Press Release
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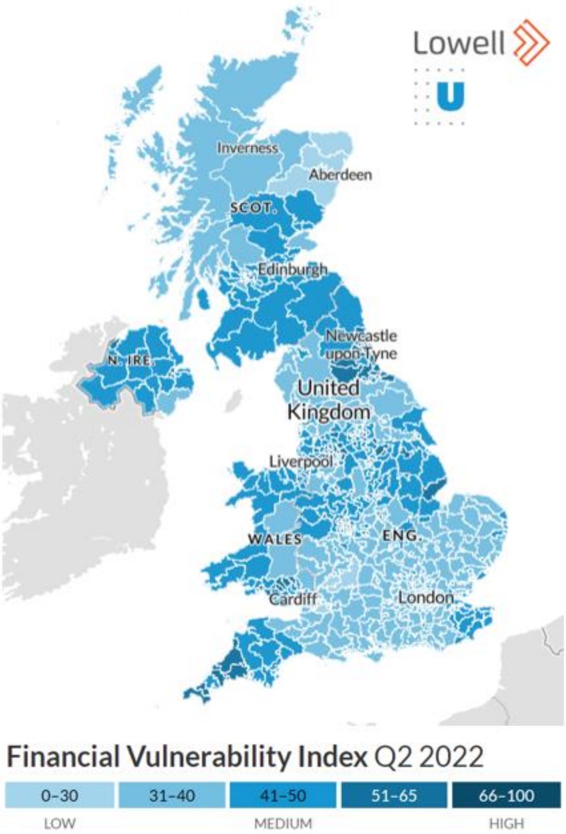
Borrowing is not a choice but a necessity for many, shows latest Financial Vulnerability Index

- **New insight from over 9.5m Lowell UK customer accounts shows credit use in Q2 2022 was the highest it has been since the early months of the pandemic**
- **This rise comes despite interest rate hikes and increased cost to borrowing as households resorted to credit to meet the inflated cost of food and energy bills**
- **With the energy price cap set to increase again in October and inflation predicted to hit 18.6% next year[1], households could be pushed to breaking point**
- **Lowell UK CEO calls for greater government support for households in financial need**
- **The latest update to the Financial Vulnerability Index adds data across Q4 2021 to Q2 2022**



As UK households are hit by unprecedented levels of inflation, the latest update to Lowell and the Urban Institute's [Financial Vulnerability Index (FVI)](), the most up-to-date index on UK household financial health based on anonymized data from over 9.5m Lowell UK customer accounts and other publicly available data, has shown that households increased borrowing despite interest rate rises to meet the inflated cost of food and energy bills.

John Pears, UK CEO at Lowell, said:

"The cost of living is increasing across the board and households are having to fork out more money to pay for essentials like food and bills. With the rising cost of living stretching budgets to their limit, people are turning to credit more and more.

"For many now, a single income shock can be enough to push a household into problem debt. People need help to reduce costs.

"The new government needs to take action to ensure households, especially the lowest incomes, get the support they need. With the recent changes to the price cap, bringing energy bills down has to be the priority. This needs to be at the top of the agenda."

Signe-Mary McKernan, Vice President at the Urban Institute, added:

"While the share of adults claiming social benefits and using high-cost loans has declined, families are likely using credit to keep up with the increased cost of living. Financial vulnerability is currently lower, but looking ahead, there are concerning signs that families in the UK may be balancing on the edge of a financial cliff."

The new figures show:

1. **Credit usage increases as households battle inflation –** The impact of inflation was felt keenly by households across the country as they resorted to more borrowing to meet the inflated cost of everyday necessities.
    a. At 52.7%, credit usage in Q2 2022 was the highest it has been since the early months of the pandemic (Q1 2020)
    b. Consumer defaults are on the rise again, reversing the post-pandemic downward trend, and are up 7% on the start of the Index

2. **Interest rate rises have not changed the appetite for credit among the financially vulnerable –** Despite interest rate rises, there has been no shift in the appetite for borrowing. This suggests that for these consumers, borrowing is not a choice but a necessity.
    a. Credit usage increased from 48.7% in Q4 2021 to 52.7% in Q2 2022

3. **Demand for labour has helped to bring down unemployment and benefits usage –** Financial vulnerability in the UK has declined overall since the last update to the Index, primarily due to the decline in the share of adults claiming social benefits. This is likely due to strong demand for labour, which suggests that the remaining share of adults claiming social benefits consists of the entrenched unemployed.
    a. The share of adults claiming social benefits fell from 10.3% in Q4 2021 to 8.7% in Q2 2022

4. **Payday lending continues to fall –** Payday lending continues to fall, suggesting that the doorstep lending industry is in a long-term decline as a result of regulatory interventions in the high-cost loans market.
    a. The share of adults with high-cost loans dropped from 13.7% (Q3 2021) to 11.1% (Q2 2022)
    b. Overall downward trend in high-cost loans, with a slight increase between Q4 2021 and Q1 2022

The Financial Vulnerability Index, a joint project between Lowell, one of the largest credit management services companies in Europe, and the Urban Institute, a leading US-based research organisation, uses unique Lowell data and publicly available data to measure household financial vulnerability across the UK. The full tool can be accessed here or by clicking on the map above. The data can be downloaded for free here.

[ENDS]

Sources

[1] William Schomberg and David Milliken, "UK inflation to top 18% in early 2023, Citi warns", Reuters, 22 August 2022, https://www.reuters.com/world/uk/uk-inflation-hit-18-early-2023-citi-forecasts-2022-08-22

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Notes to Editors

About the Financial Vulnerability Index

The Financial Vulnerability Index is based on six components that capture a household's ability to manage daily finances and resist economic shocks: (1) carrying defaulted debt, (2) using alternative financial products, (3) claiming work-related social benefits, (4) lacking emergency savings, (5) holding a high-cost loan, and (6) relying heavily on credit. These components are measured using Lowell's research and operational data, the UK Financial Lives Survey, and data from the UK's Department of Work and Pensions and the Office for National Statistics.

This data tool is a joint project of Lowell and the Urban Institute. Lowell and Urban researchers collaborated on all stages of the research. In addition, Lowell provided funds and operational and research data used to create the index.

About Lowell

Lowell is one of Europe's largest credit management companies with a mission to make credit work better for all. It operates in the UK, Germany, Austria, Switzerland, Denmark, Norway, Finland, and Sweden. Lowell's unparalleled combination of data analytics insight and robust risk management provides clients with expert solutions in debt purchasing, third party collections and business process outsourcing.

With its ethical approach to debt management, Lowell always looks for the most appropriate, sustainable, and fair outcome for each customer's specific circumstances. Lowell was formed in 2015 following the merger of the UK and German market leaders: the Lowell Group and the GFKL Group. In 2018, Lowell completed the acquisition of the Carve-out Business from Intrum, which has market leading positions in the Nordic region. It is backed by global private equity firm Permira and Ontario Teachers' Pension Plan.

For more information on Lowell, please visit our customer website: http://www.lowell.co.uk or our investor website: http://www.lowell.com

About the Urban Institute

The non-profit Urban Institute is a leading research organization dedicated to developing evidence-based insights that improve people's lives and strengthen communities. For more than 50 years, Urban has been the trusted source for rigorous analysis of complex social and economic issues; strategic advice to policymakers, philanthropists, and practitioners; and new, promising ideas that expand opportunities for all. Our work inspires effective decisions that advance fairness and enhance the well-being of people and places.