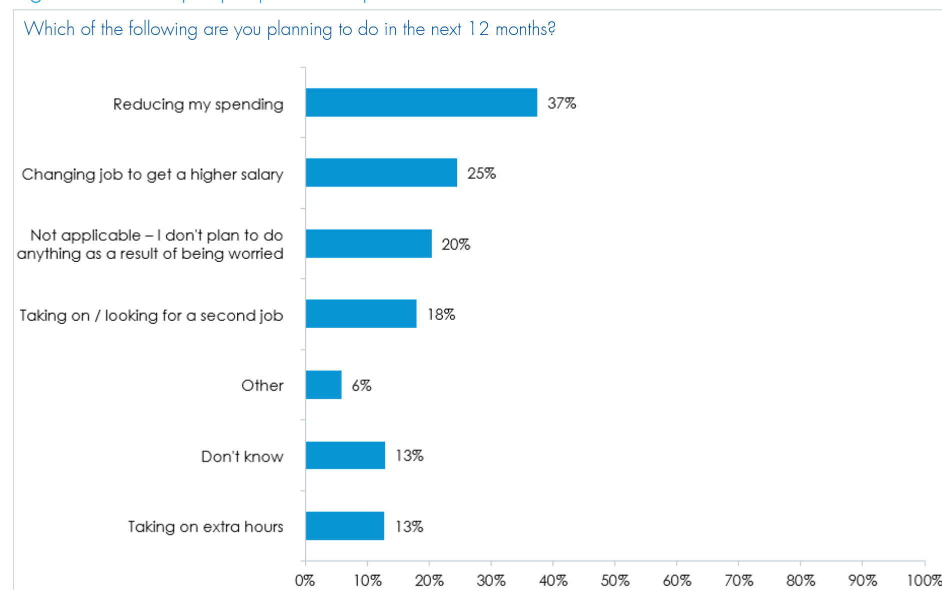


Figure 10: How people plan to respond



Problems have begun

Signs the problems have already begun

While many Britons express fears about what the year ahead will bring, it is clear that problem debt has already become an issue for a significant number of people. Figure 11 shows that almost one in six people (16%) have at some time missed a repayment on the debt they currently hold. Even more concerning, close to one in 10 (8%) say they missed a repayment during the second half of 2016; of those, almost a third (30%) fell behind on their repayments for the first time.

These figures suggest the emergence of a new – and sizeable – group of borrowers struggling to keep up with debt repayments – people who previously enjoyed blemish-free credit records may now be getting into financial difficulties for the first time. A second group of borrowers, meanwhile, consists of people who appear to have fallen into consistent difficulties – 60% of those who missed repayments in the second half of last year had previously had similar problems.

Figure 12 reveals the repayments people are most likely to have missed, However, this is likely to change as increases in alternative lending start to be reflected in the payment hierarchy. For example, the data we hold at TDX Group shows that those in significant financial difficulty are actually less likely to owe money on credit cards today versus 2008 (48% in 2008; 36% in 2016), with retail, hire purchase and 'other' debt increasing from 13% to 29%.[5]

And, if trends in personal insolvencies are seen as a potential indicator of more wide spread problems to come, the increase in volumes should give us all cause for reflection. We are predicting a 30% rise in personal insolvency volumes in 2017, taking new IVA and Trust Deed numbers for the year to over 70,000, taking over 450,000 credit accounts with a face value of over £11 billion into an insolvent state during the year.[6]

One in six have already missed a payment, with credit cards and council tax being the bills most likely to not be paid. This reflects a fairly traditional payment hierarchy, but it will change as a new group of borrowers fall into arrears – and as the relatively recent growth in alternative lending starts to be reflected.

Figure 11: Borrowers missing payments

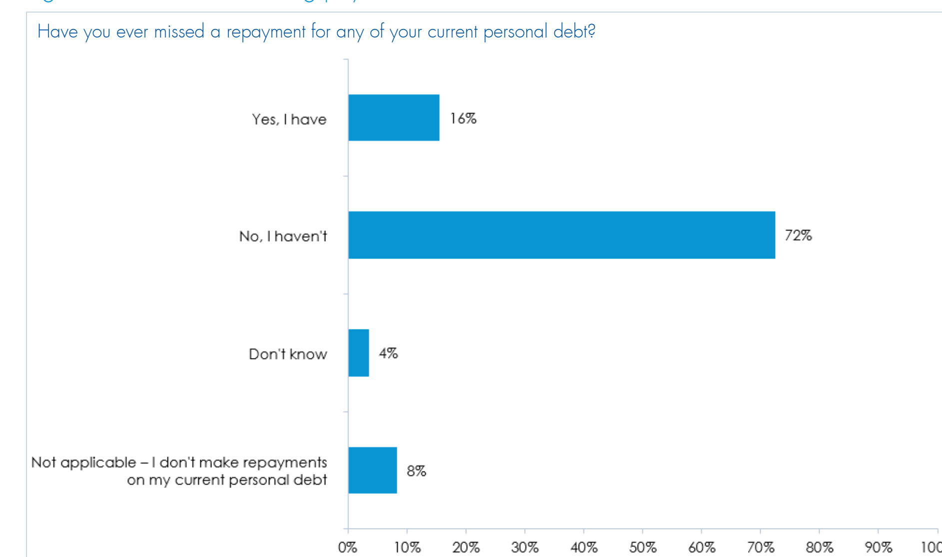
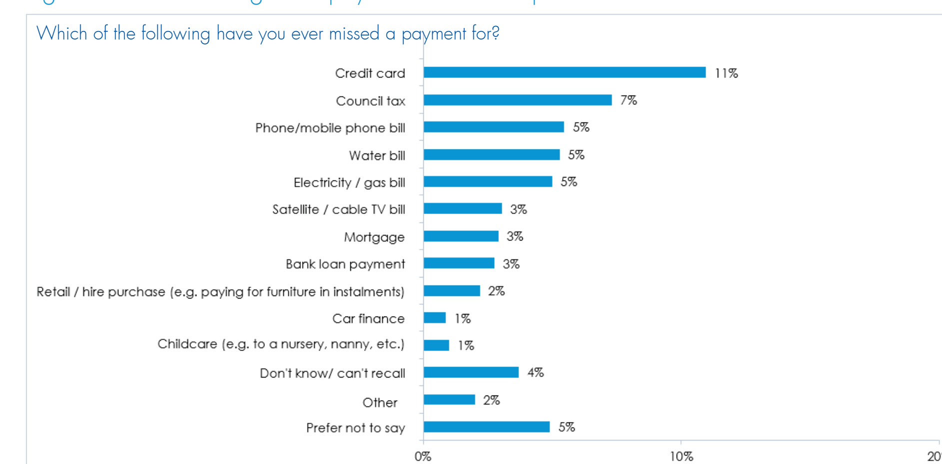


Figure 12: A wide range of repayments are under pressure



[5] TIX proposal data, TDX Group, 2016
[6] TDX Group, Insolvency Market Trends, February 2017

PART TWO

How to deal with borrowers struggling to cope

How to deal with borrowers struggling to cope

How will creditors work with borrowers struggling to keep up with debt repayments – including both those who have consistently found themselves in financial difficulties and the newly emerging group of borrowers who are at a tipping point and have only recently begun to struggle?

There is a great deal at stake. Creditors increasingly recognise their societal responsibility to support customers in difficulty – and the considerable reputational risk that poor behaviours or unfair treatment represents, particularly in era where social media and other communication channels enable consumers to air their grievances to large audiences very quickly. Moreover, in competitive marketplaces, whether in financial services, or industries such as utilities and telecoms, creditors can ill afford to alienate their customers. A borrower struggling to make repayments or pay bills today may potentially be a valuable customer for many years into the future.

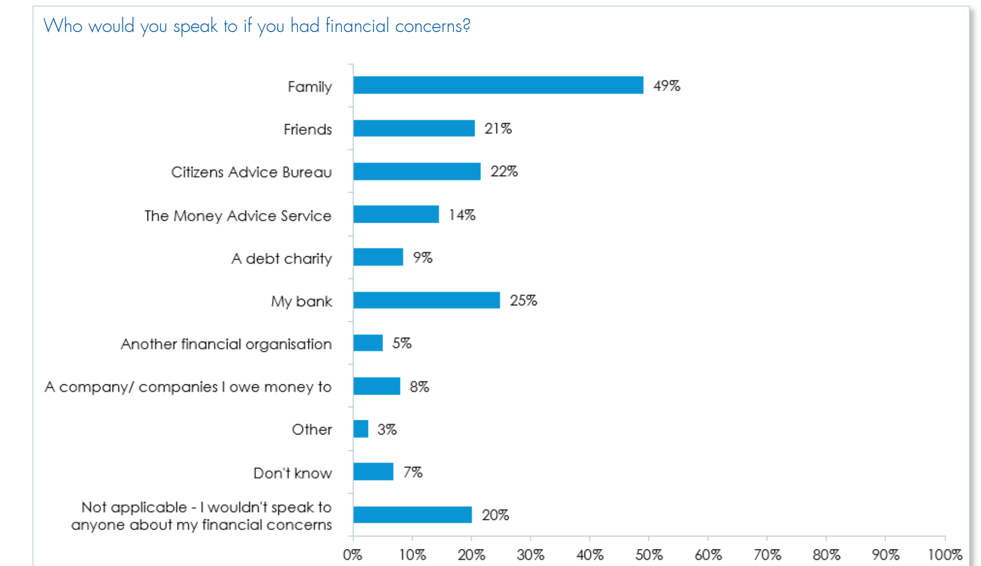
What borrowers say

Borrowers themselves are very clear that they expect to be treated sympathetically and offered support and assistance at times when they are suffering stress. As Figure 13 shows, while half of Britons (49%) would turn to their families for advice about financial concerns, significant numbers are also looking for professional help: a quarter (25%) would talk to their bank, for example, while almost one in 10 (8%) would reach out to the organisations whom they owe money. Others, meanwhile, cite the support on offer from third parties such as debt charities and advice services.

Only 8% of those surveyed would speak to the organisations they owe money to if they had financial concerns.

The onus is well and truly on creditors to seek a holistic view of their customers, to look for early indicators of financial distress, and to take proactive and supportive action.

Figure 13: Consumers seeking help with financial concerns



Borrowers are looking for practical help with their financial difficulties. First, they want a good basic service: as Figure 14 shows, large numbers of borrowers cite the importance of good communications with creditors – the ability to talk to someone in authority, the importance of dealing with someone who knows their case, and being able to speak to the same person each time.

The cost of getting it wrong is substantial. Almost half the people in our research (46%) said they would not deal with a company again if it provided poor service at a time when they were suffering financial difficulties or failed to offer solutions that might help improve the situation (see Figure 15). For organisations dependent on recurring revenues from long-term customers – including credit card and loan providers, as well as utilities and telecom companies, that is potentially disastrous. All the more so given people's willingness to share their bad experience – a third of Britons (33%) say they would advise friends and family to steer clear of a company that behaved this way, while 16% would seek to shame the organisation publicly.

It's clear that consumers want to work with creditor organisations to find a solution to their problem and around a third want an easy way to make contact through a variety of channels. The impact of getting the service wrong for a creditor is significant.

Figure 14: Borrowers look for good service from organisations

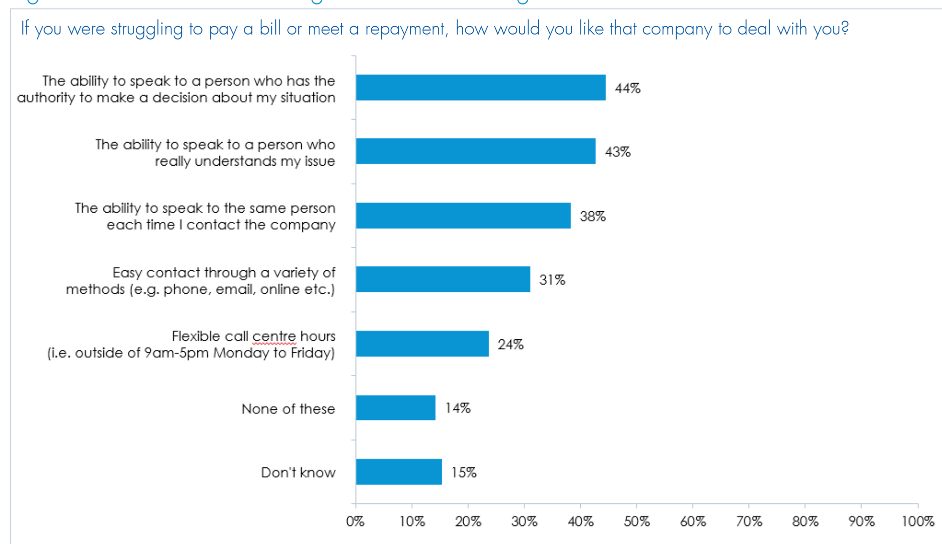
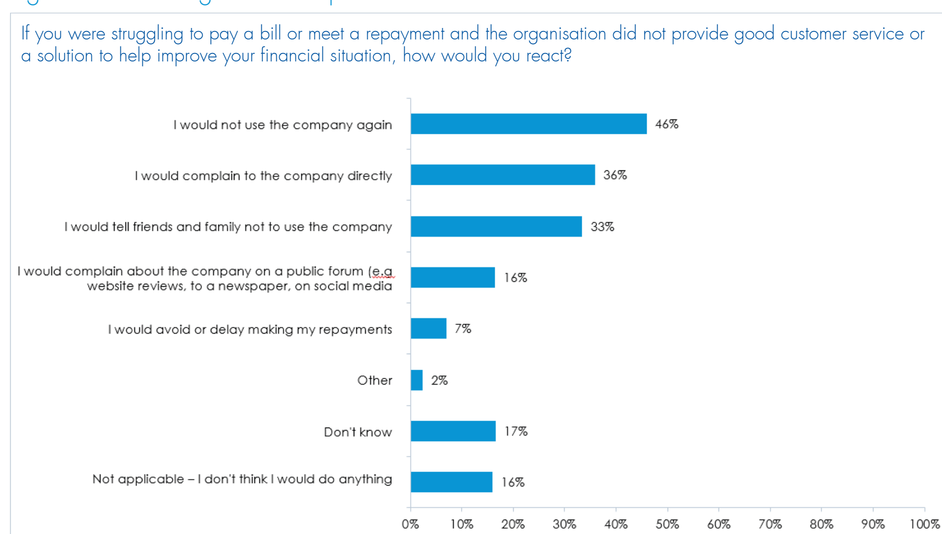


Figure 15: Counting the cost of poor customer service



The majority see their problems as short-term – and just need a little time to solve it. The challenge for creditors will be on assessing whether there are indicators of more entrenched financial difficulties and having tailored approaches for both short and long-term problems.

People are also keen for organisations to offer practical solutions to their difficulties, rather than shifting into confrontational mode. That might be, for example, an extension of the payment term, reducing monthly costs, a pause in interest accrual or a break from making payment – while some organisations do not routinely offer such flexibility, Figure 16 suggests this is what significant numbers of people are looking for.

Organisations able to establish a more constructive relationship with borrowers or customers in financial difficulty will reap the benefits. One in two borrowers say a good experience during a period of financial difficulties would encourage them to remain a loyal customer (see Figure 17). Others would become brand ambassadors, with 41% recommending such businesses to friends and families, and 21% praising them publicly.

How organisations must respond

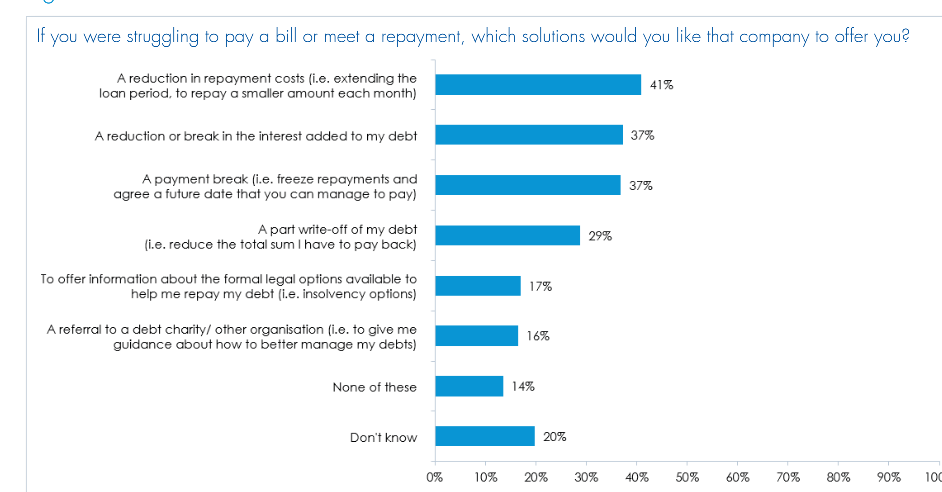
Organisations caught out by bad debt crises in the past have little excuse for suffering the same fate this time around. This research provides ample evidence that the UK is once again at risk of seeing a sharp spike upwards in the numbers of people struggling to keep up with repayments on their debts – and that a wide variety of creditors may see defaults rise.

Organisations' first priority must be to get to know their customers better. Armed with data-informed insight, it will certainly be possible to plan more effectively for a rise in bad debt, and it may also be possible to mitigate some of the problems. Might customers identified as at risk of becoming defaulters be persuaded to move on to different deals or payment plans ahead of time, for example?

It is crucial, too, that creditors have tailored approaches for customers struggling with bad debt. Some may have been in financial difficulties for an extended period – and be likely to remain in trouble for the foreseeable future. Others may be getting into difficulties for the first time, with a substantial group of customers new to repayment problems identified in this study.

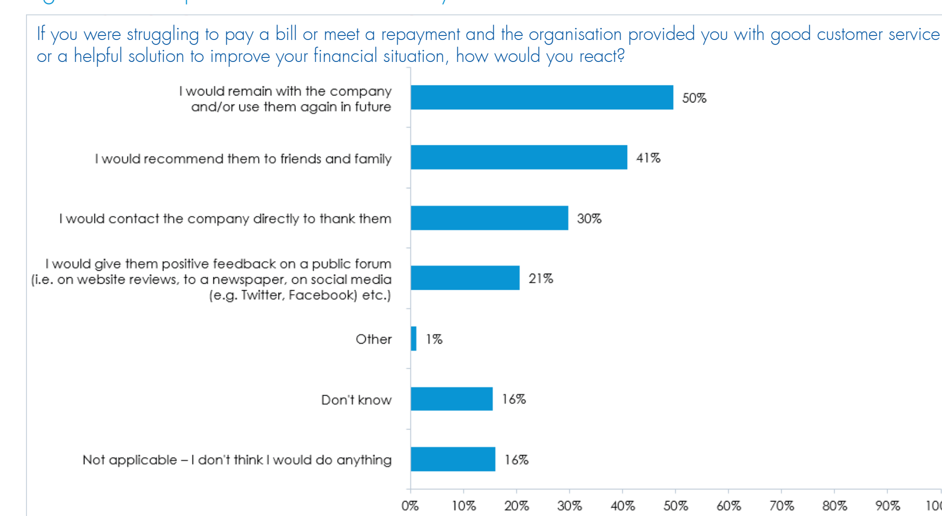
The aim should be to stream defaulting borrowers into groups where a

Figure 16: Practical solutions can make a difference



Organisations able to build positive relationships through difficult times will reap the benefit.

Figure 17: Turn problem borrowers into loyal customers and brand ambassadors



differentiated approach to collection can be applied. Long-term struggling borrowers may need proactive support and advice from professional debt counsellors, whereas with other groups, the key may be getting to grips with the precise nature of the issue that is preventing them paying a debt they can afford.

As this study has shown, the risks and rewards for organisations that fail or succeed in these endeavours are high. Those organisations that do not spot debt problems coming, or fail to differentiate between customer groups, risk losing ground in marketplaces that have never been so competitive. Those that are well-prepared and able to treat borrowers according to their individual circumstances, will fare much better.

Conclusion

Now is the time for creditors to take heed of the warning signals, to prepare for an increase in bad debt and to think more strategically about how to respond.

A holistic view and tailored approaches are critical

With the recent rise in consumer borrowing, there is a real possibility of significant numbers of borrowers struggling to keep up with repayments. Many are growing anxious about their ability to stay on top of their personal finances and some have already begun to run into trouble. We expect this increase to include an growing number of 'new' customers entering collections and recoveries; customers recently dubbed JAMs (Just About Managing) by the Government, who are unused to dealing with arrears and will expect a different type of engagement from their creditors. This research shows how customers want to deal with their creditors across multiple touchpoints, potentially for the same query. They expect their creditors to be supportive and practical during periods of financial stress; they are prepared to reward organisations that treat them well and to reject those they perceive to have behaved badly; and they are not afraid to share their experiences with a wide audience. Only those creditors who are fully joined up across a number communications channels (eg social media, live web chats and traditional customer service centres) will be able to effectively engage with these individuals. This capability coupled with a less dogmatic and more flexible approach to collections and recoveries will separate the best and worst performing creditors.

A change in payment hierarchy and creditor mix is emerging

Furthermore, with personal insolvency volumes acting as an indicator of wider problems to come, we're not only seeing indicators of growing financial difficulty, but also a change in the mix of creditors who are owed money, reflecting a growth in non-traditional credit default. Over time, this will change the payment hierarchy for all creditors. With the profile and payment decisions of those who owe money changing, the need to understand the customer is more critical than ever.

Macroeconomic uncertainty will impact consumer finances

In terms of the wider economy, here in the UK, we have to navigate the fall-out from Brexit and an earlier than expected General Election, whilst not forgetting that the EU remains largely unstable off the back of the UK vote and ongoing budgetary and banking crises – all of which creates further uncertainty around key macroeconomic indicators. In 2017, it will be these larger impact items (rather than micro industry wide triggers) that will deliver the real change across collections and recoveries, and the key focus will be to maintain flexibility around strategy and suppliers whilst also building capacity to deal with an overall increase in delinquency and default.

New rules in financial provisioning looks set to drive a growth in debt sale

An added challenge for financial institutions is the introduction of IFRS 9 (new rules on how banks and other companies that lend money should account for credit losses). Under IFRS 9, financial institutions are likely to be required to significantly raise their provisions relating to up-to-date accounts and whilst this will be the area where we see the greatest change, the knock-on effect will be most strongly felt in the non-performing loans market where creditors are expected to accelerate sale and clear non-performing loan warehouses to manage the overall provision number.

All-in-all, there is a clear commercial imperative for creditors in the months ahead. Those that do not wish to lose market share will respond accordingly. In doing so, they will fulfil their responsibility to treat customers fairly, reduce the likelihood of falling foul of the regulatory authorities, limit their exposure to rising bad debt levels and actively prepare to manage reputational risk and enhance their competitive advantage.

About TDX Group

TDX Group, an Equifax company, provides businesses with technology, data and advisory services to improve debt liquidation and the fair treatment of consumers in financial arrears. TDX Group works at the centre of the industry with specialist debt businesses and with creditors across financial services, retail, energy, water, telco and media sectors, plus local and central government; providing solutions which support them in managing collections, recoveries, debt sale and insolvency. To find out more about TDX Group please visit: www.tdxgroup.com.

TDX Group is authorised and regulated by the Financial Conduct Authority.

About Equifax

Equifax is a global information solutions company that uses trusted unique data, innovative analytics, technology and industry expertise to power organizations and individuals around the world by transforming knowledge into insights that help make more informed business and personal decisions. The company organizes, assimilates and analyzes data on more than 820 million consumers and more than 91 million businesses worldwide, and its database includes employee data contributed from more than 7,100 employers.

Headquartered in Atlanta, Ga., Equifax operates or has investments in 24 countries in North America, Central and South America, Europe and the Asia Pacific region. It is a member of Standard & Poor's (S&P) 500® Index, and its common stock is traded on the New York Stock Exchange (NYSE) under the symbol EFX. Equifax employs approximately 9,700 employees worldwide.

Some noteworthy achievements for the company include: Named to the Top 100 American Banker FinTech Forward list (2015-2016); named a Top Technology Provider on the FinTech 100 list (2004-2016); named an InformationWeek Elite 100 Winner (2014-2015); named a Top Workplace by Atlanta Journal Constitution (2013-2016); named one of Fortune's World's Most Admired Companies (2011-2015); named one of Forbes' World's 100 Most Innovative Companies (2015-2016). For more information, visit www.equifax.com.

For more information please contact: info@tdxgroup.com

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