

Helping your customers drive forward

Why debt advice matters in the
automotive finance sector



Support your customers through the cost of living
crisis and deliver good customer outcomes



Challenging times

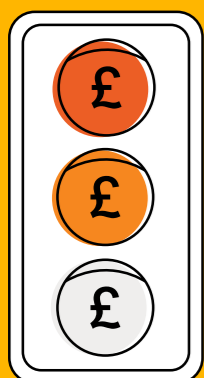


Consumers from all backgrounds are struggling

As the UK's leading provider of free, impartial debt advice, at StepChange we see every day just how hard the cost of living crisis is hitting households across the country, from every demographic.

ONS stats shows that in April 2023 the RPI annual rate of inflation was 11.4%,* and our data shows the real-world impact of this.

In 2022, over 6 million people visited our website for support, and among our client base the effects of the rising cost of living were evident:



- **22%** cited the cost of living as the reason for their debt
- **32%** were in arrears on their energy bill
- **40%** were suffering from a mental health condition

Source: StepChange Impact Report, 2022

What does this mean for automotive finance?

Data from Equifax shows that since February 2019, delinquencies in automotive finance have steadily risen, and were up 30% by October 2022**.

The combination of reduced affordability due to rising inflation, and the risk of being trapped in negative equity on their car loan, means that automotive finance customers could be vulnerable to financial difficulty.

StepChange data shows that:

- The proportion of StepChange clients with a vehicle loan has increased by **14.8%** since Q1 2020
- The average car finance balance has increased by **20%** in the same period
- Car finance clients have an additional **£4,100** in unsecured borrowing on average

Read more on pages 4-5.

Against this backdrop, it's more important than ever that automotive lenders have the processes in place to identify and support customers who are experiencing financial difficulty.

Why debt advice matters

We have a number of tools and services to help your customers, including:

- Debt advice and a wide range of solutions
- Free budgeting tools
- Income maximisation: Helping customers identify any additional income or benefits they are entitled to
- Equity release advice and mortgage products



Delivering good outcomes

Our 2022 *Mixed Messages** report found that customers who were chased for payment by their creditors were more likely to take on additional borrowing to repay debts if they had an additional vulnerability, posing additional risks to already vulnerable customers.

56% of StepChange clients have another vulnerability in addition to their financial vulnerability.**

Having the right support in place is a crucial aspect of delivering good customer outcomes, and free and impartial debt advice can be a vital first step towards becoming debt free for those struggling with their finances.

Did you know?

Every year we help thousands of clients to establish a budget to help them keep up their payments, and in 2022 we supported 25,000 people to become free from problem debt.



Avoiding foreseeable harm

Our report also found that businesses failing to identify and support customers experiencing financial difficulty can have significant negative consequences for the customer, making them more vulnerable to other forms of harm.

This is a clear challenge to the Consumer Duty's requirement to avoid causing foreseeable harm.

We can help customers understand their financial situation and support them through their debt advice journey, helping to avoid further detrimental consequences.



Helping customers achieve their financial objectives

A 2022 survey found that 92% of our clients said that they waited too long to get help with their situation, with the majority of clients waiting 12 months or more before getting help. That's a whole year in which their financial and mental wellbeing may decline further.

By identifying these customers earlier, and referring them into our services, you can help your customers tackle their debt and support them to achieve their financial goals, while delivering on your business objectives and regulatory requirements.

*Source ONS: Inflation and price indices – Office for National Statistics (ons.gov.uk)

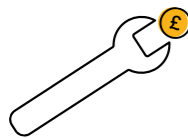
** Market Pulse webinar: Oct 2022. [Equifax.co.uk](https://equifax.co.uk)

*StepChange Mixed Messages report, 2022. Search "[StepChange Mixed Messages](#)"

**[StepChange Impact Report](#), 2022

What StepChange's data tells us about car finance customers

Our data shows automotive finance customers could be particularly vulnerable to cost of living pressures compared to our other clients.



An increasing number of our clients have a vehicle on finance

Between January 2020 and March 2023, the proportion of StepChange's clients who have a car finance (CF) debt has steadily increased, and was 14.8% higher than in January 2020.

During the same time, the average balance of the CF debt has increased by over 20%, from £8,077 to £9,705.

The increasing number of clients with a CF debt and balance of the debt may indicate that these customers are struggling with their repayments earlier in their contract.

Vehicle finance clients could be more vulnerable to interest rate rises

Our data found that CF debt clients were almost twice as likely to have a mortgage than other clients, putting them at increased risk of financial difficulty as interest rates rise.

We found that clients coming to the end of a 2-year fixed mortgage could face increases in monthly mortgage payment of approximately £200 due to rising interest rates.*

In 2021 the average mortgage payment of our CF clients was £584. We estimate that customers remortgaging this year could see their monthly mortgage payment rise by nearly £200, to £780*, making it more difficult for them to keep up with their other payments.

Vehicle finance clients are more active users of credit than our other clients

Our analysis shows that StepChange clients with a CF loan had on average:

- Total debts nearly **2x higher** (excluding mortgages)
- Over **£4,000** more in unsecured debts
- **6.82** unsecured debts, compared to **5.89** for clients without a CF loan

Car finance clients were also **18.2%** more likely to be recommended a Debt Management Plan after receiving debt advice than clients without a CF loan.

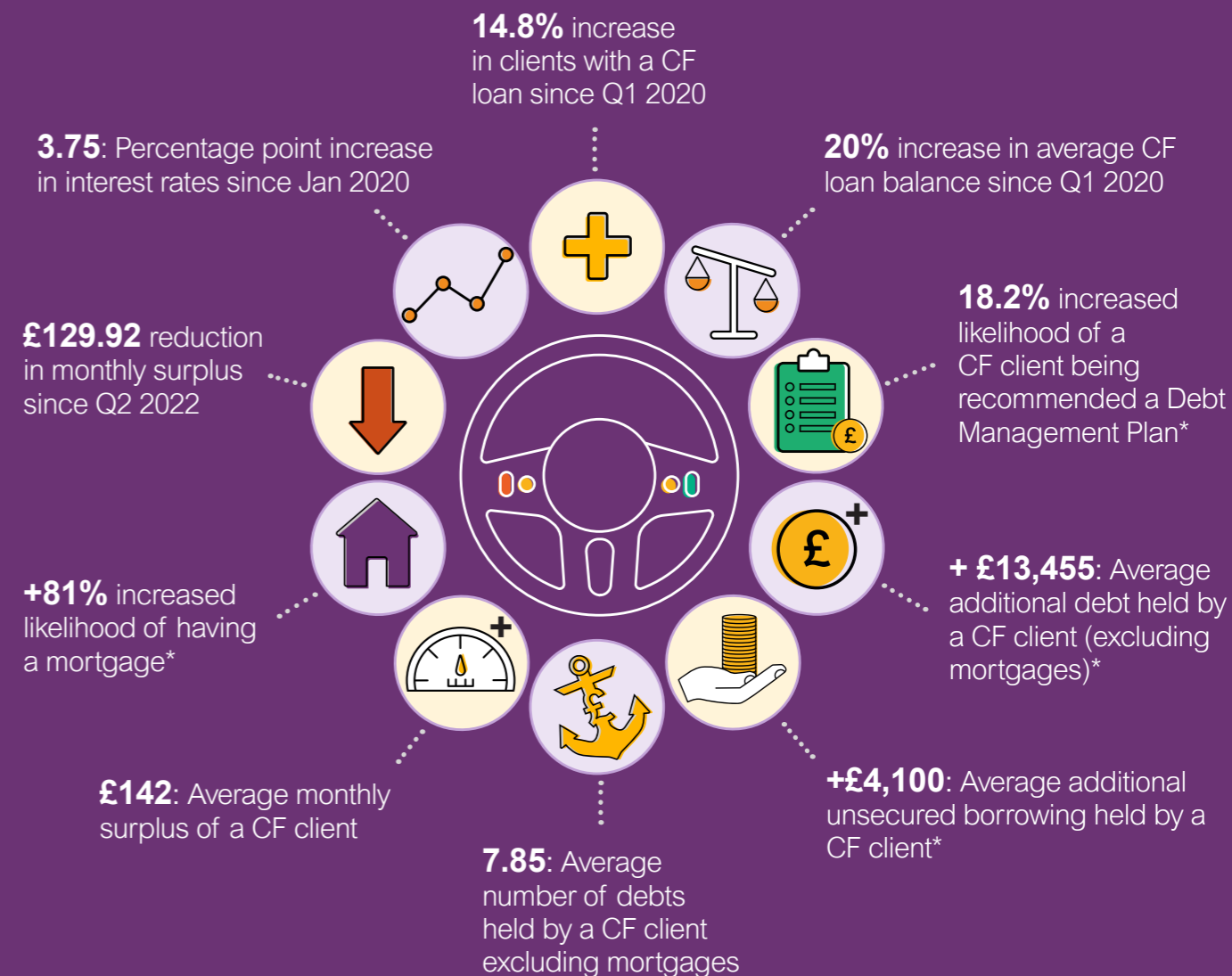


The average monthly budget surplus of a CF loan client is **£142**. Our analysis suggests those remortgaging this year could see their mortgage payments rise by more than this monthly surplus.

*Based on average 2-year fixed rate deal available in Q1 2021 versus Q1 2023. Source: BBC

The numbers: StepChange's car finance customers

Our analysis of StepChange's clients with a car finance debt shows that:



* Compared to StepChange clients without a CF loan

All statistics from StepChange data of clients completing debt advice. Sample size of 29,271 clients during period from January 2020 – March 2023 with a car finance debt. All stats compare to StepChange clients during the same period without a declared car finance debt (Sample size: 472,322)

Why work with StepChange?

1

Working together to support your business and your customers

We'll work with your organisation to understand the challenges you face and how we can support you and your customers. With a range of referral routes into debt advice, we can help you ensure your customers have access to support throughout your collections journey.

2

We look after your customers

Our clients are at the heart of everything we do. Your customers will benefit from our free, impartial and non-judgemental advice and support every step of the way, from the moment they first contact us, to setting up a debt solution, and aftercare until they've financially recovered.

3

Sharing expertise

With over 30 years' experience delivering free and impartial advice, you can trust that your financially vulnerable customers are in safe hands. We'll share our wealth of debt insights, helping you to make better decisions, provide improved customer outcomes, and align with Consumer Duty guidance.



Award winning service

Feefo Platinum Trusted Service Award – 2022 and 2023

Best Broker for Equity Release 2022 – Mortgage Strategy Awards

Consumer Service Champion 2022 – Consumer Credit Awards

Debt Advice Provider of the Year 2022 and 2023 – Credit Awards

Best Response to the Cost of Living Crisis 2023 – Credit Awards

Trusted by our partners to deliver for their customers



In 2022

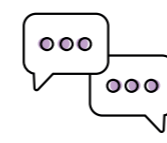
167,351 clients advised

The number of people who have completed full debt advice or received emergency advice or support.



Who is StepChange?

We're the UK's leading provider of free and impartial debt advice and solutions. Since 1993, we've helped over 7.5 million people take control of their finances and drive forward with tackling their debts. We believe that everyone in debt should have access to free, fair, independent advice to help resolve their situation.



Seamless, multi-channel advice

We know your customers all have unique circumstances, so we offer a wide range of solutions and tailor our advice to their individual needs.

Our advice is available online 24/7 so customers can access support whenever they need it, switching seamlessly between online and telephone advice to suit their needs.

We offer specialist advice for customers with additional vulnerabilities and work with a range of other organisations to refer and signpost customers to further help with issues like housing and mental health.



Our partnerships

Our vision is to create a society free from problem debt – but we can't achieve that alone. That's why we work with over a thousand of the UK's leading organisations, across a range of sectors to support their customers, share data and improve outcomes. Our partnerships cover a range of sectors including banking, automotive finance, credit cards and utilities.



£371m

of debt was repaid by clients



+£3.94bn in debt guarded for our partners

To find out more about how StepChange can help your business, get in touch today



www.stepchange.org/car-finance



partnerships@stepchange.org

Want to learn more about StepChange?



Read our impact report: Search 'StepChange Impact Report'



[Find out more](#) and keep up to date with our insight



Who we work with

We work with all the UK's leading lenders, including global banks, high street lenders, credit providers and utilities companies.