TDXGROUP
An Equifax company

Financial Health Report 2023

Making ends meet: unravelling the cost of living spiral

Foreword

At Equifax, we understand the power of data. We know the value of the insights data provides. So in this Report we're sharing our insight into what is changing in the financial health of households across the UK right now.

Our unique insight is derived from a variety of sources. It comes from credit files, which include information on the types of credit consumers are using, and whether or not they are able to keep up with their repayments.

It comes from consumers – when they choose to share this data with us – which helps us understand how people's income and spending habits are changing.

It also comes from our work in helping creditors in regulated markets – and in the public sector – to recover money fairly, ethically and responsibly, all the time protecting people in debt.

By sharing more of what we learn along the way, we continue to lead the way in responsible debt management and data led solutions. By contributing to the work so many inspiring organisations already do to improve people's financial wellbeing, we can help make our industry better for everyone, and support more families to live their financial best.

Patricio Remon
President - Europe
Equifax.

Phil McGilvray
Managing Director,
TDX Group

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Our ESG values

At Equifax, we believe in helping people live their financial best. We want to make a positive and measurable impact that leaves a lasting legacy through our Environmental, Social and Governance (ESG) policies.

We are committed to using our unique data to create a legacy, making a measurable impact on the financial landscape and creating a more sustainable future.

Half of adults in the UK, are not confident managing their money day to day and we want to change that. Providing the ability to act (knowledge, confidence, motivation and skills) along with the opportunity to act (access to products and services).

We also recognise that the attainment gap between poorer and more affluent young people has widened to 46% as a result of COVID-19 with a direct impact on the financial resilience and capability of future generations. So, we want to educate consumers and our future consumers to protect against financial distress whilst identifying and tackling the barriers to financial inclusion.

Growing and shaping our existing talent and inspiring the next generation of diverse bright minds will make us a more sustainable business for the future. So, we want to develop the skills that young people need, help them overcome the challenges that keep them from succeeding, and facilitate employability activities to broaden horizons and provide experience of the workplace.

We want to minimise the impact on our planet and be a good corporate citizen. We have pledged to reduce our global environmental impact and have committed to net-zero greenhouse gas emissions by 2040, a sustainability commitment enabled by our Equifax Cloud™

Thank you for accessing this report digitally. Around 1% of carbon emissions come from print and paper products with a print run of 100,000 sheets of A4 paper creating a carbon footprint of 6,000kg, requiring eight trees and using around 2,000kWh of energy. If we can make a small difference in minimising our printing, we will be doing our bit to create a more sustainable planet for the future.

But that alone is not good enough for us, so we've planted 500 trees as well.

Executive summary

Our in-depth Financial Health report aims to shed light on the current state of UK household finances and to provide actionable recommendations for improving financial wellbeing. It is our hope that this report will serve as a valuable resource for you, your colleagues and network.

We know that consumers are feeling anxious about the financial changes they are experiencing already and those they are facing in the near future. We've found that in the current cost of living crisis consumers are having to rely on new financial solutions, such as BNPL credit, and using savings to pay for essentials. Whilst most consumers are managing for now, we predict that, without further support, we'll see more households falling into debt for the first time due to the mortgage shock expected later this year, when 1.4m consumers could face a 50% increase in their monthly mortgage repayments.

We're already beginning to see some of the changing demographics being hit by the cost of living crisis, with this report highlighting more homeowners and mid to high earners accessing debt advice alongside a rise in mid to high earners entering into Individual Voluntary Arrangements. Whilst our report is centred around unique data insights and statistics, the consumers and their experiences are at the heart of it.

This report is already shaping the way that we're working at Equifax and our recommendations for the industry are:

- **Work smarter with the best data, understanding more about your consumers to engage earlier and more effectively with them**
- **Give the frontline teams the skills and tools they need to do the right thing**
- **Partner with experts across the industry, increasing reach and impact**

We would like to extend our gratitude to all of our partners and contributors who have helped bring this report to life. Without your support, this important work would not have been possible.

We encourage you to read and share this report widely with your networks. Please do get in touch with us at Equifax and TDX Group with any enquiries you have regarding the report and our work.

Let us work together to make our industry better for everyone.

James Hilton
Chief Commercial Officer
Equifax Debt Services

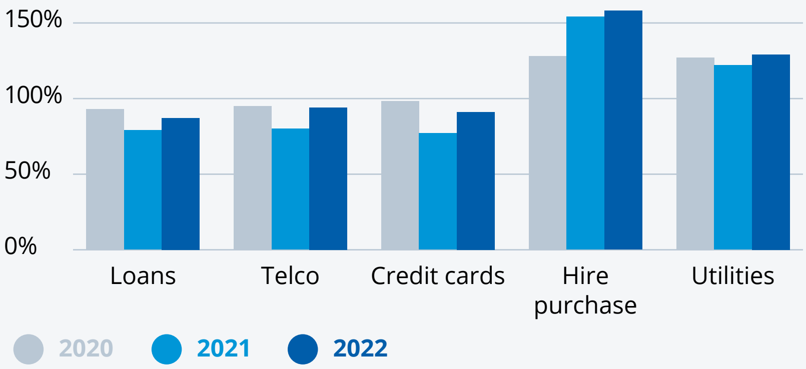
Section one:

What is the evidence telling us?

Keeping up with repayments

Households in the UK took on an extra £72 billion of personal debt in 2022, compared to 2021, a 4% increase which works out at an extra £1,367 per adult. This was at a time when both the cost of credit and families' bills were getting more expensive. Despite the growing financial strain, people on the whole were able to keep up with their repayments. That said, we did see a sharp increase in the number of people falling behind on car loans and on their bills for phones, broadband and paid-for TV. We expect to see more households falling behind on their repayments across a wider range of products in 2023.

Accounts in arrears by 2 months or more, split by debt type, as a percentage of 2019 figures



EFX Data

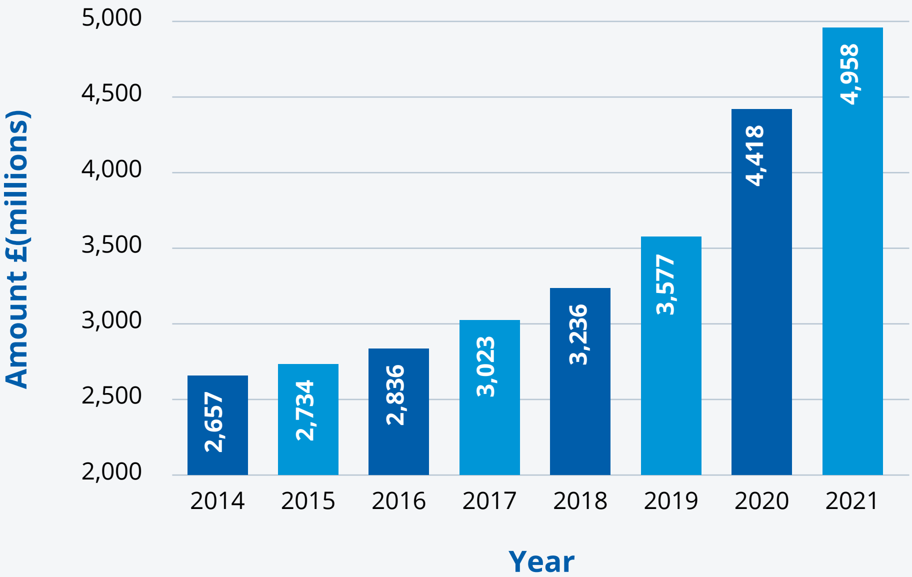
This chart shows car loans and utilities bills as the two debt types where we see more worrying signs of strain. Both are above 2019 historic levels. With every month in 2022, more and more households fell behind on essentials like car finance and household bill payments, e.g. gas, electricity and water. The level of problem debt is already well above pre-pandemic levels, and rising sharply.

We expect households' disposable income to keep falling in 2023. This will mean more consumers are likely to fall behind on commitments such as telecoms and loan repayments as they try to prioritise their budgets.

The squeeze on disposable income is not just the result of energy bills and food getting more expensive. From April 2023 most households will also get a much higher council tax bill than they did last year.

According to the Centre of Social Justice (CSJ), a record number of councils in the UK (75%) are planning to raise bills to a maximum 4.99%. This will see the typical Band D council tax bill for residents in rural county areas rise from £2,000 to £2,149 a year on average. This comes after council tax arrears hit a record high in 2022. At the end of March 2022, households owed £5 billion of unpaid council tax, 12% more than in 2021. Though that was partly due to the impact of the pandemic on collections, we expect rising bills to mean more families will be unable to pay their council tax in 2023. This also means they may struggle to keep up with other priority debts, such as mortgages.

Council tax arrears trend

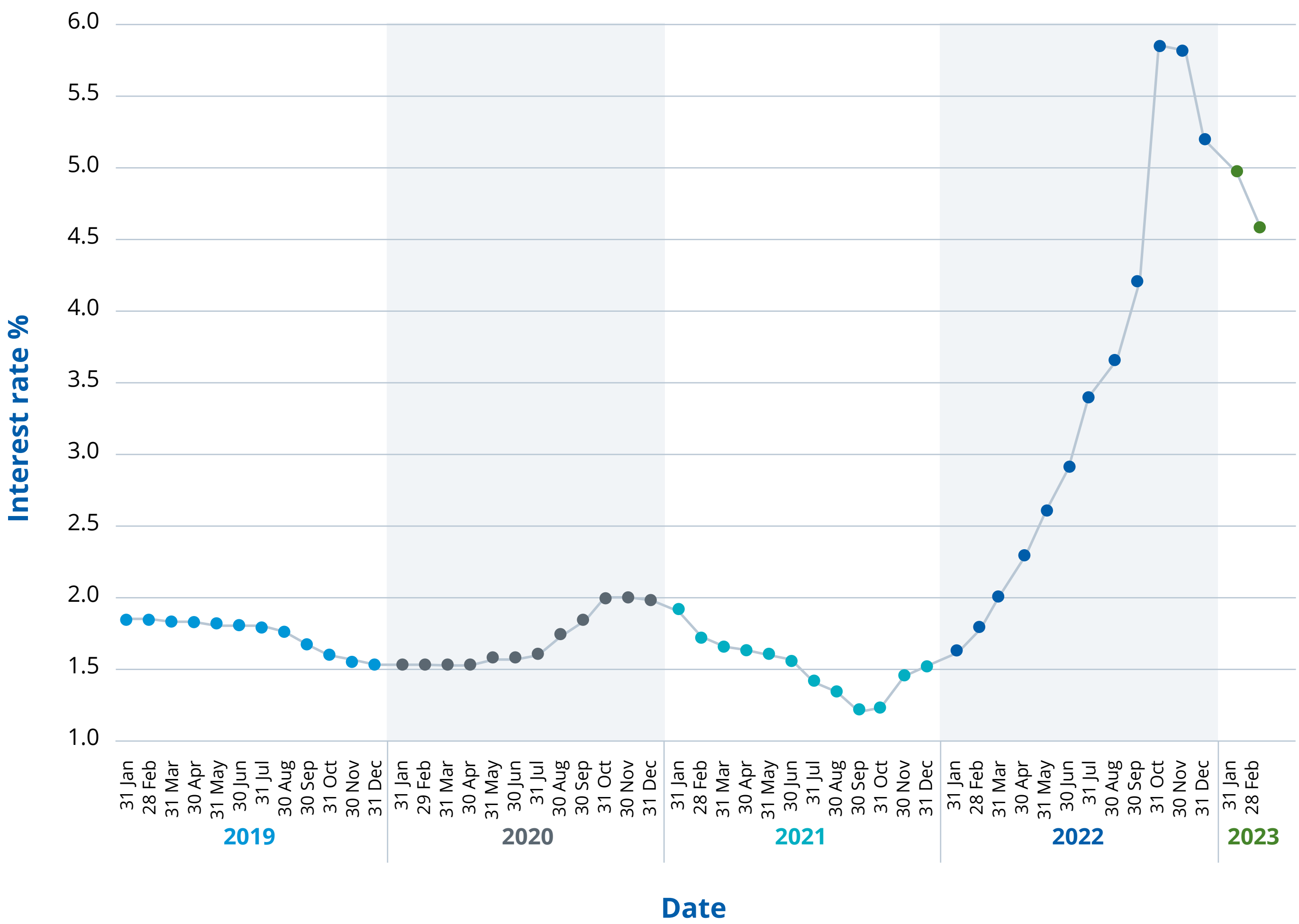


CSJ Data

Brace for the mortgage shock

After a turbulent few years, the number of mortgages granted each month has settled back down to similar levels as seen in 2019. Fewer people are falling behind on repayments than in 2019 too. However, a dark cloud approaching indicates that this could well be the calm before the storm. We expect a mortgage shock in 2023, the time when most consumers with a fixed rate mortgage (57%) have to renew their deal.

New mortgage agreement trend
Average monthly mortgage interest rate (75% LTV) – All fixed



BoE Data

Consumers with a mortgage in arrears compared to 2019.

2020
+1%

2021
-7%

2022
-14%

Over the past few years we have seen the number of people in arrears on their mortgage falling, this is lower in part due to fewer mortgages being taken out and thus fewer new mortgages in the market (which is typically where bad debt materializes). However without support we expect to see these numbers rise in the coming years.

On average, the mortgage deals consumers have had in recent years were fixed at interest rates below 2%. Since then, interest rates have soared. Now the best rates consumers can hope to find will be fixed at around 5%.

For the typical consumer, these higher rates will mean their mortgage repayments jump by 50%. For example, a £250,000 mortgage taken over 25 years at a fixed rate of 1.5% in November 2021 cost £1,000 per month. When the fixed rate ends, a typical new mortgage at 4.5% over 24 years would cost an extra £421 per month.

We fully expect 1.4 million people to face this mortgage shock. Many households will struggle to find the extra money they need to afford those higher payments. As a result, we expect to see many more fall behind on their mortgages or on their other debts, reversing the trend that we have observed over the past few years.

The mortgage shock is not the only precipice we are teetering on. In London alone, over a million people had less than £100 in savings. In 2022-24, households are on track to suffer the biggest drop in living standards since records began. We expect to see more younger people becoming financially vulnerable, particularly those with mortgages and young children.

While all kinds of mortgage holders will be affected, there is one group we think will be hardest hit by the shock. Millennials generally have less money saved up, and less money spare at the end of each month. They tend to spend more of their income on their mortgage than any other age groups.

People under 30 spent proportionally more of their income on housing and food **(41%)** than other age groups (**who spent 30% to 36%**) (ONS Data)

Case Study:
Feeling out of control financially

One couple from London is facing an increase in nursery fees of £400 a month, taking their total monthly spend on childcare up to £3,000 (even with 30 hours funded childcare for her eldest) and are unable to leave London as are now struggling to find a bank that will lend to them due to their childcare costs and the increased interest rates.

"I think it is just so out of our control it feels scary. Even if you make sacrifices and are careful, something like this happens and you can't be prepared for it."

Miranda, *Mother of two children under 5, London*

For lots of younger mortgage holders, as well as others hit by the shock, it will be the first time ever that they have fallen seriously behind on their debt repayments. Without the right support from creditors, their situation could quickly spiral out of control.

Case Study:
Leanne from Christians Against Poverty's Greenwich Debt Centre tells us:

"Over the last twelve months, we have seen a rise in the number of people asking for help from our CAP debt centre. Many healthy essentials such as dairy produce, meat, fresh fruit, and vegetables are becoming increasingly out of budget for people on the lowest incomes. By the last week of each month, many have run out of funds and desperately rely on the local foodbank to feed their families.

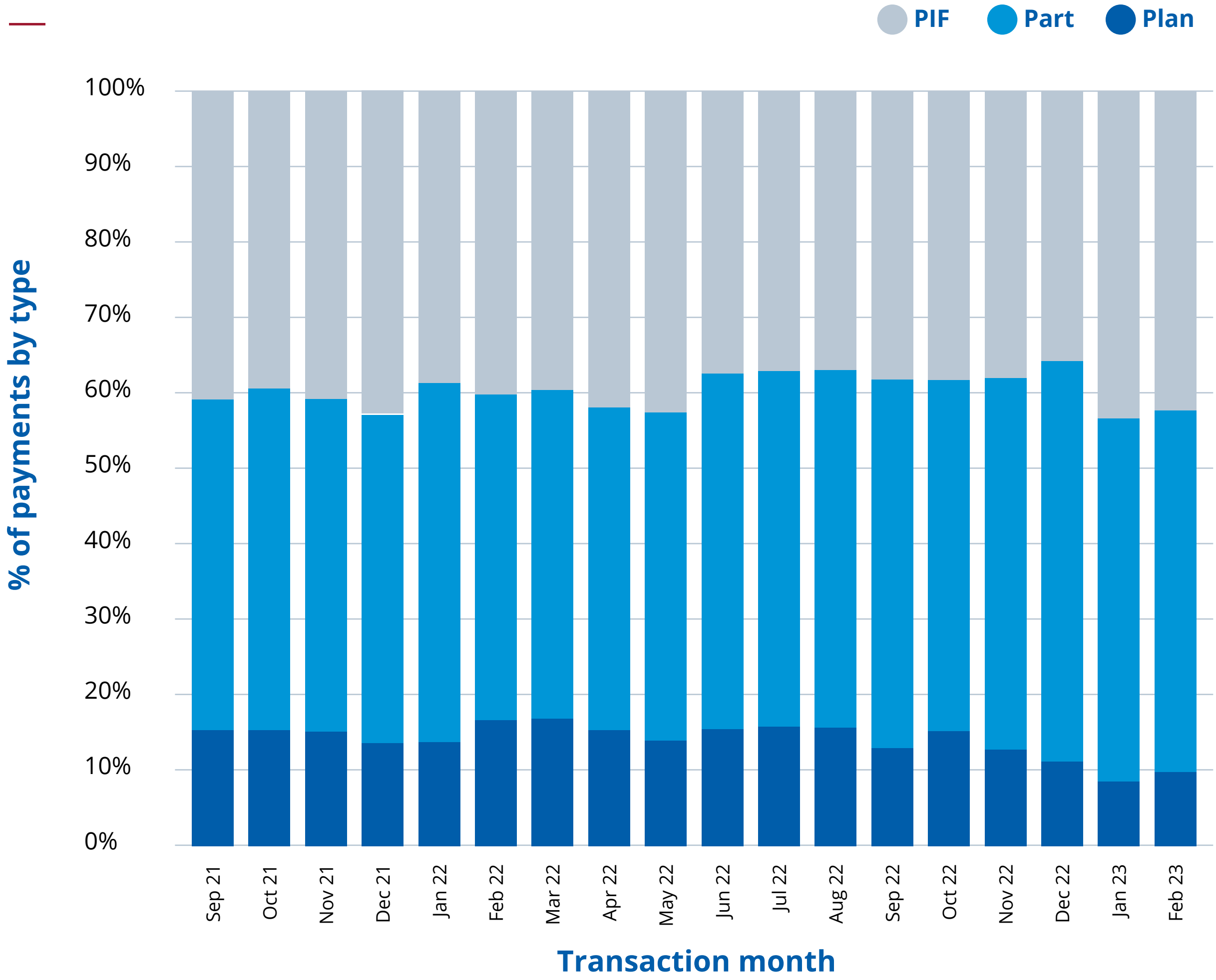
We visit cold, damp homes, riddled with toxic black mould. This cause and effect is a shocking reality for the poorest in our community, paying the largest premium, for what many would see as a basic human right: a warm and safe environment to live. Some local businesses profit from their poverty, charging clients £5 per transaction on their utility cards for gas, electricity, and water.

At present, there is no end to this cycle. Clients on the lowest income do not have a sustainable budget. The tragedy being, once debt free, they are tipped back into arrears within a month, due to the rising cost of energy and food. We hear people talking about the numbers, but to us, each data point is a person, a family, a neighbour within our community, who we believe deserves better."

Consumers who are already behind on payments

For many households, the worry is not about whether they will fall into arrears, it is how to resolve the problem debts they already have. These include debts that creditors may have passed to debt collection agencies, or debts a consumer is paying off through an Individual Voluntary Arrangement (IVA), a type of insolvency agreement.

Utilities debt: Percentage of debts consumers paid off in full, made part payments or set up a payment plan



TDX Data

When a debt collection agency contacts a consumer about a debt, the consumer typically does one of the three things, depending on their financial situation. If they can, they may pay off the debt in full. If not, they may pay off part of the debt. Or, if they are in more difficulty, they might set up an affordable payment plan to resolve the debt over time. At a time when consumers' finances are more strained, we would expect payment plans to become longer as consumers make smaller payments each month.

However, despite the growing strain on household finances, our data shows that there has not yet been a rise in the share of consumers who are making part payments or setting up payment plans instead of paying off these debts in full. Even in the utility sector, which includes unpaid energy bills, consumers did not use payment plans much more in 2022 than they did in 2021. The number of debts they paid in full remained stable too.

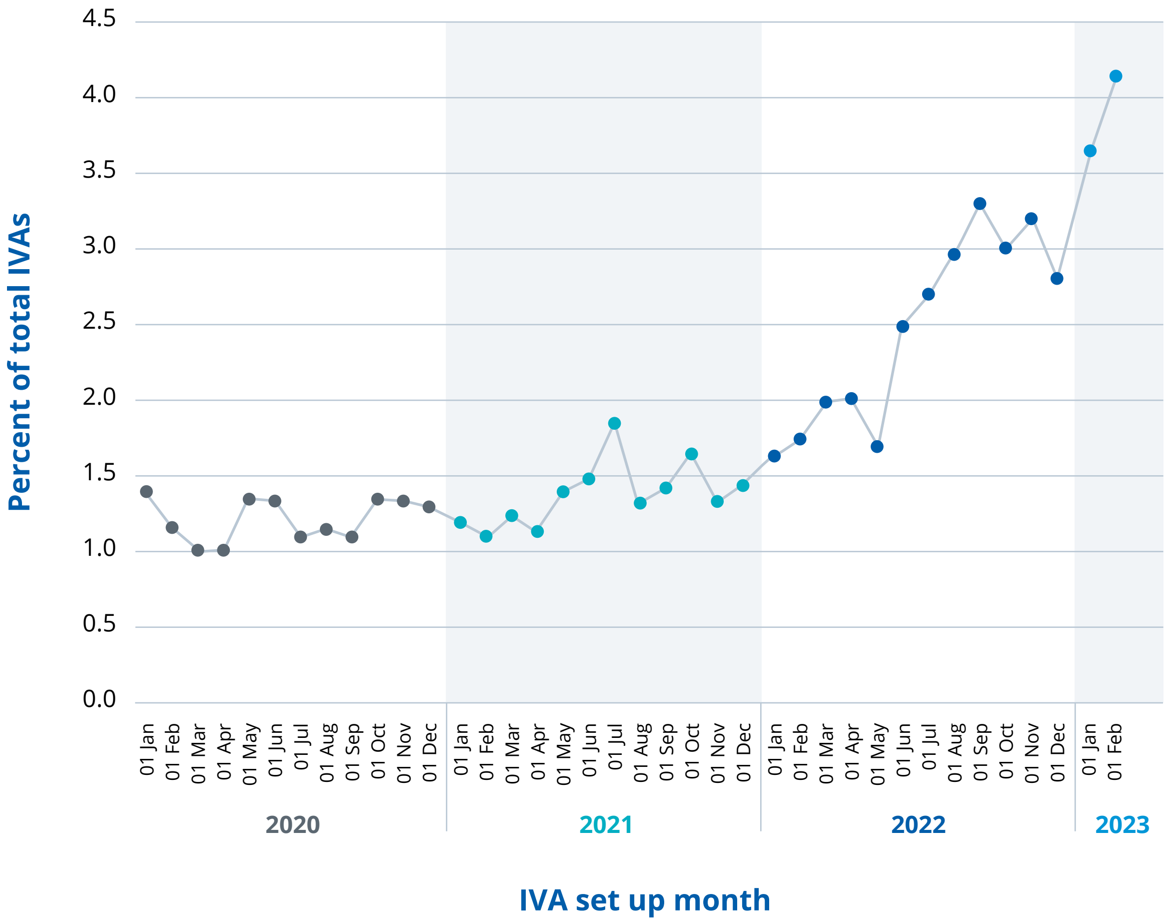
When consumers do take out payment plans, the length of those payment plans has also remained stable, and at around pre-pandemic levels. This means consumers do not need to spread those payment plans over more time to keep them affordable. This is a sign that despite falling disposable incomes, consumers' financial health is not falling as fast as might have been expected, they are adapting behaviours to make ends meet for now.

Turning to Individual Voluntary Arrangements, IVAs, there was only a slight increase in consumers taking out IVAs in 2022 compared to 2021 and pre-pandemic levels.

However, our data reveals a change in the type of consumers using IVAs in 2022. A growing number of IVAs were taken out by consumers who earn more than £4,000 a month. These relatively high earners made up around 1% of IVAs in 2019, and around 3% in late 2022.

Higher earners using IVAs also tend to have more debt. Those earning over £4,000 a month who took out an IVA typically had double the debt of those who earn less.

Percentage of new IVAs by month where the consumer earns over £4,000 a month



Gov Data

What's happening to spending?

We can see one reason why more households are falling behind on their repayments by looking at how consumers changed their spending in 2022. As their bills rose and their disposable income fell, consumers cut back on entertainment, switched to cheaper food and drew down on savings. This is evidenced by the 13% increase in the number of average transfers from savings to current accounts.

There were big increases in essential and other spending for consumers in 2022. The prices of energy and food rose the most. This meant inflation hit those on lowest incomes hardest since they spend more of their income on these essentials.

Real household disposable income per person to is set fall by a cumulative 5.7% over the two financial years 2022-23 and 2023-24.

In the past few months we have seen price changes of:

+28% in energy bills

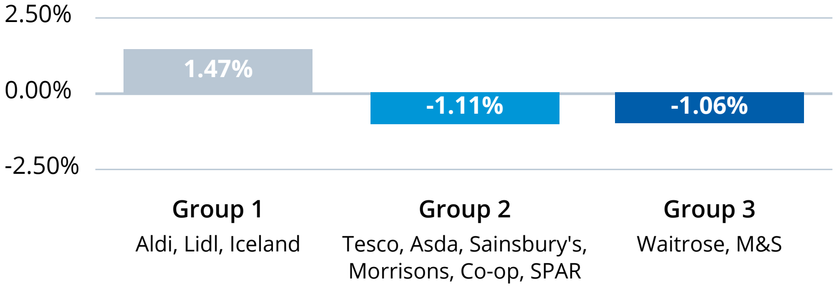
+4% in streaming services

+11% in fuel spend

Faced with higher living costs, we have seen consumers take out more credit. But they are also starting to switch to cheaper supermarkets, spending 1.5% more in budget supermarkets in October 2022 than in March 2022. We expect to see this to increase over time as budget supermarkets such as Aldi and Lidl grow their market share.

We've also seen consumers increasing their use of credit to make ends meet. There was a big and ongoing increase throughout 2022 in how much consumers spent on repayments to Buy Now Pay Later (BNPL) providers. Consumers spent over 20% more in BNPL repayments in October 2022 than in February 2022. We then saw a much bigger rise in the run up to Christmas. At the same time, consumers were also spending more on high cost short term credit. There was an 83% increase in high cost short term credit repayments in December than in April to June.

Supermarket Trends
% usage change in Oct 2022 vs March 2022



With disposable incomes expected to fall further in 2023, there is concern that more consumers will be unable to keep using their savings. Instead they'll continue to switch to cheaper products and use credit to make ends meet.

Real household disposable income (RHDI) per person – a measure of real living standards – is expected to fall by a cumulative 5.7 per cent over the two financial years 2022-23 and 2023-24. While this is 1.4 percentage points less than forecast in November 2022, it would still be the largest two-year fall since records began in 1956-57.

The fall in RHDI per person mainly reflects the rise in the price of energy and other tradeable goods of which the UK is a net importer, resulting in inflation being above nominal wage growth. The Office for Budget Responsibility OBR also forecast that in 2027-28, households' real living standards will still be lower than their pre-pandemic levels.

Case Study:

A view on affordability and support from Money Wellness

The cost of living remains close to its highest level for 40 years, with the price of basics like bread, pasta and milk soaring over the past 12 months.

Rising living costs have led us to see one in three of our customers with outgoings that exceed their monthly income. In February this year, around 9% of those who contacted us said they couldn't afford the basics. Relying on easily available credit, such as buy-now-pay-later products, or borrowing to make ends meet has further compounded the problem. What was a financial squeeze has quickly become a debt crisis.

We have also seen an increase in the complexity of debt advice with customers needing more support with priority bill arrears, such as utilities and council tax. Additionally, we're providing more holistic support in areas such as benefit assessment, with one in three customers on average receiving an uplift in payments thanks to our advice.

We've yet to see the full impact of higher inflation and base rate increases but this will only exacerbate the trends we've seen this year. We can draw comparisons to the 2008 credit crunch when households were as equally financially challenged. The result of which will be a strong demand from homeowners and more middle to high earners seeking advice.

Ian Somerset, *Chief Executive, Money Wellness*

Section two: What should we do about it?

Case Study:
A view from the debt advice sector, Money Advice Trust

“With inflation remaining high, household budgets are under significant pressure. People on the lowest incomes are being particularly badly hit and many have little or no stretch left in their finances.

At National Debtline, we are hearing from more people having to use credit to cover essential costs, including food, energy and council tax bills. And the small business owners we help through Business Debtline are facing a perfect storm of rising household and business costs.

We’re also seeing increased concern among homeowners who are due to re-mortgage this year, and higher mortgage payments also risks higher rents as landlords pass rising costs on to some tenants. For households already only just about managing, a significant increase in housing costs risks pushing them into financial difficulty.

Through our debt advice services, we’re helping people worried about their finances. Lenders also have a vital role to play, by being proactive in offering support to customers, while government must continue to work to help people struggling with high bills and to ensure people in debt are treated fairly.”

Jane Tully, *Director of external affairs and partnerships, Money Advice Trust.*

Getting better at supporting vulnerable consumers

Creditors, and organisations working with those in debt, are striving to get better at identifying when a consumer may be vulnerable. This includes how this could affect them and how to respond in a responsible and ethical way. The big question many ask remains the same: “what should we do?”

While the priority given to supporting vulnerable consumers is increasing, our debt services data indicates that the share of consumers who are vulnerable has been stable at 12-14% over the past four years.

However, in this time, we have also seen an increase in the share of consumers who disclose a vulnerability to debt collection agents. This has grown from 2.4% before the pandemic, to 4.2% during the pandemic, and then up to 5.4% in 2022. We see this as positive. The reason being that if a consumer feels able to share information on their vulnerability, then the agency can respond by tailoring its service to consumers’ circumstances.

Looking ahead, we expect to see a shift in who becomes vulnerable. We believe our industry can take the lead in helping them by taking responsible and ethical actions now. We also believe creditors need to respond to a wider range of causes of vulnerability. These include consumers who are unable to access digital services, people who are victims of coercive, controlling partners and, crucially, addressing the impact on day-to-day life for people who are struggling with their mental health, as we are seeing across the UK.

“I’ve noticed a large increase in clients with complex mental health issues. Supporting them through their debt problems then becomes more challenging.

Not understanding basic budgeting principles makes it easy to lose track of finances. I’m sure more people will seek our help as most of our clients struggle with debt for at least two years before seeking professional help.”

Louise, *Christians Against Poverty, Bradford Debt Centre*

Mental health and money problems are often intricately linked. One can feed off the other, creating a cycle of growing financial vulnerability and worsening mental health. For many, this spiral can be hard to escape from.

Across England, more than **1.5 million** people are currently experiencing both problem debt and mental health issues.

Almost half of consumers with a problem debt also have a mental health condition, and almost one in five people with poor mental health have a problem debt (Money and Mental Health Policy Institute).

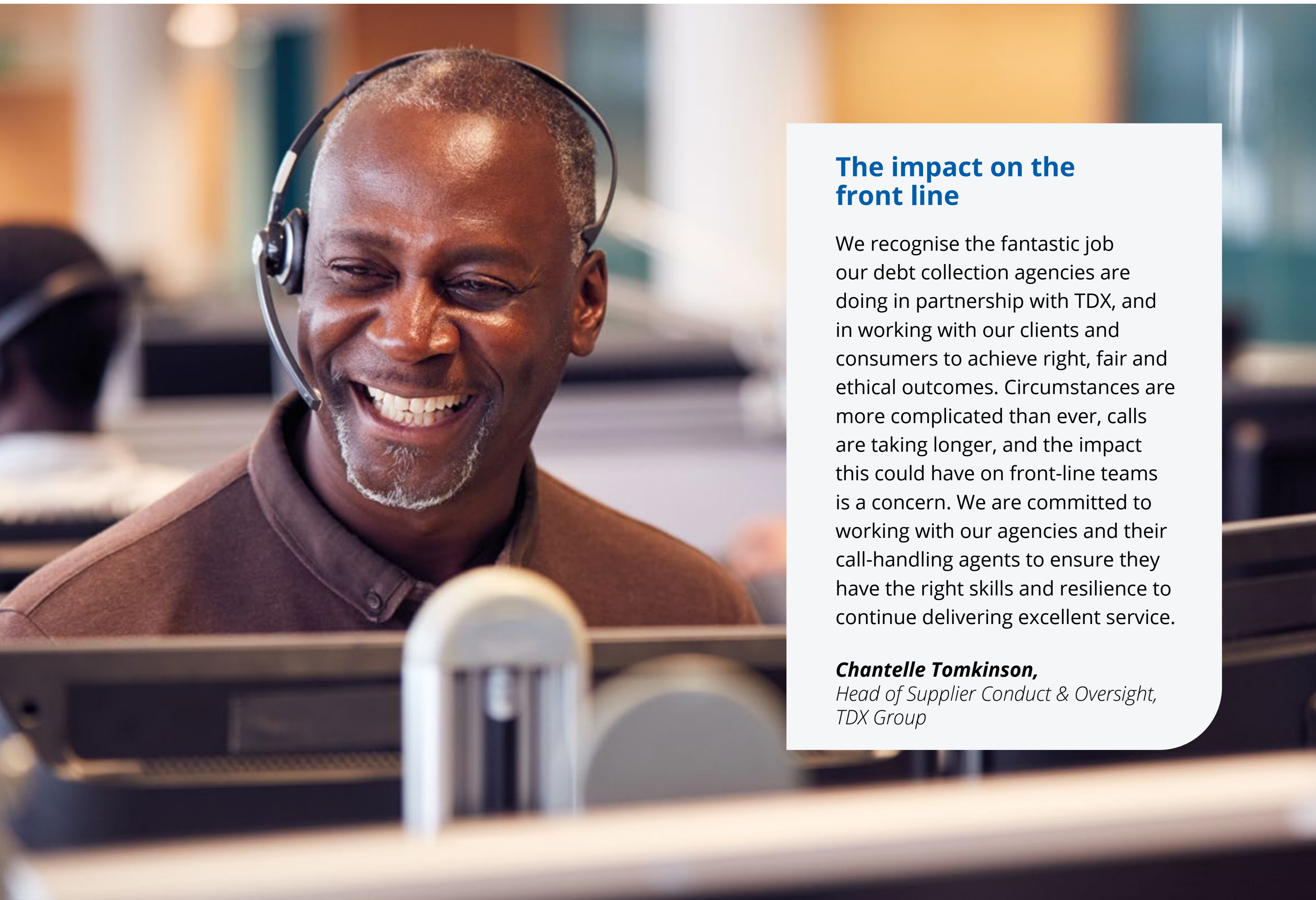
The TDX approach to inclusive services

At TDX Group, our purpose is to make the debt industry better for everyone. We use cutting edge data analytics and an ecosystem of partnerships to create and deliver innovative and impactful services for creditors with vulnerable consumers in mind. Over the last few years we have put ourselves at the heart of the debt industry and have been accredited with BSI18477. However, we know there is more to do.

We are:

- Working towards ISO 22458:2022 and achieving the BSI Inclusive Service Kitemark to ensure that our products and services continue to be as inclusive as possible
- Partnering with the Money Advice Trust to develop training to support our industry have more inclusive conversations and better identify consumers who may be vulnerable
- Embedding inclusivity in the design of debt collection solutions in our industry to ensure a better outcome for consumers.

Isobel Crosse,
Head of Strategy and CX, TDX Group



The impact on the front line

We recognise the fantastic job our debt collection agencies are doing in partnership with TDX, and in working with our clients and consumers to achieve right, fair and ethical outcomes. Circumstances are more complicated than ever, calls are taking longer, and the impact this could have on front-line teams is a concern. We are committed to working with our agencies and their call-handling agents to ensure they have the right skills and resilience to continue delivering excellent service.

Chantelle Tomkinson,
Head of Supplier Conduct & Oversight, TDX Group

Case Study:
Types and definitions of vulnerability

"While the economic climate is clearly plummeting more people into debt, we need to be conscious that financial difficulties are frequently coupled with other vulnerabilities. Our focus on digital communication means than many people can be ostracised and unable to access the support and services that should be available to them.

The elderly are less likely to highlight their circumstances and less likely to use the communication routes encouraged by services providers. We know that 25% of those registering with the Vulnerability Registration Service live in social housing and 26% are earning less that £18,500 a year. 2.5% of our database is flagging financial capability is an issue for them – these are the population that need support and protection from a debt spiral, unregulated credit, coercion and loan sharks".

Helen Lord, *CEO, Vulnerability Registration Service (VRS)*

Age Breakdown: while the elderly have more propensity to experience vulnerable circumstances, we know that the over 70s are 30% less likely to highlight that vulnerability than those aged between 30 and 50.

Types of Vulnerability: 74% of those registering with VRS flag that they are in financial difficulty. Increasingly, those individuals are stating that financial hardship is coupled with other factors such as physical or mental health or life events. 37% of individuals registering directly with VRS in the last two years have highlighted mental health as an issue for them, while only 21% focus on financial difficulty as the primary reason for their registration.

Case Study:

How one mortgage lender is preparing to help customers through the mortgage shock

Melton Building Society offers a range of mortgage products. They help borrowers get started on the property ladder or remortgage to find a better deal and can support borrowers who have difficulty in securing a mortgage due to adverse credit history. They also offer landlords a range of Buy-to-Let products.

Lisa Bullen, Director of Operations, described how Melton Building Society is helping its customers who are worried about paying their mortgage:

“The cost of living crisis and external environment is having an impact on borrowers. Based on our ongoing monitoring and forecasting we are expecting to see around 45% of borrowers experience an increase in their mortgage payments in the coming three years.

The impact of the increase we are currently seeing is that borrowers are falling into arrears. However, with swift action and discussions with my colleagues and, if necessary, debt advisers, the support we are providing is helping them to be back out of arrears promptly. But we realise how important it is to monitor this situation, and we are anticipating the possibility of the time to move back from arrears extending and more people sadly falling into arrears.

The support we are offering at this early intervention includes:

- Providing access to debt advice via Melton and District Money Advice Centre and other support channels
- Always following up letters with phone calls to encourage customers to speak to us
- Creating a ‘Financial Difficulties tab’ on our website and explain how customers can access support
- Providing access to new products at the maturity of the mortgage or earlier if appropriate for the customer
- Contacting customers on Standard Variable Rates to encourage them to discuss other products that may be more beneficial.”

Ensuring inclusivity whilst adopting digital

Just as many people want to get credit and manage their finances online, many want to deal with debt collection agencies digitally too. During the lockdowns, we saw a 50% increase in the number of interactions debt collection agencies carried out online rather than by phone or mail. This has remained at the same level since. There is potential to do more for consumers who prefer digital services. Despite the increase since 2019, only around 3.5% of all agencies' interactions inbound and outbound with consumers are digital.

Consumer inbound engagement by communication channel

All traditional channels	32%
Letter	0.5%
Telephony	32%
All digital channels	68%
Online portal	63%
Email	3%
Other (WebChat, 2-way SMS)	2%

PastDue debt collection agency, 2023

But how inclusive are digital services?

According to Ofcom, the number of households who do not currently have access to the internet at home is 6%. However, online access is just one facet of digital exclusion. Confidence and skills, as well as the ability to keep yourself online in the digital world, are increasingly more important. For many, the impact of not being online is becoming more acute.

£18bn in unclaimed benefits

There is no doubt that one reason we have not seen many more households falling behind on their debts has been the unprecedented levels of government support throughout the pandemic and energy crisis. That said, a huge amount of government support still goes unclaimed.

Households could get an extra **£18bn** but they do not claim it, often because they do not know they are eligible. Policy in Practice is one organisation working to change this.

Case Study:

£18 billion of income-related benefits now go unclaimed every year

Policy in Practice estimates that the total amount of unclaimed income-related benefits and social tariffs is now almost £18 billion a year. This is a major issue.

Hundreds of thousands of low-income households are missing out on much needed financial support. During the cost of living crisis, a time when the real value of benefits is 7.5% lower than a decade ago, it is vital that vulnerable people and families receive all the support they are eligible for.

We estimate that 28% of low-income households will not have enough income to meet essential costs in 2023. For these families, maximising benefit income may be the only way to prevent crises. Our work with councils to drive benefit take up shows that many people are simply unaware of additional support that they can claim. Many factors in the benefit system prevent people from accessing all the support they're eligible for. The most significant is the sheer complexity of the different benefits, eligibility criteria and conditionality rules that claimants must navigate.

Systemic complexity ratchets up the pressure on people in poverty and intensifies the stress that goes hand-in-hand with not having enough money. Stigma also plays a significant role in preventing people from engaging with benefits at all.

Councils and frontline organisations can drive benefit take-up by using data to target people they know are eligible and not claiming. The government can help by increasing data sharing between itself and councils so they can get a full picture of their low-income residents. It is also vital that benefits advice services are properly funded so that holistic, wraparound support can be given alongside local discretionary benefits.

Deven Ghelani, founder of Policy in Practice, said, "People should be able to access the support they need and many don't know that they can claim Universal Credit. We encourage everyone with savings of less than £16,000 to check their eligibility using a benefits calculator, especially if they rent and have children."

People can use our free *Better Off Calculator* to find out all the benefits they are eligible for.

Policy in Practice is a social policy software and analytics company that works with public and private sector firms to use data to empower access to support. Visit policyinpractice.co.uk.

Deven Ghelani, *Director and Founder, Policy in Practice*

Unlocking access to social tariffs

It is not just government benefits that households are missing out on as they look to make ends meet in 2023. Water companies and most telecom providers offer specially-priced deals, called social tariffs, to consumers who are on lower incomes or benefits like Universal Credit.

Despite efforts from companies and regulators, most households which could save money by switching to social tariffs have not claimed one. Ofcom found that only 3% of households which receive Universal Credit had a social tariff for their broadband. One reason is that 70% of people who get benefits don't know that social tariffs exist. Another reason is that it can be time-consuming for the consumer to prove they are eligible for a social tariff.

Rather than waiting for consumers to ask for a social tariff, some suppliers try to identify consumers who are eligible instead. This is a challenge for the firms as it can mean identifying which consumers get certain benefits and are on lower incomes. Using Open Banking technology and working with Equifax, one water company has successfully streamlined this process.

As well as maximising income, a valid question is 'can we help address the cost of living by reducing essential spending?' Social tariffs and low-cost tariffs have been around in the water industry for ten years now and moved into the telecommunications industry as at-home digital accessibility became more essential during the pandemic.

However, despite the growth of special social tariff-priced packages, low consumer awareness and a lack of competitive discount-priced products for existing customers are still barriers to consumers getting the most out of their money.

One of the key barriers to making social tariffs more widely available is figuring out how consumers can easily demonstrate eligibility, and how organisations can identify potentially financially vulnerable customers who meet their criteria. For the consumer, this means demonstrating income levels or receipt of certain benefits to qualify. This was often a lengthy manual process, involving paper documentation and sometimes requiring back and forth communications between the utility company and its customers.

Case Study:
Open banking supporting social tariffs

By using Open Banking technology, we've been able to help water companies like United Utilities streamline eligibility for social tariffs and, in turn, make it easier for their struggling customers to get quicker and easier access to cheaper water bills. In a 2022 trial, our real-time income verification tool enabled United Utilities customers to seamlessly check they meet the thresholds for social tariffs while on the phone to an agent.

This innovation meant that the water company could more accurately and more easily identify income, which allowed them to expand their social tariff offer to more customers and help them meet regulatory targets. For their customers, the initiative created a simpler journey, as there was no need to find out information or documentation to declare levels of income and/or benefits. In fact 80% of those who took part in the trial told us they would recommend the process of using Open Banking to family and friends.

"The United Utilities team prides itself on being industry leading and strives to deliver results through innovative approaches and the Open Banking solution provided by Equifax supports this ethos. We needed to source an innovative approach to improve the accuracy and efficiency of our affordability assessments, Equifax worked closely with us and provided a new solution which ticked all our boxes. I am thrilled with the result that this partnership has delivered for both United Utilities and our customers"

Michelle Atkinson, *UU, Head of Income*

Case Study:

Can we reduce the poverty premium?

Each year, nearly seven million consumers pay more for the basic goods and services they need in their day-to-day lives. Whether paying more for their insurance because they contribute monthly or facing extra costs to access their cash, those on the lowest incomes are paying over the odds.

But the cost of these premiums is more than just financial. By reducing low-income consumers' overall means, this situation reduces their ability to cope with the challenges life can bring, and unexpected events can cause a financial crisis that might otherwise be avoided. Instead, this poverty premium only serves to cement their place at the bottom of the ladder. A vicious cycle that saps aspiration and holds minds on the precarious present, not the brighter future.

In a cost-of-living crisis that poses a huge challenge to households across the country, the task of tackling the poverty premium becomes even more important for regulators and social policy makers. Consumers deserve fair outcomes from markets no matter their place on the income spectrum and our focus must be on ensuring they can be delivered.

Key to this is access to the market. Most consumers now access goods and services digitally, but many still cannot. Without digital access and capability, it can be hard to find the best deals and shop around – two things we know help save consumers money. Boosting digital access and skills, therefore, while not a silver bullet, is a good start.

Matthew Greenwood, *Head of Debt at Centre of Social Justice*

What should we as an industry be doing

Our data shows that the growing strain on households' finances has not yet led to such a rise in problem debt as we might have expected. But we are concerned that across the UK the year ahead will be much harder for people in debt. This is especially so for those whose mortgage is going up.

This report highlights some of the positive steps organisations can take now to help people through the year ahead.

We can use digital services to improve the service we give some consumers, while being mindful that not everyone is able, or wants, to be online.

We can work with our partners to understand and champion inclusive services and ensure that our consumers get a fair and ethical outcome.

We have shown that using data insights helps organisations to understand each person's changing situation and to be proactive and flexible in the support they offer. We can use data to make people's money go further by helping them get more of the benefits they are entitled to, get onto social tariffs, all the while tackling digital exclusion and the poverty premium.

At Equifax and TDX Group, we are committed to redefining the debt industry. In particular, we are looking to lead the way raising standards in ethical and effective debt collection. So we are...

Understand more to engage earlier

The earlier and better we understand who is at more risk from financial problems, the more we can do to protect those people and find them a safe way out of debt. We are working with clients to encourage early interventions and engagement. We are continually improving our communications, being clear and simple for everyone to understand, whatever the situation.

Giving the frontline the skills and tools they need to do the right thing

When a consumer speaks to a debt collection agency we work with, we make sure that the agent has the tools, skills and flexibility they need to do the right thing. Whether that is offering the right payment plan, or being able to quickly and accurately understand what they can afford to pay, we continually improve our service for consumers. We will continue to invest in training to ensure our front line teams have the skills and confidence to speak to consumers, especially those who may be vulnerable.

Working smarter with the best data

Our team of expert data analysts combine data from credit files, bank accounts and millions of quality checks on debt collection agencies plus much more. It means we can better understand different consumers, and work with them in smarter ways to find their best way out of debt. We will continue to use data for good, and only partner with organisations who share our values of responsible and ethical collections.

Partnering with experts

We never work alone. We will continue to work with expert partners who share our passion to find new ways to make the debt sector work better. This we will do by improving services for consumers, raising industry standards, promoting environmental, social and governance standards, and by making certain our work has a positive and lasting impact for consumers, clients and communities.

Supporting financial education

Financial education, training and research are the cornerstones of what we do. We are committed to helping deliver financial education to over one million consumers over the next three years. To do this, we are partnering with expert partners, suppliers and clients to continually improve the products and services we provide to improve consumer confidence in how they manage their money. At the same time, we are creating opportunities through schools and colleges to give the next generation of consumers the financial skills they need too.

How we can help?

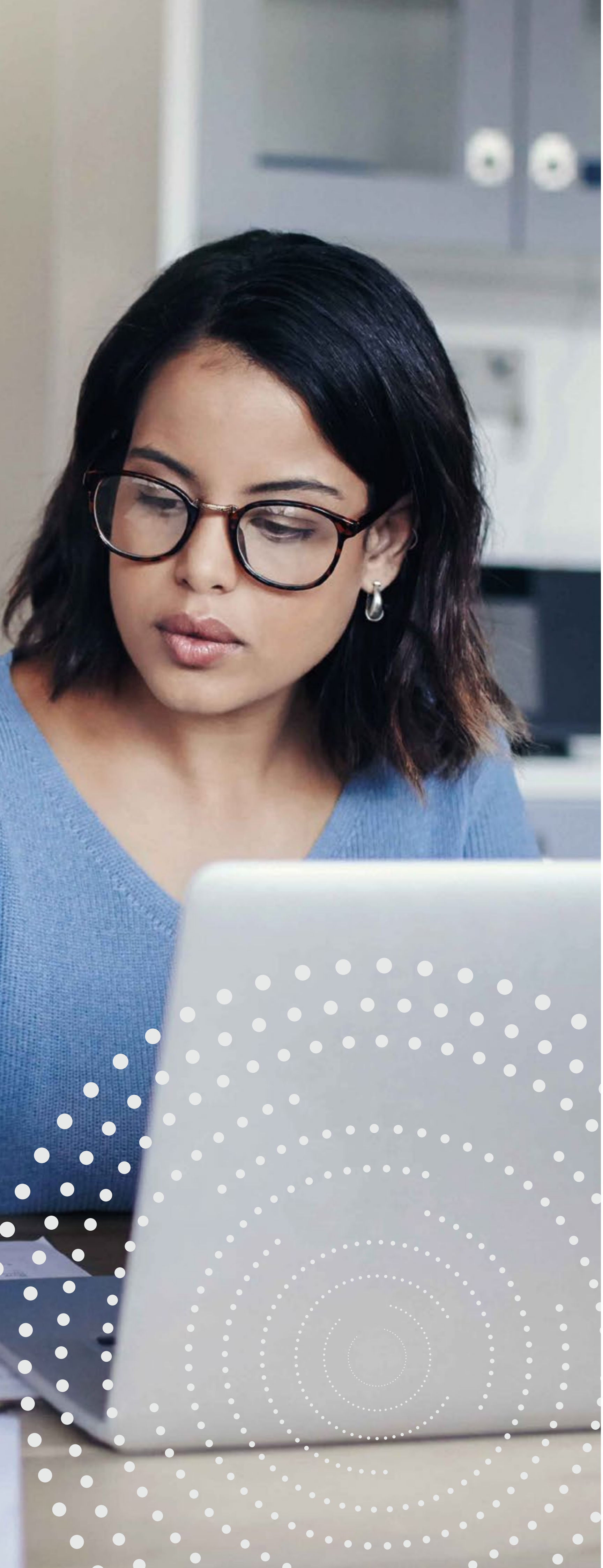
With fresh pressures likely to come from all quarters, our vision – to help people live their financial best – has never held such value.

Equifax has a vast array of data sets and products that are designed to help our clients manage the financial uncertainty during these times. These range from ensuring both consumer and commercial borrowing is affordable to identifying those in financial difficulty and making sure they are provided with appropriate treatments and outcomes. With Open Banking services that include one of the UK's most accurate categorisation engines, enabling clients to use more timely, accurate behavioural banking data to improve assessments. And in redefining how businesses manage ethical collections, consumer recoveries, debt sale and IVAs, we're taking the lead in responsible debt management.

We're doing so through the power of Equifax's unique global data insights, the knowledge of a best-in-class panel of experts, and through our own advanced data and insights. By embracing innovative technology and industry-leading environmental, social and governance principles, we effectively manage the environmental impact of our operations and the social impact of our work. Always with expertise, experience and continuous improvement at our core. With your customers, the broader community and the planet at the heart of our decisions.

So, while the industries that we work with 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.

Contact us to find out how we can help your organisation
tdxgroup.com/contact



Thank you to all contributors to this report:

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TDXGROUP
An Equifax company

Contact our team today:

TDX Group
8 Fletcher Gate
Nottingham
NG1 2FS
United Kingdom

T: +44 (0)115 953 1200
E: tdxgroup.com/contact

tdxgroup.com