



**STUDY**

# Deciphering Consumer Vulnerability with Enhanced Data Insights

## Economic landscape and context

The last few years have been unusually turbulent, with consumers encountering increasing external pressures on top of already difficult financial positions. The COVID-19 pandemic had an unprecedented impact on the financial health of a vast swathe of the UK population and the subsequent cost of living crisis and interest rate spikes has exacerbated that pain.

In the midst of this, the industry and regulators have dug in to explore how vulnerable consumers could be both protected from financial harm whilst enabling fair and adequate access to credit. This is not a simple problem; Vulnerability is complex to define, and even more complex to measure.

In the interest of supporting and better enabling the crucial duty to protect vulnerable consumers from harm, TransUnion undertook a study on the breadth of vulnerability in the UK. Through core financial data and exploring non-financial vulnerability data, we sought to establish a meaningful measurement of the spectrum and depth of vulnerability. This framework can help identify early signs of emerging vulnerability or financial distress, to enable appropriate support mechanisms, and ultimately help prevent further consumer distress.

## Study aims

Our study (based on a sample of 10 million consumers from the TransUnion Consumer Database) sought to achieve a deeper understanding of vulnerability by asking the following:

- **How do we accurately define vulnerability and size the impacted population?**
- **How can we measure the severity of vulnerability?**
- **In which ways can we differentiate resilient customers from vulnerable ones?**
- **How can non-financial data sources be used as a vulnerability indicator and what can be learnt from this?**

Industry responses need to be about more than just compliance. We must build a financial ecosystem that is accessible, equitable, and resilient – ensuring all consumers, especially the vulnerable, get the care and protection they deserve. This underscores a collective industry effort to foster a fairer, more inclusive market.

## Methodology

This study combined TransUnion Consumer Credit Data and Affordability Data and external data sources (Vulnerability Registration Services data and Office of National Statistics).

## Defining vulnerability

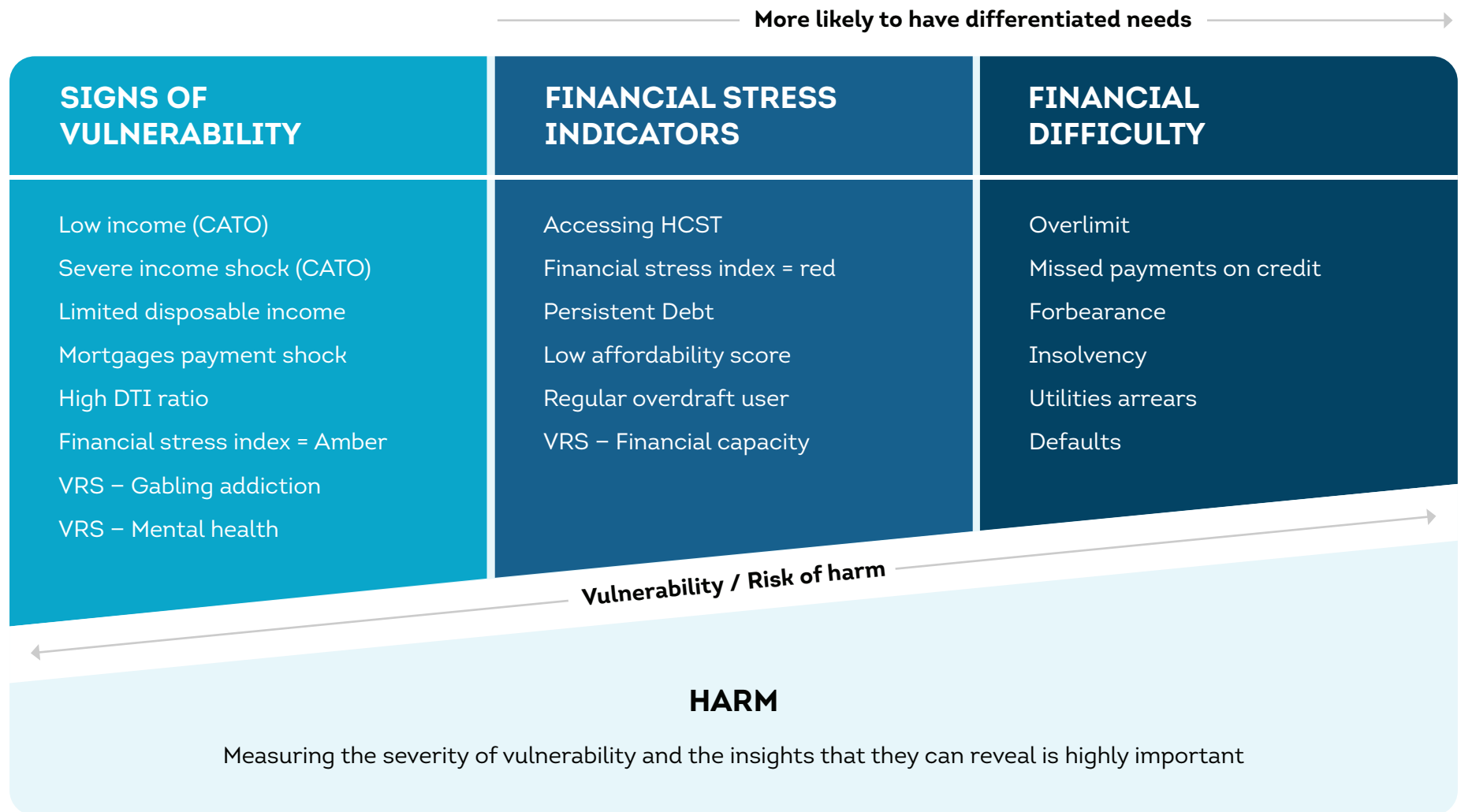
A broad term, vulnerability can include financial, fraud and health issues. Emerging and established data sets and insights can help businesses better understand consumer vulnerability and proactively spot warning signs.

This can be mapped on a spectrum with attributes identified by data sets and data solutions such as trended data or an affordability data block, or limited disposable income, which can be grouped under payments, income shock or missing payments.

### CHARACTERISTICS ASSOCIATED WITH THE 4 DRIVERS OF VULNERABILITY

Health	Life events	Resilience	Capability
Physical disability	Retirement	Inadequate income (outgoings exceed income)	Low knowledge or confidence in managing finances
Severe or long-term illness	Bereavement	Erratic income	Poor literacy or numeracy skills
Hearing or visual impairment	Income shock	Over-indebtedness	Poor English language skills
Mental health condition or disability	Relationship breakdown	Low savings	Poor or non-existent digital skills
Addiction	Domestic abuse (including economic control)	Low emotional resilience	Learning difficulties
Low mental capacity or cognitive disability	Caring responsibilities		No or low access to help or support
	Other circumstances that effect people's experience of financial service, e.g. leaving care, migration or seeking asylum, human trafficking or modern slavery, convictions	<p><b>Red</b> - identified by affordability and credit data  <b>Yellow</b> - identified by affordability and credit data  <b>Green</b> - non-financial elements captured by the Vulnerability Registration Service (VRS) e.g. a life event etc.</p>	

**Vulnerabilities of all types sit on a spectrum of severity, with the outcome usually being 'financial harm' through distress or exclusion**



## Deepening our understanding using non-financial vulnerability data

To enhance our understanding the study included non-financial vulnerability data. For context, roughly 16M UK consumers live with some form of disability – for many their greatest need is appropriate ‘access’ to credit, and efforts to ensure their inclusion. (Source: UK Gov, 2022 Family Resources Survey, Table 4.1 Disability Prevalence). To handle this sensitive information, we partnered with a non-profit organisation the Vulnerability Registration Service (VRS). This service allows consumers to self-register such issues as financial vulnerability, physical disabilities or addictions (including drugs and gambling). It appends information to files with actions, such as requesting lenders decline them for credit or informing a provider that they need more support for access to products or services (circumstances in this scenario could include impaired sight or hearing).

An output of the study was to build Financial Stress Indicators & Index. This expanded the concept of a credit risk score to include vulnerability indicators such as affordability, indebtedness and credit risk.

### Top four findings

1. The study found close to a third of UK adults (31%) have at least one indicator of financial vulnerability. Specifically, 11% of UK adults are experiencing financial distress. Interestingly, within this segment consumers are identified as Prime, Prime+ and Super Prime – despite historically good financial behaviour these consumers could be experiencing early signs of financial stress.<sup>1</sup>

2. A significant percentage of the UK population are financially resilient and show few signs of vulnerability. This indicates potential growth opportunities but also – in the context of the current economic climate – reinforces the value of indicators that can proactively help prevent future harm.
3. The existence of a vulnerability or a distress indicator is not stand-alone evidence of active distress, nor is it a good reason to action a specific judgement on that person. What we need is data insights to better understand individual circumstances and inform the right type of outcome for the customer that the Financial Conduct Authority (FCA) expects organisations to be delivering.
4. Our study of non-financial indicators, combined with traditional indicators, provides rich information to inform how businesses serve consumers and act on vulnerability.

Our analysis revealed that:

- Early intervention is a chance to help customers before they move into a situation where financial vulnerability becomes harmful.
- Financial harm was evident through consumers being excluded from non-essential credit products, which suggests that services are not being designed or provided to consumers who want them and that customer insights are not being used correctly to optimise customer experiences. A tenant of the Consumer Duty is that financial vulnerability should drive greater access to products and good outcomes. For a variety of sectors this means untapped and sustainable growth opportunities.

<sup>1</sup> Study based on a sample of 10 million consumers from the TransUnion Consumer Database

## Conclusion

Supporting vulnerable consumers is a non-competitive industry imperative. Sharing best practice will help improve both detection and treatment strategies, and should be a priority for not just financial services but insurance, gaming, utilities, e-commerce and government.

James O'Donnell, Director of Research and Consultancy at TransUnion and author of this study, thinks progress is

being made: "We're observing good practices in different sectors – examples include increased access and usage of non-financial vulnerability data; greater focus on predictive analytics, expanding outcome definitions beyond delinquency and profitability; and re-designing servicing capabilities with specific vulnerabilities in mind."

### Three key considerations to strengthen customer vulnerability strategies are:

The FCA has intensified the need to prevent harm to customers by proactively identifying potentially vulnerable consumers, putting the right processes in place, and aiming for higher standards of customer service. Organisations need to reflect on their customer plans, by asking:

- How frequently can data be sourced to identify potential vulnerability?
- How can experiences tailored to individuals be scaled, and when is it timely to deploy them?
- What goals, such as trust, loyalty or brand reputation, can the strategy help with?

Adoption of new data sources and models offers access to richer, actionable insights and trends. Recent economic turbulence means behaviour can change quickly, meaning many consumers are potentially vulnerable. Working with the understanding not all vulnerabilities are the same, research using existing portfolio data has allowed TransUnion to categorise 12 groups of indicators that help better understand vulnerability from originations to customer management.

Fraud risk is baked into financial vulnerability with fraud accounting for 40% of all crime against individuals across the England and Wales.<sup>2</sup> Actions to better detect and prevent fraud include effectively countering:

- Authorised payment fraud and the mental health impact this typology can have on victims.
- Scams, mules and account takeovers. These threats are being countered by marketing campaigns and the introduction of controls (such as confirmation of payee) but there remains a way to go both from a consumer education and detection perspective.
- The fraud risk contained in dormant accounts and the ability to spot no intent to pay characteristics. In response to both, TransUnion has conducted portfolio analysis for clients looking for fraud signals within existing dormant accounts and built new predictive models.

<sup>2</sup> <https://www.nationalcrimeagency.gov.uk/what-we-do/crime-threats/fraud-and-economic-crime>

## Want to understand how data insights can help improve your customer and business outcomes?

For customer management initiatives the right data and technology stack can turbocharge strategies. It can help enable a better understanding of vulnerability and support customers at the right time and on the right channel, improve the availability of appropriate credit products and empower consumers' financial literacy.

Talk to our consultancy team about how our data coverage and solutions could help you serve your customers better and deliver cross-functional performance improvements.



## About TransUnion

TransUnion is a global information and insights company with over 12,000 associates operating in more than 30 countries. We make trust possible by ensuring each person is reliably represented in the marketplace. We do this with a Tru™ picture of each person: an actionable view of consumers, stewarded with care. Through our acquisitions and technology investments we have developed innovative solutions that extend beyond our strong foundation in core credit into areas such as marketing, fraud, risk and advanced analytics. As a result, consumers and businesses can transact with confidence and achieve great things. We call this Information for Good® – and it leads to economic opportunity, great experiences and personal empowerment for millions of people around the world.

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