A Three Part Harmony:

How demand, data and UX are reshaping the credit market

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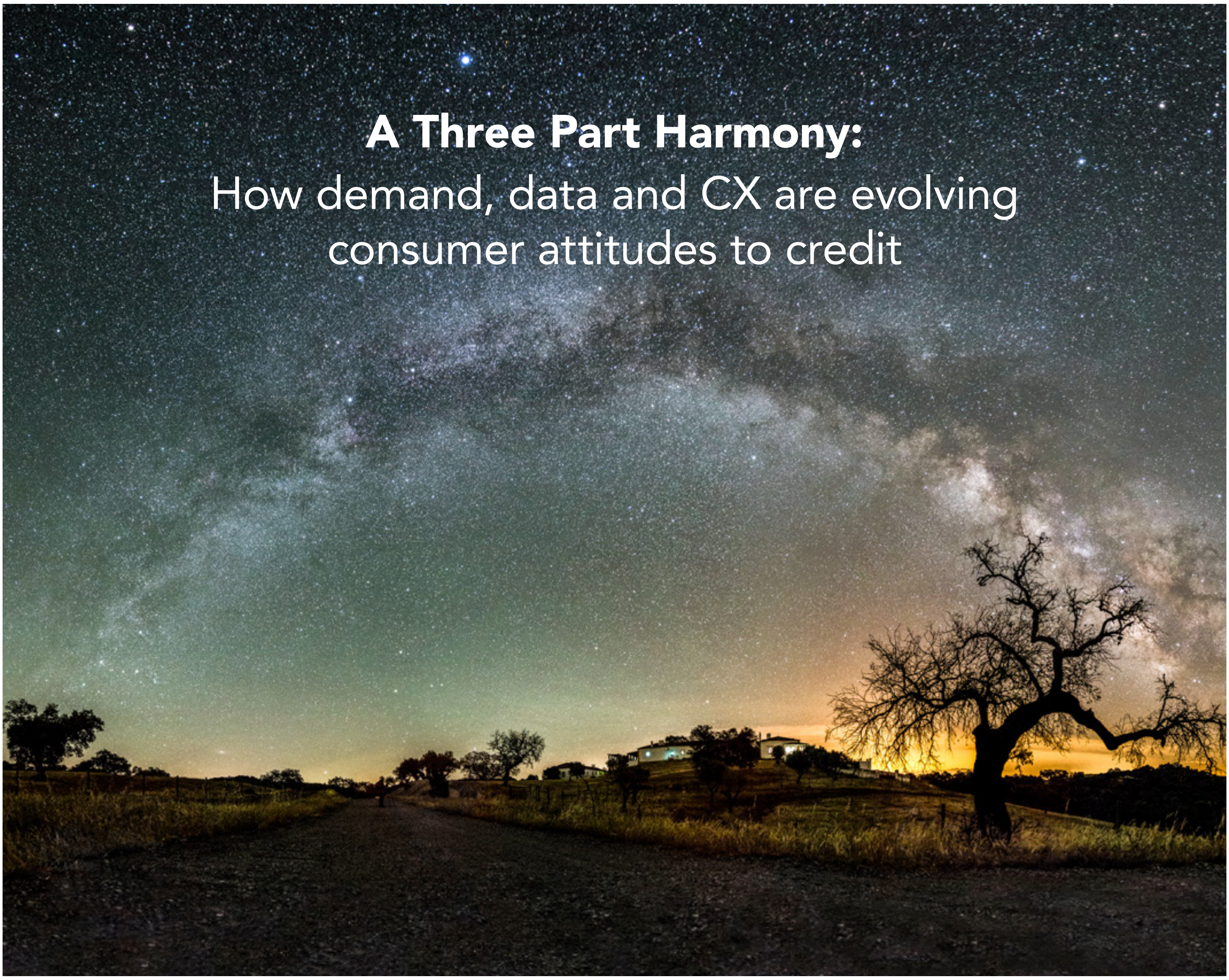
A Three Part Harmony:
How demand, data and CX are evolving consumer attitudes to credit



This is the sixth report in a series researching consumer attitudes to unsecured loans published by Equiniti Credit Services.

The report draws on data collected from a survey of 2000 UK consumers conducted in Q4 2018 and identifies evolving trends around data and customer experience.

Section one explores the growth in consumer credit in 2018, and the broad spectrum of attitudes towards both lenders themselves and credit application and management processes. While the demand for digital products and customer services remains, the industry is also seeing pushback from consumers that value analogue communication – particularly millennials.

Section two and three evaluate consumer attitudes to the increasingly transactional relationship with data and the impact that the Second Payments Services Directive (PSD2) legislation will have on the consumer credit market. The report notes that consumer reluctance to share financial data is decreasing, particularly when they are incentivised to do so; how lenders can make the most of these opportunities; and, crucially, where caution is advised.

Section four draws on data around customer experience (CX) and borrowers' expectations, in particularly that CX is sector specific. For lenders, that means simple digital origination processes and clear terms and conditions and documentation.

Section five explores consumer attitudes towards flexible loan products and declines, both of which offer an opportunity to increase revenues, enhance the user experience and maintain customer exclusivity. Lenders need to be prepared for adaptable loans to evolve from nice-to-have' to 'necessity', and should balance investments in this area with operational efficiencies.

The report concludes that while consumer credit is currently experiencing slower growth than in recent years, there are a myriad of ways in which lenders can encourage increased borrowing through the provision of value-added services and a frictionless customer experience. New revenue streams are emerging, and this report reveals how lenders can best leverage smart, automated origination and management processes to differentiate themselves through customer retention and user experience.

Methodology

Of the 2000 people questioned in this year's survey, 51% were women and 49% were men. The age demographics analysed included 30% millennials, 36% generation-x and 34% baby boomers.

The research was undertaken in the UK between between September 2018 – November 2018 by Research Bods.

Welcome to a Three Part Harmony:

How demand, data and the UX are reshaping the credit market - a research report from Equiniti Credit Services investigating consumer attitudes toward unsecured lending in 2018-19.

Over the last twelve months the UK has experienced enormous political and social change which, in our increasingly connected world, is impossible to separate from the financial climate. Despite the uncertainties provoked by internal upheaval, the market for consumer credit has continued to grow, albeit at its slowest rate since March 2015.

"UK consumer borrowing helped to sustain the economy following the Brexit vote as savings ratios collapsed to historic lows, however economists expect the appetite for further spending to diminish."[2]

- Gavin Jackson, Financial Times, January 2019

This report reveals variations in attitudes towards unsecured credit, traditional and alternative lenders and emerging technologies that are evolving the customer experience, and delves into how credit providers can leverage these to mitigate against a future market slowdown.

[1]https://www.bankofengland.co.uk/statistics/money-and-credit/2018/january-2018

[2]https://www.ft.com/content/68df0650-1007-11e9-acdc-4d9976f1533b

Since 2017, borrowing has increased

+8%
millennials

+11%
generation-x

1 Market movement: where are the biggest opportunities for lenders?

X marks the spot

Borrowing has increased across the board, continuing a well-established trend. The biggest growth has come from millennials (+8%) and generation-x (+11%).

An alternative approach

2018 data strongly indicates that an increasing number of UK consumers are investigating alternative sources of credit. 62% of those surveyed are likely to consider an alternative lender next time they need a loan or credit, an increase of 15% on 2017. 86% will use comparison engines to find the product best suited to them. Furthermore, only 45% would only borrow from an established lender or one they have used in the past, compared to 52% in 2017.

Interestingly, the age group most resistant to non-traditional loans is millennials. 58% of this group confirmed that they were only comfortable borrowing from well known or previously used lenders.

Of those that have taken out a loan in the last twelve months, over a quarter have used an alternative lender rather than a high street bank. This consistency with previous years suggests that, while alternative lenders still have some way to go before competing with banks in loan volumes, they have established themselves as lasting players in the market.

Takeaways for lenders

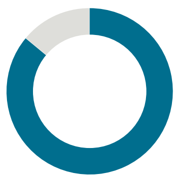
Consumer confidence in the credit market has continued to grow, creating opportunities for all – particularly for alternative lenders to increase their customer base Caution, however, remains important. The current political uncertainty, together with the potential for more rises in interest rates, may well impact the growth trend.

With this in mind, credit providers will want to take advantage of current buoyant market conditions and use this period to equip themselves for more challenging times. Smart lenders are already investing in reforming their internal processes with agile technologies; creating operational efficiencies that can increase their competitiveness in tougher market conditions.

Generation x, with its combination of digital literacy, financial experience and buying power, remains a key segment for traditional and alternative lenders, so products that appeal to this demographic are likely to remain a priority for the next twelve months at least.

Millennials' reluctance to borrow from alternative lenders despite their digital literacy is revealing, and probably indicative of less developed financial experience compared to older and savvier generations. Their need for guidance in their applications for credit is likely to be the driving force behind their pursuit of loans from more traditional sources, suggesting that a great user experience should encompass more than fast and convenient access to credit. This is a real chance for alternative lenders, who can differentiate themselves within this growing market by becoming a source of credible information and support.

62% indicated that they would consider an alternative lender



86% indicated they will use comparison engines to find the product best suited to them

[3]https://tradingeconomics.com/united-kingdom/consumer-credit

2 It's all about data (and that's alright)

63% of those surveyed would be happy to share more personal data if their existing provider could offer additional loans at a lower rate

75% of millennials in the survey would share more information for a product that is aligned with their circumstances

Only 18% of respondents protested that too much information was required during the loan application process

Too much information? Maybe not

Consumer confidence in the use of their data has continued to rise in 2018. Just 18% of respondents protested that too much information was required during the loan application process.

Indeed, almost two thirds of those surveyed (63%) would be happy to share more personal data if it meant that their existing provider could offer additional loans at a lower rate. This figure rises to 75% for millennials – suggesting that the vast majority of the market would be happy to be assessed in greater detail in exchange for a product that is more closely aligned with their personal circumstances. Only a quarter of under 35s would not take advantage of such an offer from a lender.

Social graces on the rise

For the first time, 2018 saw over 50% of respondents unopposed to lenders using social media data to help inform a credit decision – a figure that rises to 58% for millennials. As the average person has more than seven social media accounts, this gradual shift in attitude now presents lenders with an opportunity to harness a wealth of new data on their customers, helping them to make more informed lending choices.

Social media is on the rise – over 50% of respondents were unopposed to lenders using social media data to help inform a credit decision (this rises to 58% for millennials)

Takeaways for lenders

The finance industry continues to follow a predictable cycle; new technologies and processes are initially met with consumer reluctance, followed by the appreciation of added-value, which then leads to acceptance and, eventually, establishment in the mainstream.

Consumers are warming up to a transactional data culture – provided that lenders intentions and processes are transparent.

This opening up to the use of data, however, does not equate to a free-for-all for lenders. While more than half of those surveyed are happy for social media data to be integrated into credit applications, over a third of the market remains resistant. Lenders will need to balance their investments in this space and look to make smarter use of data sources currently available. Automated technologies that enable the intelligent matching of an applicant's profile with market-wide loan scorecards can help secure the best loan for that applicant's circumstances. This technology is available today, and will play a crucial loan in lenders' pursuit for 'better' as well as 'more'.

More data from more varied sources will improve the pre-approval process, particularly affordability, vulnerability and suitability, by mitigating against selective disclosure. Open banking, informatics and wide-ranging platform access will enable up-selling and diversification, particularly the post-approval marketing of further products.

[4]https://www.marketingtechnews.net/news/2017/nov/17/average-person-has-7-social-media-accounts/

3 Open Sesame: the impact of PSD2 on consumer credit

Awareness of open banking – 70% of respondents were in favour of their bank providing personal data for a loan application

The state of play

While awareness and understanding of open banking has yet to manifest in the majority of British consumers, there is demonstrable interest in its practical applications. 70% of respondents, for example, say the provision of a service that allowed their bank to provide personal data for a loan application, such as income and outgoings, would be preferable to filling out the forms with this information themselves.

Overdraft vs loans

64% of survey respondents stated that if they knew they were going to be overdrawn on their overdraft, they were likely to accept a loan at a lower rate instead.

Takeaways for lenders

In other sectors, consumers have already experienced digital revolutions in customer centricity; one need look no further than Uber, Netflix and AirBnB. This new demand has changed the game for lenders and means that a winning CX, together with the processes and systems that enable it, is not just fundamental to success, but to survival.

Open banking means a lender could, through open APIs, take a broader view of a customer's financial circumstances and make a low-friction loan facility available automatically to the customer before they go overdrawn, for example.

While consumers are becoming more amenable to data sharing, many will still need an incentive. The combination of open banking legislation and GDPR has opened up the world of consumer financial data, while simultaneously locking down corporate responsibility for its use. This means that lenders must not just strike the right balance, but do so efficiently and cost-effectively. The latter will be crucial here, as enabling investments in skills, compliance and systems will soon add up, strengthening the case for credit providers to outsource to, and be guided by, a dedicated specialist with market-wide expertise.

These changes are just the beginning. PSD2 has fired the starting gun on the API economy and the effects will eventually be felt across all industries.

[5]https://www.instapay.today/article/millions-of-brits-missing-out-on-the-benefits-of-open-banking-revolution/

4 Your CX is on fire: how lenders can balance cost with customer experience

Appy days

2018 survey data indicates that some 70% of UK consumers are comfortable carrying out the loan application process without speaking directly to the finance provider. In line with their attitude towards digital and alternative lenders, however, this figure drops to just 57% amongst the millennial demographic.

Four in five consumers think biometric technologies, such as fingerprint and iris recognition, will make authentication safer, and over two thirds (69%) would gladly utilise a web or app facility if they fell behind on loan payments.

What consumers deem to be acceptable turnaround times also continue to fall. 2018 data suggests that as much as 90% of customers now expect a response from their lender in 24 hours or less. In fact, 26% expect a response within the hour, and 12% in just minutes.

How can I help you?

While 43% of respondents cite low interest rates as the most important factor when taking out a loan, one in seven applicants cite the clarity of the product's documentation. There was also a small year on year decrease (from 19% to 16%) in the proportion of respondents that would always borrow from the lender with the lowest interest rate.

Takeaways for lenders

Just a few short years ago a lender with an app providing customer service and payment facilities was considered innovative. Now, the cutting edge is signified through convenience, added value and personalisation for consumers and through operational efficiencies for lenders. If a lender is to compete on CX, a multi-functional smartphone app together with live chat functions through websites and apps are fundamentals.

An app alone, however, may not be sufficient. Younger customers are displaying more cautious tendencies, which explains why 43% are not yet comfortable applying for credit without speaking to the provider directly.

In 2019, lenders will focus more on the creation of clear and simple digital origination processes to increase millennials' comfort with automation. This won't be enough for everyone, so lenders will need to tread carefully and not push too hard on 'digital-only'.

CX goes far beyond a slick and user-friendly app; it's relevant throughout the loan lifecycle. For lenders, that means going beyond user interface to provide clear and simple terms and conditions and documentation.

There is a strong case here for investment in specialist, outsourced, and ideally ISO-accredited, contact centres. With a strong online customer service offering delivered through smartphone apps and websites there will be fewer borrowers who do call in, so lenders that invest in both are likely to achieve operational efficiencies as well as improved customer service.

70% of UK consumers are comfortable carrying out the loan application process without speaking directly to the finance provider but only

57% of millennials

5 Flexibility without complexity

Demand without supply

2018 data suggests that three quarters of borrowers would be interested in a loan from a single provider that could flex over time to suit their circumstances. While some flexible products are on the market already, many are mired by complicated terms and conditions which leave borrowers reluctant to sign up, fearful of fees or interest rate adjustments.

All is not lost

60% of respondents indicated they were likely to continue a slightly higher interest alternative, if offered at the point when a loan application was declined. The market for instant follow up of declined applications remained largely untapped in 2018, and presents a significant revenue opportunity for lenders that get the balance right.

Takeaways for lenders

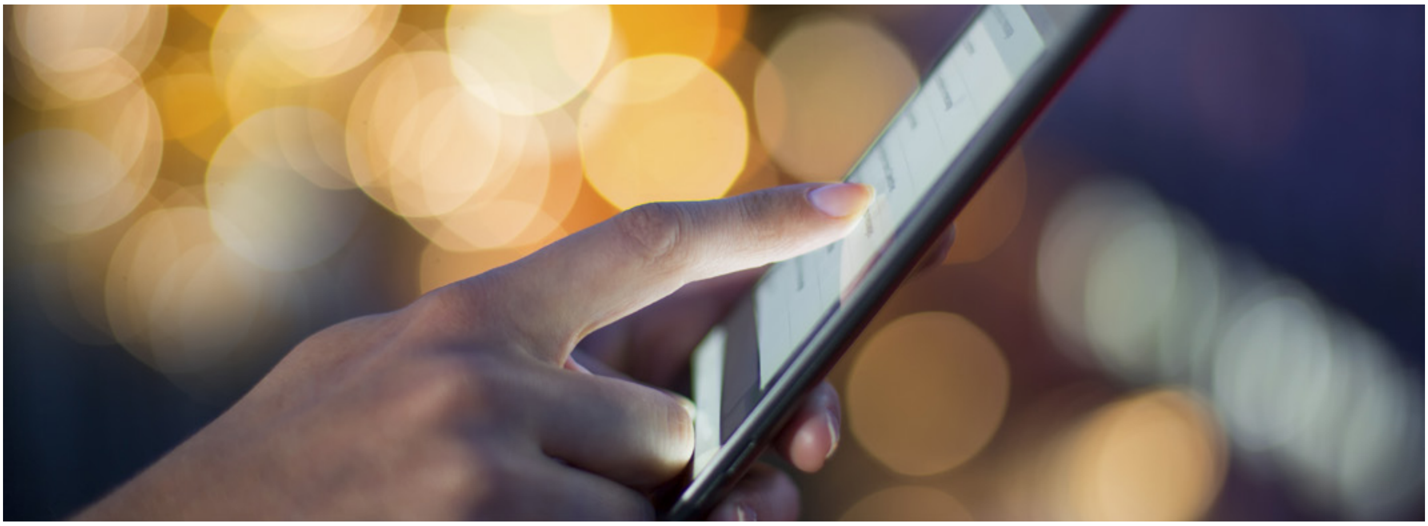
Flexible products, and even flexibility as an added-value service on existing static products, represent a significant market opportunity for lenders. As consumer expectations for customer-centric services increase, so does their desire for products tailored specifically to their individual needs. Adaptable loans will quickly evolve from 'nice-to-have' to 'necessity' – and lenders need to be prepared.

Rather than investing the significant capital expenditure required into creating a bespoke origination and management system, lenders can balance investment with efficiency by outsourcing to a specialist. Working with a credit infrastructure provider whose system can accommodate that kind of flexibility and provide a better, more transparent solution than is currently available through alternatives like overdraft facilities will set credit providers apart from the pack.

Declines are another huge potential new source of revenue for lenders, and present another opportunity to overcome the reducing importance of brand loyalty to maintain customer exclusivity, as well as enhance the user experience.

This opportunity can only truly be capitalised upon through a connected, whole market lending panel, and is a clear example of how a next generation outsourcer can deliver measurable revenue to a lender almost immediately. Lenders must consider how this offering is communicated to potential customers, as its positioning will be crucial. Consumers are not interested in punishment for bad credit, but convenience and support – and declines provide a solution to a problem they are facing without requiring further paperwork or credit checks.

62% indicated that they would consider an alternative lender



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A Three Part Harmony: How demand, data and the UX are reshaping the credit market

If growth in consumer credit slows in the near future, it will be the lenders that planned for both the short and long term that will prosper the most.

Despite a challenging economic outlook for lenders, there are opportunities to encourage borrowing through differentiation.

Consumers' reluctance to share their data is starting to fade, and many can already be brought across with incentives, such as lower interest rates in exchange for access to bank-verified spending data.

Customer-centricity is fundamental to not just successful differentiation and market leadership, but to business survival. This encompasses user interfaces, customer service provision, web and app facilities, product flexibility and value-adds including wider lifestyle support services.

Instant follow up of declined applications with an alternative product can reverse the flow of customer attrition at a time where brand loyalty in the consumer credit sector continues to fall.

While each of these insights represent significant opportunities for lenders, they also present challenges, and necessitate investment. The provision of value-added services, that lenders stand to gain so much from after the open banking deadline in September 2019, will rely on sophisticated loan management technologies. To get consumers to that point will require simple, user-friendly origination processes and documentation, with plenty of digital and analogue support to appease generation x's demand for immediate results and millennials' desire for greater 1:1 support.

Lenders can be forgiven for thinking that customers are demanding everything, now, and all at once. That's because they're right. As the credit industry enters a new age of digital customer-centricity, the applicant holds all the cards. Credit providers will only thrive in this new era if they invest in developing a service culture that supports these goals, and leverage the power of intelligent, agile systems that will enable the expected level of service delivery. With these two fundamentals in place, lenders can look forward to a future that goes beyond credit volume and truly adds value to their customers' financial lives.

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