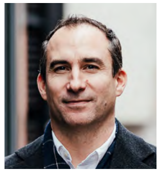
How the pandemic changed consumer debt profiles

May 2022

Overview from Phil McGilvray, our MD, Debt Services



When the COVID-19 pandemic first hit, the entire debt industry was required to prepare themselves for the largest shift in consumer circumstances in more than a decade; with people and businesses alike anticipated to struggle with resolving their debt.

Two years on, and whilst the pandemic's impact on the economy wasn't as severe as originally predicted, consumer attitudes towards credit, debt and ability to pay were, unsurprisingly, changed dramatically. In this report, we take a look back over the past two years' data, at 13 million accounts in arrears, to understand what these changes looked like and reflect upon how we continued, and can continue still, to place the consumer at the centre of every decision we make.

Because the story doesn't end there; and as consumers continue to be impacted by uncertainty and significant increases in living costs, now and in the future, our industry will once again be required to step up and work together to achieve the fairest and most sustainable solutions for consumers and creditors alike.

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“On the whole, the data suggests the support provided by the UK Government has helped manage and reduce the pandemic’s potential impact on large percentages of the population.”

Industry overview

Throughout the early stages of the COVID-19 pandemic, consumers and businesses were largely protected from the increasingly volatile UK economy as a result of measures and initiatives, such as Business Bounce Back Loans and the Coronavirus Job Retention Scheme, introduced by the Government.

Many, too, experienced a stark increase in disposable income; with monthly outgoings spent on the daily commute and the option of going on holiday almost completely being taken off the table. In fact, research we carried out at the end of 2020 suggested 74% of consumers either saw their disposable income rise, or remain unaffected, in the pandemic’s first 9 months; with 51% saving more per month than they were previously.

A minority, however, did feel the financial strain of the first nation-wide lockdown – 16% had fallen behind on their household or priority bills such as Council Tax – and to protect those most vulnerable and at risk of being impacted financially, the entire debt collection industry was required to mobilise immediately.

Robin Griffiths
Head of Debt Recovery Analytics
TDX Group

TDX Group consumer research

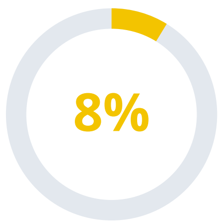
To better understand the impact of the pandemic on the consumers we've supported on behalf of our clients over the past two years, we've analysed a variety of different consumer segments – including demographic, characteristic and behaviour – across a variety of different sectors and debt types.

This in-depth analysis of 5 million consumers has provided important insights into who these people are and how they can be more effectively engaged with.

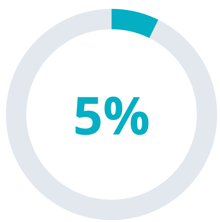
Who are our consumers and how are they behaving?

Despite the difficulty presented by the pandemic, the majority of consumers were able to manage their finances and continue making their debt repayments.

Cash collected on accounts increased by almost 50%



Payments within the first 2 weeks of collections activity increased by 8%



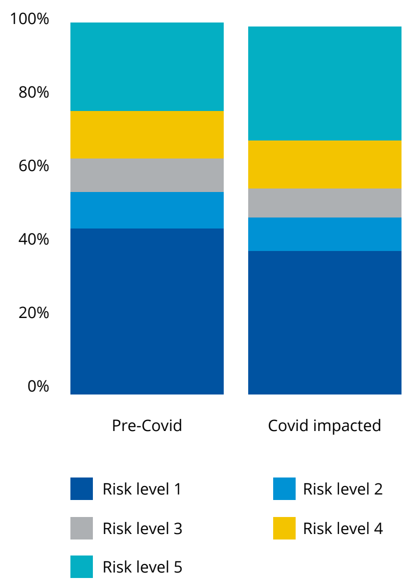
Consumers engaging digitally increased by over 5%

Characteristics and Demographics

In general, we haven't seen a substantial shift in the characteristics of our consumers, but what we have seen is an improvement in credit risk profiles. Shown in the graph below, we can see that the proportion of consumers in the highest credit risk category has decreased post-COVID. This is likely to have been caused by a number of the following:

- Changes in clients' upstream processes, meaning accounts are not as intensely worked pre-placement
- Government support schemes, such as payment freezes, making it difficult to identify the true credit behaviour of consumers
- Reduction in availability of discretionary activities, particularly during the first lockdown, leading to consumers having more time and disposable income to evaluate and reorganise their finances

Credit Risk Score Profiles



Risk level 1 (dark blue) = highest risk
Risk level 5 (turquoise) = lowest risk

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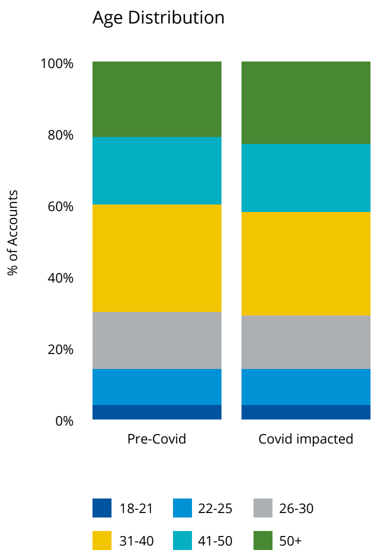
Impact on the younger generation

At the start of the pandemic, there was a very real concern that the younger generation were at risk of being disproportionately affected compared with other age groups – their characteristically latent financial situations leaving them vulnerable to the greatest impact.

The graph below, however, shows that this wasn't the case. In fact, it shows the proportion of Gen Z and Millennials in arrears has remained loosely the same pre- and post-lockdown. This is most likely due to Government-led initiatives, such as the Coronavirus Job Retention Scheme, shielding incomes from sectors highly populated by younger individuals – like Hospitality.



Vulnerable consumers increased from

2.7%

to

4.4%

Due to the pandemic, consumers identified as being potentially vulnerable have almost doubled, growing rapidly from 2.7% before the first lockdown, to 4.4% in 2022; and with no signs of levelling off, due to the mounting cost-of-living crisis.

Behaviour

Consumer behaviour changed dramatically throughout the course of the pandemic – both positively, and negatively. Our private sector clients experienced an increase in the average repayment, as well as a decrease in engagement time; whereas, in the public sector, we saw much more fluctuation in cash per account, with the overall trend suggesting average repayments dropped off significantly. Most likely, this was down to the different approaches to debt recovery taken by the two sectors.

"This increase in vulnerable consumers during the last two years, makes it more important than ever organisations adopt a data first policy to help them understand individual financial circumstances of consumers, before the first course of action.

As more and more consumers are impacted by the rising cost of living, we are expecting to see levels of financial vulnerability continue to rise into 2023. We can help our customers use data to identify customers who are financially vulnerable to ensure they get the support they need.

Over the last couple of years, we put together a range of solutions fulfilled through a panel of specialist Debt Collection Agencies (DCAs), who specialise in working with vulnerable consumers to ensure our clients are able to protect their vulnerable consumers."

Beth Whelan
Director of Strategy and Transformation, TDX Group

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A Debt Advice view

An increasing number of people seeking debt advice due to the rising cost of living

"Whilst unprecedented levels of government support, along with lender forbearance, has prevented many people falling further into difficulty, this isn't the case for everyone. Of those who did reach out to us for debt advice, we saw an increasing number who found themselves in a 'deficit budget' even after a full debt advice service (their monthly expenditure exceeded their monthly income).

We've started to see a shift in the customer demographic. Last year, a third of customers who sought help with their debts were aged between 31 and 40 indicating the customer base is getting younger. 59% of customers were single and 66% had no dependents.

As we start to move out of one crisis, we seem to be plunging headlong into another: the cost-of-living crisis. As a debt advice provider, we are already seeing an increasing number of people seeking advice and we expect these numbers to continue to rise throughout the year. We also expect to see a shift in the types of people who fall into difficulty and ultimately, seek help.

There are likely to be cohorts of customers who haven't experienced problems with their finances. They may have been just about managing but a significant shift in the cost of living will see them fall into difficulty.

These are people who will have very little awareness of debt advice and, as a result, may take longer to seek help, if indeed they seek help at all. As we continue to move through this year, it's important that we encourage people to seek help sooner rather than later."

Deborah Ware
COO Financial Wellness Group

Financial Wellness Group

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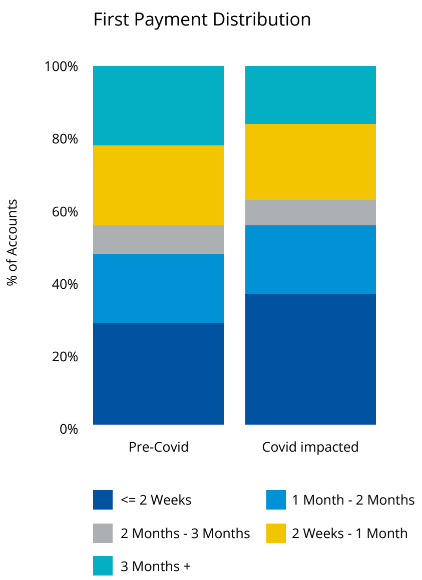
First payments were made earlier

The graph below suggests consumers were, on average, making their first repayment earlier than they were before the pandemic began. As we can see, there is an 8% increase in initial repayments within the first two weeks of the debt recovery process.



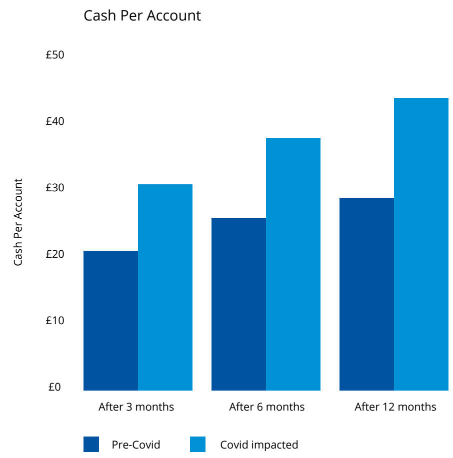
"Whilst this uplift in payments over the past two years has been promising for our clients, we mustn't take our eye off the ball. More recent trends have shown average payments actually fell from £70 to £50 (a 28% decrease) between September 2021 and March 2022, as the people start to ready themselves financially to rising living costs.

We will continue to assess customers to ensure repayments are affordable and encourage engagement and open conversations to get the best outcomes for both consumers and clients."

Richard Anderson
Head of UK Advisory, TDX Group

50% uplift in payments

The amount consumers have paid has also improved, with cash per account increasing by 50%.



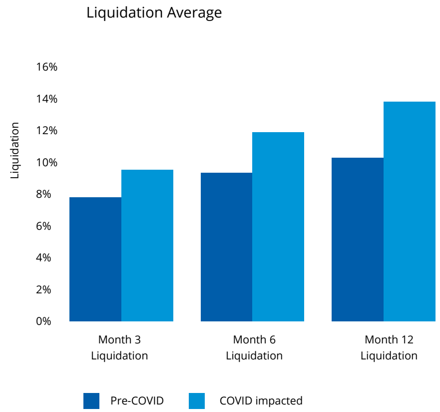
5% increase in digital engagement

Interestingly, we also saw a 5% increase in the number of consumers engaging with the recovery process digitally. Although, considering digital engagement across other industries, this increase was, perhaps, lower than expected.

As more investment into digital solutions is made across the industry, we will continue to monitor the impact it has on the experience of consumers.

30% increase in liquidation

Liquidation had increased reaching an average of 30% by month 12. This, we expect, was due to improved consumer finances resulting from an increase in disposable income.



5% increase

We saw a 5% increase in the number of consumers engaging with the recovery process digitally.

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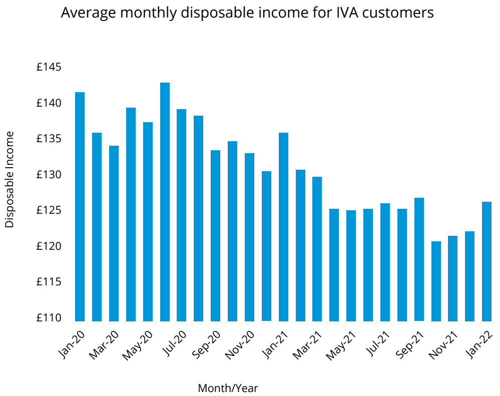
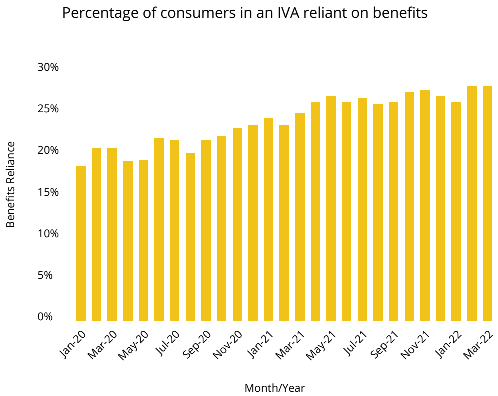
Insolvencies

11% drop in IVA customers disposable income



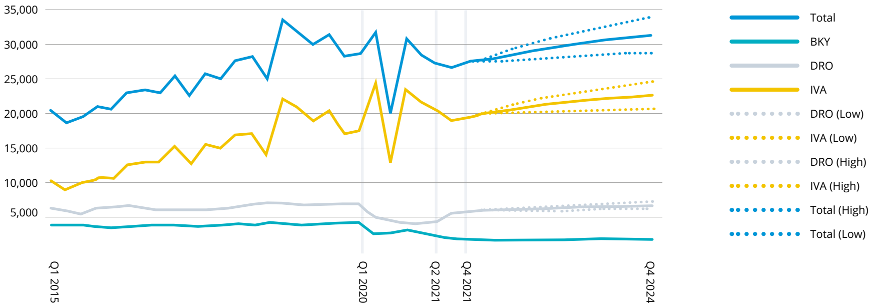
Since the first lockdown, consumers entering into an IVA have less disposable income, a reduction of 11% since January 2020.

27% of IVA customers reliant on benefits



The percentage of consumers in an IVA that are reliant on benefits is increasing, from 18% of consumers in Jan 2020 up to 27% in Jan 2022.

IVA volumes predicted to increase by 7%



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Driven by new IVAs, total insolvency volumes have been increasing since 2015. As we can see on the graph opposite however, when COVID-19 hit, the number of new insolvencies fell dramatically; and they're still yet to fully recover and return to pre-pandemic levels.

In 2021, there was a gradual rise in DRO volumes as a result of changing eligibility criteria. During the pandemic, we worked closely with the IP market and our creditor clients to see that all IVAs were flexible, fair and sustainable for all parties.

Our experienced team continues to ensure any consumer going into an IVA is in the right debt solution for their personal circumstances against a rapidly changing market.

By the end of 2022's Q4, we expect both IVAs and DROs to increase on a yearly basis by an average of 7% – perhaps even as high as 11%.

"In addition to rising demand for new IVAs, we expect more than 80% of customers with an existing IVA could be eligible for a variation and as many as 50% could become eligible for a Debt Relief Order (DRO) – due to the rising cost of living affecting levels of disposable income.

It will be critical for Insolvency Practitioners (IPs) and DCAs to ensure they are geared up for the potentially significant increase in insolvency activity.

Here at TDX Group, we provide a comprehensive managed service for personal insolvency to help support our customers cope with this increasing IVA activity, ensuring creditors are represented and consumers are treated fairly, whilst maximising collections potential."

Dave Heathcote
Supplier Management
and Insolvency Director, TDX Group

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The impact on consumers seeking debt advice

There's no doubt that the pandemic had a huge impact on consumer finance in the UK.

We compared PayPlan's pre and post pandemic customer demographics and behaviour and found some interesting findings.

People are reaching out sooner

- We know that people often tell us they wish they hadn't buried their head in the sand and that they'd got in touch with us sooner to increase the options available to them.
- In the past, people waited an average of four years to get help, whereas now 35% of our customers approach us for help within the first year of experiencing money worries.

There's increased pressure on mental health

- We've known the relationship between debt and mental health for some time, but it's clear from our research just how many people reaching out are also struggling with feelings of stress, depression and anxiety.
- 81% of our customers have told us that being in debt impacted their mental health. With the added pressure of lockdown, many people told us that they didn't know where to turn.

Debt doesn't discriminate against age

- In the past, we'd seen a higher volume of people reaching out who were in their 40s or 50s and were homeowners with dependants.
- Now, our 25-34-year olds are just as likely to need debt help, with this demographic largely being renters with no dependants.
- Increased buying pressure from online shopping, high renting costs and a reliance on borrowing are all contributing to this shift.

Unfortunately, COVID restrictions easing certainly doesn't mean an end to financial worries. We've seen record numbers of customers contacting us for help in the first two months of 2022 and we're finding these customers have more complex circumstances than ever before. With the cost of living set to rise exponentially this year, we're expecting demand for our service to continue to increase.

Rachel Duffey
CEO PayPlan

PayPlan®

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Industry level private sector breakdown

There have been some key differences in the way that we have seen sectors respond within the private sector.

Energy V Telco

- The Energy Sector saw a **4% improvement** in the number of consumers who engaged after their initial contact with a Debt Collection Agency (DCA), whereas our Telco clients saw a **5% decrease**
- Where contact was made we saw an **11% increase** in the percentage of consumers that paid within the first two weeks, whilst the Energy Sector experienced a **3% decrease** compared to before the pandemic
- Telcos saw a larger increase in their average cash per account collected **(Telco 67% vs Energy 15%)**
- Telcos also witnessed more growth in liquidations too **(Telco 38% vs Energy 10%)**
- The volume of consumers engaging digitally rose significantly in both sectors **(Telco 75% vs Energy 56%)**
- Worryingly, there was a dramatic rise in potentially vulnerable consumers in the Telecoms sector **(Telco 121% vs Energy 27%)**

With the recent energy price rises incoming, we will continue to monitor any sector differences, paying particular attention to how consumers priorities different debt types.

Observed pandemic impacts across the different sectors		
	Telco	**Energy**
Cash Per Account (12 months)	+67%	+15%
Liquidation (12 months)	+38%	+10%
Digital Contact	+75%	+56%
Vulnerability	+121%	+27%

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Putting consumers first

Impact of Consumer Duty regulations

Whilst the full details of the new Consumer Duty are yet to be confirmed, we expect new regulations will require organisations to make significant changes to the way they operate. This is likely to affect organisations dealing with consumers in debt from high-level strategic planning down to individual customer interactions in order to take all reasonable steps to avoid causing foreseeable harm to customers.

The work we've already done here at TDX to transform how we focus on and engage with consumers, means we expect to be in a strong position to be able to support our clients to manage any regulatory changes such as the new Consumer Duty. We describe below just a few our recent developments:

Transformed our communications

We created a brand new library of communications designed to support positive conversations helping people out of debt which received multiple accreditations (Crystal Marked Communications and Vulnerability Standard BSI18477) and helped us to deliver over 29 million outbound customer messages.

Introduced consumer feedback

We developed and introduced a brand new consumer feedback scheme, CXF score, to monitor the experience and feelings of consumers following their interaction with our suppliers.

For the first time we were able to capture and understand the true voice of the consumer; giving us, our clients and our suppliers the ability – the transparency – to action impactful solutions to improve the consumer's experience more holistically.

Of the 30% of consumers who gave us feedback, there was an average 'experience score' of 88%, with further outstanding feedback coming from consumers themselves.

"The positive consumer feedback we received highlighted how supportive our suppliers have been during a very difficult time. We're now looking towards taking this consumer feedback a step further; by linking it to customer journey data to create a full, end-to-end journey map as part of our industry-leading efforts to make the debt industry better for everyone."

Isobel Crosse
Head of Customer Experience TDX Group

"We've continued to build upon the best practices we introduced during the pandemic to maintain a consumer centric view through our communications, ensuring they remain sensitive to consumers. But we won't be stopping there. We're reviewing how we ourselves operate to ensure we'll be ready to help our customers cope with the changes new Consumer Duty regulations are likely to require."

Lindsey Richardson
Compliance & Risk Director
TDX Group

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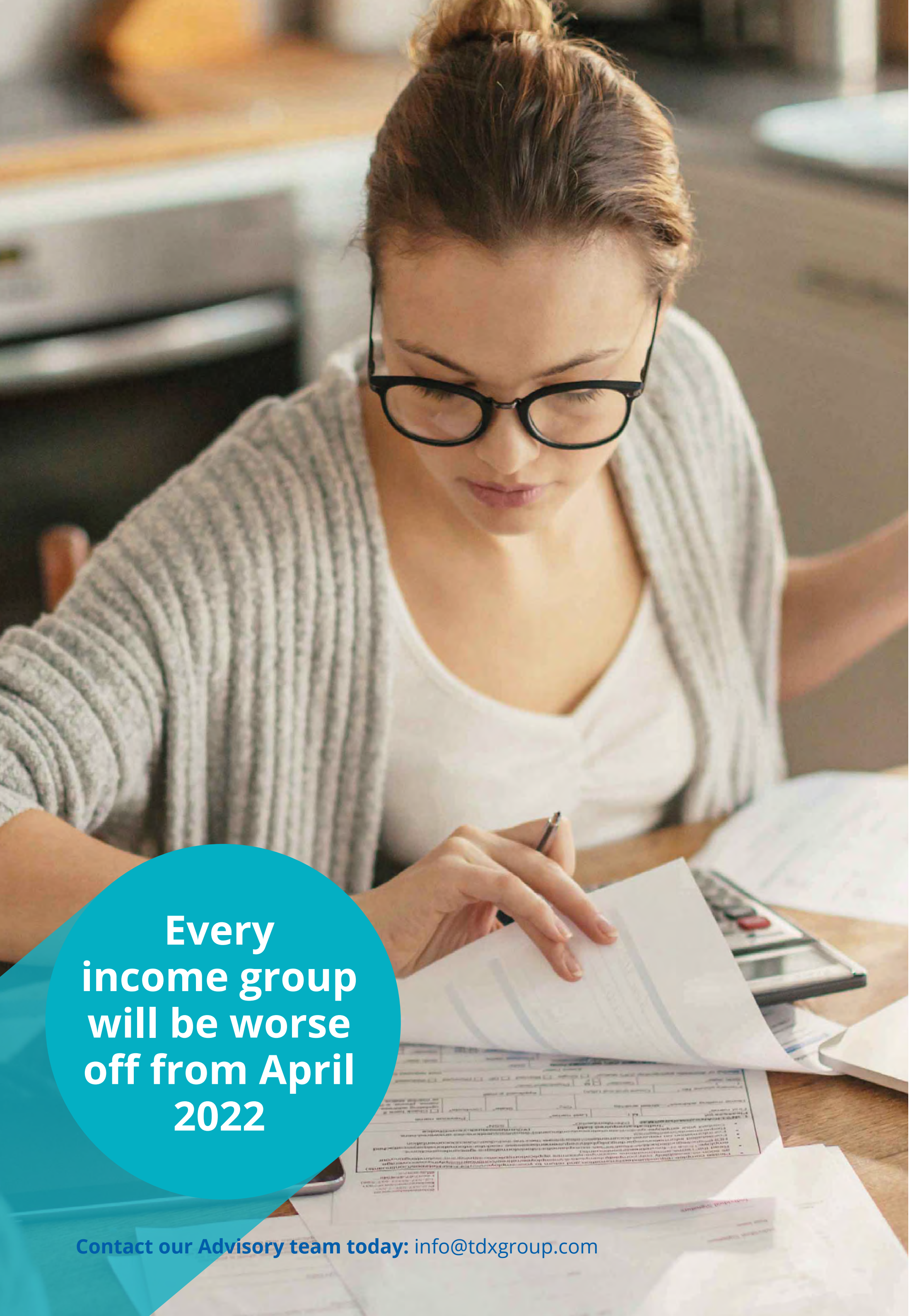

Every income group will be worse off from April 2022

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The economic outlook

As the UK steps back out into a new, post-pandemic world, many consumers will, understandably, be taking each financial step with care and caution. The Government-led support measures and packages that, as we have seen in this report, provided so much stability to millions across the nation, are now largely gone; and whilst some households were able to repay existing or unsecured credit and accumulate savings, the biggest impact is expected, once again, to be felt more harshly by those classified as being most vulnerable and at risk.

In the years to come, we anticipate spending to be cautious amongst all consumer groups. Some will see the pandemic's windfall as additional wealth, rather than extra income. Others, if not all, will be keeping a watchful eye on the looming cost-of-living situation. Regardless, consumers are likely to experience a strain on their spending power from April; with a number of key changes affecting disposable income, including:

- Energy price cap up ~50%
- National insurance up 1.25% (for employers and employees)
- Council tax bills expected rise ~5%
- National wage rising from £8.91 to £9.50
- Some benefits will increase by 3%
- Inflation rising towards an 8% peak.

As 2022 rolls on, lower income groups are expected to be faced with some difficult financial decisions resulting from the changes detailed above. It is therefore likely we will see a sharp increase in both number, and value, of arrears – particularly within the Energy and Water sectors. As a consequence, there will be a further increase in personal insolvencies and other financial instruments intended to manage worsening debt positions.

Regulatory changes are being planned by the FCA to ensure organisations remain focussed on affordability, forbearance and fair debt collection.

Continuing our mission to make the debt industry better for everyone

The support and protection we provided to over 5 million consumers throughout 2020 and 2021, is still in effect as we speak. And it will be for some time to come. Right now, it's more important than ever that we continue to treat consumers in a fair and empathetic way, with the cost-of-living crisis forecast to cause further uncertainty for millions more across the country.

By continuing to work together with our clients and supply chain, consumers will continue to reside where they belong – at the heart of what we deliver.

We will continue monitoring our consumers and the impact future financial changes may have on them. Some key metrics we will be following include:

- Equifax Risk Navigator Scores
- Consumer experience through our CXF score
- Vulnerability volumes

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How TDX Group can help

We listen, understand and care about reducing the impact of debt.

With fresh pressures likely to come from all quarters, our vision – to make the debt industry better, and to make it better for everyone – has never held such value.

As the UK's leading provider of data-powered debt resolutions services, we recover debt on behalf of our clients ethically, fairly and sustainably.

We intelligently harness insightful and unparalleled levels of data and analytics to power better informed decisions and maximise outcomes for both businesses, and consumers; continually seeking out new and innovative ways of making the debt resolution process as positive an experience as possible.

Over the last couple of years, we've reflected on how we communicate with consumers and transformed our standards and processes to create an industry-leading debt management solution bespoke to all consumer debt types and segments.

Through our Insolvency Exchange (TIX), we provide a comprehensive managed service for personal insolvency which ensures creditors are represented and customers are treated fairly – as well as maximising collections potential.

So, while the debt industry will be facing often unprecedented challenges in the near future, our clients can rest assured that they have a team by their side who not only understand their challenges, but have their, and their customers' best interests at heart.

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Sources

[1] The figures quoted on page 3 are based on research carried out for TDX Group by Portland Communications conducted between Wednesday 9th December and Thursday 10th December, 2020. Total sample: 1,009 UK adults (aged 18+) were interviewed online.

[2] The figures quoted on page 12 are from Oxford Economics "Country Economic Forecast" 17 January 2022.

[3] Unless stated otherwise, all other statistics are based on TDX analysis of 6.4m consumer accounts for our public sector clients and 7m consumer accounts for private sector clients across the pre-COVID time frame (2018 and 2019) and the post-COVID time frame (2020 and 2021).

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