



EQUIFAX[®]

Are you building an agile customer affordability assessment strategy?

Managing risk starts with a thorough understanding of your customers' credit capacity

If the economic lessons of the last two years can be summed up in a single word, it's **agility**.

Lenders have been working to better assess customer affordability and reduce business risk in response to increasing domestic stability buffer rates from the Office of the Superintendent of Financial Institutions (OSFI).¹ Then, the COVID-19 pandemic arrived and changed the rules of the game — propelling lenders into a position of performing an “economic triage” of sorts. In a time when millions of Canadians were losing their jobs,² struggling to make payments, and facing significant financial strain, financial institutions expanding lending capacity provided a lifeline to consumers and helped preserve economic stability. Without these measures, the financial impact of the pandemic would undoubtedly have been more severe and persistent.

Now, the industry must adapt again. With current economic uncertainties, ensuring customers have the ability to pay, not just borrow, has once again taken centre stage — and this time, it may be more important than ever.

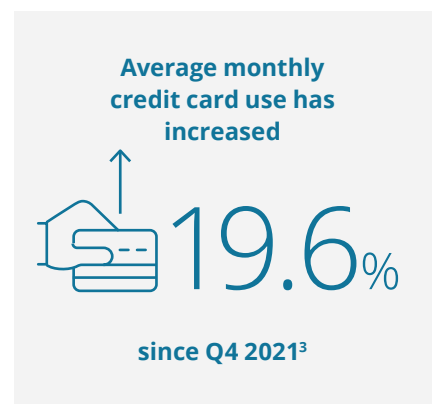
Overextension of credit affects us all

Today, credit plays an increasingly important role in Canadians' lives. When managed responsibly, it can help individuals achieve their life's goals and invest in their financial future. But when overextended, or if unexpected financial burdens arise, the consequences can have significant impacts. Trends indicate that average non-mortgage debt per credit active consumer rose to \$21,121 — a 2.1% increase from Q4 2021.³

When customers fall into delinquency or default, they may face significant obstacles to accessing credit in the future — leading to a cycle of debt that can be difficult to break. On a macroeconomic scale, excessive credit delinquency can impact the resilience of financial institutions and slow the economy, exacerbating circumstances in times of economic vulnerability.⁴

Current economic trends call for increased vigilance

Rising interest rates, market volatility, and inflation are increasing the likelihood of an economic downturn. Industry analysts predict that it will lead to a recession in early 2023. These factors are currently squeezing Canadian's wallets, as the average credit card spend per credit card holder was over \$2,500 in December 2022 — a 19.6% increase from Q4 2021.³ This indicates an increased reliance on credit for access to everyday essentials. Consumers have been making strong payments, but we are starting to see a shift in payment behaviour especially for credit card revolvers — those who carry a balance on their card and don't pay it off in full each month. Average payment rates are at a lower level than 12 months ago for this group.⁵



Making better consumer affordability assessments begins with four key principles

An uneven economic recovery, increased debt, and fears of pending recession have forced lenders to reassess how they do business. To remain adaptable, you need solutions that ensure your customers can maintain their credit obligations — and to be able to adjust your risk models to better address their needs, now and in the future.

Capturing changes and adjusting strategies accordingly is challenging. If any of these factors are overlooked, it can lead to mismeasurement or over extension of credit.

Strategic investments in these four areas can help you meet to the challenge(s) of the moment:

- 1 Look beyond credit history and scores**
Credit scores and histories are an invaluable tool for loan decisioning, but they don't always tell the full story. When you combine comprehensive insights on consumer spend behaviour with traditional credit data, you can better assess an individual's ability to manage additional credit. **This helps you make more informed, confident decisions and drive growth in new ways:**

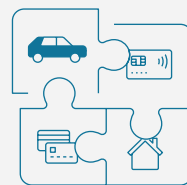
Enhance responsible targeting

Segment and differentiate prospective customers to target those with the means to meet current and future financial obligations.



Match the right products to the right customers

Develop and tailor offers to deliver the most appropriate products and terms for your customers' financial needs.

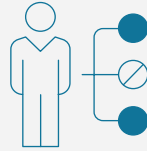


2 Regularly re-evaluate risk and opportunity

While acquisition of new customers is important, equal priority must be given to the management of current accounts. Many major financial commitments — like home, auto, and education — may take years or even decades to pay off. As such, existing accounts should be regularly evaluated for changes in revenue opportunity or risk potential that may impact credit line and marketing strategies.

Inform credit line strategies

Analyze changes in behaviour or monthly credit obligations that may indicate changes in customer financial circumstances. Leverage these insights to encourage usage of accounts that remain in good standing while reducing the exposure of marginal and higher risk accounts.



Target cross-sell and upsell opportunities

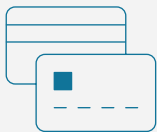
Use payment and spend behaviour as an indication of the potential for additional spend capacity. Prioritize and rank customers by their estimated financial capacity to target upsell or cross-sell offers.



3 Incorporate trended data into decisioning

Consumer financial circumstances are rapidly evolving, which could have a significant impact on their ability to manage additional credit. This also means that a static snapshot of an individual's credit file may no longer be sufficient in effectively evaluating risk.

That's why trended data is such a game-changer for assessing consumer revenue and risk potential. By leveraging 12 months of payment history, you can access financial insights that go beyond the typical credit report. Helping you answer key questions like:



Is your customer consistently carrying debt loads on revolving accounts, such as credit cards?



Do they pay their balance in full each month?



And, most importantly, how are these behaviours trending over time?

4 Build a smarter customer assistance strategy

Every credit commitment comes with a certain level of risk. However, when you leverage advanced analytics in your portfolio review processes, you can monitor changes that may signal future delinquency with enough lead time to take preventative measures.

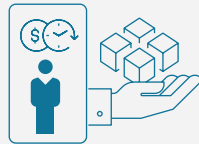
Identify customers at risk of default

Incorporate monthly payment thresholds and estimates into loss-mitigation tools, helping you identify and prioritize customers most at risk of default.



Proactively respond to potential delinquencies

Improved consumer insights give you the ability to quickly and effectively tailor payment arrangements and debt consolidation offers to customers whose spend behaviours exhibit warning signs of financial strain.



Assessing affordability should be carried out throughout the customer lifecycle and relies on your ability to leverage robust data from a diverse range of sources. Regularly reviewing your credit policies and risk models allow you to ensure alignment with the latest economic and regulatory changes. It also could present opportunities for leveraging advanced insights to enhance your modeling.

With tools like a confidence index based on historical customer payment behaviour, you can provide an added layer of security to credit risk modeling. And when your decisioning is based on the latest and most comprehensive insights, you can adapt credit policies to better manage future revenue and loss provision risk.

Equifax is your partner in building a more accurate affordability model

In the coming months and years, financial institutions that invest the most in model agility will gain a significant edge.⁶ Today's provisions may be a precursor to tomorrow's rising defaults. As your partner in growth, Equifax offers cutting-edge solutions to help you reach your risk management goals.

Equifax Risk Capacity Index, our one-of-a-kind, logic-based tool, is just one example of this. Leveraging 12 months of trended consumer payment behaviour, Equifax Risk Capacity Index gives you an estimate of a consumer's monthly credit capacity — along with a confidence index that predicts the accuracy of the capacity estimate. With these insights, you can enhance your decisioning and risk modeling, remain adaptable to market changes, and extend credit with confidence.

No one can predict what lies ahead, but you can be ready for it. With investments in advanced insights, you can be better positioned to identify, analyze, and respond to shifting market dynamics and better serve your customers.

Want to learn more about effective
affordability practices?
Contact an Equifax representative today.

consumer.equifax.ca/business

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¹ <https://www.osfi-bsif.gc.ca/Eng/fi-if/in-ai/Pages/dsb-idx.aspx>

² <https://www.ipsos.com/en-ca/news-polls/one-in-ten-of-canadians-lost-their-jobs-in-2020-representing-almost-3-million-adult-canadians>

³ Based on Equifax data for Q4 2022

⁴ <https://www.aspeninstitute.org/publications/consumer-debt-primer/#:~:text=Consumer%20debt%20can%20create%20insecurity,serious%2C%20widespread%2C%20and%20inequitable.>

⁵ https://www.consumer.equifax.ca/about-equifax/press-releases/-/blogs/total-consumer-debt-climbs-to-2-36-trillion-as-consumers-lean-on-credit-cards-1?_com_liferay_blogs_web_portlet_BlogsPortlet_redirect=https%3A%2F%2Fwww.consumer.equifax.ca%2Fabout-equifax%2Fpress-releases%3Fp_id%3Dcom_liferay_blogs_web_portlet_BlogsPortlet%26p_p_lifecycle%3D0%26p_p_state%3Dnormal%26p_p_mode%3Dview%26_com_liferay_blogs_web_portlet_BlogsPortlet_cur%3D1%26_com_liferay_blogs_web_portlet_BlogsPortlet_delta%3D20

⁶ <https://www.pwc.com/ca/en/industries/banking-capital-markets/new-opportunities-to-improve-risk-modelling.html>