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# How will the 2022 **cost of living** crisis affect the wellbeing of your customers?

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## Executive Summary

### Introduction

The cost of living crisis and the highest inflation for over 30 years is dominating media headlines and it is estimated that an extra 1.3 million will fall into poverty. This effect on household affordability is going to mean service providers and creditors will be faced with many more customers in financial difficulty and distress. Changes will be required to help these customers and put their wellbeing at the forefront of companies thinking.

### Cost of Living Crisis

- The current energy price cap has increased household bills by 54%, with expected rises again in October 2022.
- The Russia-Ukraine conflict could see inflation sore to 10% in major Western countries.
- Lower-income households are to spend on average 16% of their income after housing costs on energy bills- in comparison to middle-income families spending just 5%.
- The cheapest bag of pasta in a local supermarket has risen by 141%.
- Some of the economic changes set to impact millions of UK households include rises in council tax; travel costs; broadband, mobiles, and TV; rent; water and energy bills; and consumer goods.

### Customer Wellbeing

After a very mentally and financially challenging two years, the cost of living crisis could be the straw that breaks the camel's back. Those whose income is relatively low and is mostly spent on food and energy will suffer the most. Studies have shown that as income inequality rose, so did depression. Frontline workers in education and health are some of the most affected.

### FCA's Advice

Brian Corr, the interim director of retail lending urged credit firms to support their customers through the 2022 living crisis. He explained that now is a 'timely moment for us to engage'. Further, firms need to be 'cautious and diligent, focused on their customers' needs, and ready to respond as those needs change.'

### How IE Hub can Help

- IE Hub can provide an 'affordability assessment' in terms of any debt repayment offers made.
- We reduce the time a customer spends on completing I&Es over the phone with multiple lenders, and the stress that is often experienced during this process.
- The IE Hub Creditor Portal allows creditors to manage individual I&Es through our CRM, which improves the efficiency of their collections process and reduces operational costs.
- IE Hub is the only solution that facilitates sharing with all lenders that a customer is in debt to. This can be done via our share list, emailing the I&E to the lender, or through our free post service.

“An extra 1.3 million  
people will fall into  
absolute poverty in  
2023, including  
500,000 children.”

– The Resolution Foundation

Abstract geometric lines in white and yellow, forming a stylized, angular shape that extends from the left side of the image towards the bottom right.

## Introduction

Millions of households have already seen a rise in outgoings in recent years, which has now increased from April 1st, 2022 with the energy price cap coming to fruition. This increase in the overall cost of living is only going to climb, which will mean that financial companies must start putting customer wellbeing at the forefront of what they do.

Not only will there be an inevitable reduction in people's ability to pay current debts, but there is likely going to be an increase in people falling into further financial hardship. With the headlines saturated with facts and figures, it can be overwhelming for most to understand exactly how financial companies can best support their customers. Consumer prices, as measured by the Consumer Prices Index (CPI), were 6.2% higher in February 2022 than the year before.

**What is certain is that many more of your customers are likely to need your support**

## Why is the cost of living rising so rapidly?

### Price of Energy

The main reason why prices are rising is the **global price of energy is rising**. Wholesale gas prices have risen sharply over the past year, which has put a number of suppliers out of business, forcing energy prices to increase. As most companies require energy in some way to operate, this affects the services and goods they can provide, and thus have to increase the cost of said services and goods. This in turn affects the **whole UK economy**.

Every six months, the price cap for energy suppliers is reviewed, and that cap has increased by 54% since April 1st 2022. **This is also expected to rise again in October.**

### The Russian-Ukraine conflict

Severe sanctions on Russia aim to isolate the country and create a severe recession there, but this can economically affect the rest of the world. The Russian-Ukraine conflict has driven energy prices higher and the **price of oil has reached the highest point in almost 14 years**, whilst **wholesale gas prices have more than doubled**.

Russia is the second-biggest exporter of crude oil and the world's largest natural gas exporter and if a country that is reliant on Russian supplies receives less gas, they have to replace it, which is likely to impact British energy prices. These rises in prices could see **inflation rise to 10% in major Western economies** because of the Russian-Ukraine conflict.

## Who is affected by inflation?

The short answer of who is affected by inflation is **everyone**. However, it is not surprising to hear that those on a **lower income** will be hit the hardest. All household budgets are getting tighter, but low-income households are definitely noticing the difference more than those at the higher end of the scale. It is estimated that families in the UK on **lower incomes are to spend on average 16% of their incomes after housing costs on energy bills- in comparison to middle-income families spending just 5%**.

With the average **household fuel bill now increasing by £693 a year** in England, Scotland, and Wales, an extra £60 a month can be the difference between being able to pay rent or not for some households. National insurance is increasing, and banks are even putting up their interest rates. Essentially, **everything is going up**.

The cost of basic foods is rising, with the CPI reporting that the cheapest bag of pasta in a local supermarket has **risen 141%**. This can be seen in many foods. Further, the UK is forecasted to endure almost **two decades of stagnant earnings** due to productivity and business investments flatlining.

Clearly, the UK is in for a **challenging financial future** with outgoings continuing to rise, but incomings not increasing even near to enough. So, those who have the opportunity to help should be **doing all that they can**. Not only should they offer the services, but they should make customers aware of these services openly.

## In November 2021, the...



Average credit  
card debt per  
household:  
**£2,118**

Total  
unsecured  
debt per adult:  
**£3,740**

Average total  
debt per  
household:  
**£63,122**



## How can inflation affect customers' mental wellbeing?

The cost of living crisis, which has come after a very **mentally challenging two years**, is impacting many. Not only financially, but also **emotionally and mentally**. Experts say that inflation itself is not necessarily tied to mental health, especially as the impact can depend heavily on the person's **financial situation**. For example, those whose income is relatively low and is mostly spent on food and energy will **suffer** the most.

Studies have shown that as **income inequality** rose, so did **depression** (Patel, et al. 2018). Unemployment is also classed as the eighth-most **stressful** life change that can happen to someone. However, inflation is not as easily studied. What we do know is, that the rising costs of goods are a source of **insecurity** for low-income households.

An interesting take is that **inflation has risen in the past - so why do we need to act now?** Well, wages often rise along with inflation, which eases some of the stress for consumers. Whilst minimum wage is increasing slightly, it is certainly not in line with rent, cost of goods, and energy increases- especially for frontline workers in education and health. Additionally, the timing of this inflation (just at the end of the Covid-19 pandemic) can place consumers at the end of their ropes. This **accumulation of stressors** can metaphorically be '**the straw that broke the camel's back**'.

“There is a  
psychological impact  
to inflation beyond its  
financial impact.”

– Lisa Strohschein, Sociologist



## What will increase in price from April 2022?

Below is a breakdown of the key economic changes set to impact millions of UK households in the coming months.

### Inflation

- The UK's rate of inflation rose to 6.2% in the year leading up to February 2022, from 5.5% in January. This is a new 30-year high- Office for National Statistics.
- The Bank of England forecasts that the rate of inflation is expected to reach around 8% in Spring 2022, with predictions that it could go even higher later in the year.

### Energy bills: gas and electric

- The energy price cap has increased by a record 54% since April 1st. The average bill will rise by £693 for approximately 22 million customers- from £1,277 to £1,971 for direct debit customers.
- This is likely to increase in October 2022 when the next cap is brought in, with experts predicting that it could rise to around £3,000 per year.

### Water bills

- Water UK said that bills will rise by an average of 1.7% in England and Wales, increasing the average annual bill by roughly £7 a year. However, in some parts of England, bills could rise by up to 10% - The Guardian.

### Council tax

- Council tax rises by 5%, made up of a 2% council tax rise and an additional 3% for social care

### Travel

- Ticket prices for rail journeys are expected to increase by about 10%.
- Long haul flights from the UK are expected to become more expensive - The Mirror.

### Broadband, mobile phones, and TV

- Sky increased its broadband and TV prices by around £43 per year and other company users will see a 5.4% or 9.3% hike.

### Rent

- The average UK rental price has risen to £1,060 a month, which is a rise of 8.3 % from last year- HomeLet Rental Index.

## Planning is an important first step!

Over the coming pages, we hope to show how usage of IE Hub can assist your customers in **planning their future** and can **support** them in taking the right actions at the right time. We have just seen the first official increase in 2022, so **take action** before we see the second!


## FCA's advice on supporting consumers in 2022

Brian Corr, the Interim Director of Retail Lending spoke at the Credit Summit 2022 about how credit firms need to **support their customers through the 2022 cost of living crisis**. Corr proposed that now is a **'timely moment for us to engage'**. He states that '[inflation] will be having **significant effects on firms across consumer credit**, and a **real impact on consumers**, with much more change to come.

He spoke about the **significant pressure** that people across the country are facing, especially after events such as Brexit and the Coronavirus pandemic, as well as the implications of the war in Ukraine starting to impact the UK economy. Just as the credit industry acted to **help consumers** in the **emergency phase** of the pandemic, he advises that credit firms **'need to respond again to these new circumstances- and be ready for future challenges when they come.'**

Corr further suggests that the financial industry needs to **'sharpen our focus on the outcomes consumers get from credit markets**, underpinned by our more adaptive, more assertive, and more innovative regulatory approach.' He expects to see **'higher demand for credit'** but also suggests that **'people who want to borrow or have already done so will... find it harder to pay off their debts.'**

**'Credit matters greatly for consumers** – allowing them to **manage their money** and helping them to cope in tough times. It also brings **significant potential for harm** – so firms need to be **cautious and diligent**, focused on their customers' needs, and **ready to respond** as those needs change.' said Corr.



“Low levels of resilience and rising costs are a potent combination that could cause serious financial problems for millions of people – and that could have significant implications across the credit sector.”

– Brian Corr, Interim Director of Retail Lending

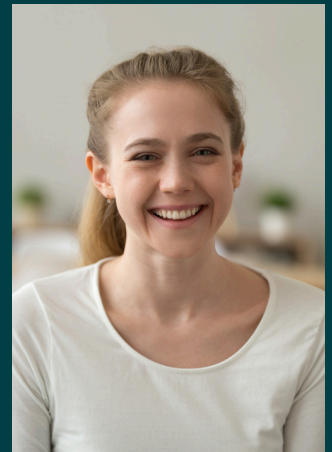


## Customer success story - Jennifer

With the **rise in inflation** and the increase in her outgoings, Jennifer had found herself **suffering financially** and sought out help from her local council. She was advised to enter her Income and Expenditure with IE Hub and found it **very easy and straightforward** to complete. Jennifer took advantage of the ability to share her I&E with **JD Williams, Essex and Suffolk Water, and Castle Point**. She also used IE Hub's free post service for those not on our share list, including **EDF, Next, and Anglian Water**.

After completion of her Income and Expenditure (I&E) form with IE Hub, she felt that she could **confidently manage her finances in the future**. Jennifer expressed that if it was not for IE Hub, she would have had to **fill out numerous forms** and certainly found IE Hub **less stressful than the alternative**. She explained that she **felt at ease** knowing that she did not have to keep resending the same information to multiple people, as IE Hub is a much faster process for the customer.

Jennifer **suffers from anxiety**, which can often be **triggered by completing multiple I&Es with different lenders**. By completing one single I&E in her own time and sharing it with lenders, Jennifer's **anxiety was largely reduced**, and she is now able to set up **repayment plans that she can afford**.



## Creditor testimonial

IE Hub spoke to two representatives at **Essex and Suffolk Water**- Nicky FennWeavers, Customer Team Leader, and Lisa Connell, Customer Service Manager. Fenn-Weavers expressed that when they receive an IE Hub I&E from customers like Jennifer, they "**assess for a reduced tariff**. If the customer qualifies, they will be awarded a reduced tariff" to **improve their financial wellbeing**. Therefore, Jennifer's I&E will be picked up by Essex and Suffolk Water and a **payment plan** will then be set up based on what Jennifer can **comfortably afford**.

Further, Lisa Connell expressed the importance of having a "full I&E sent to [them] as the payment plans set up are then **affordable and sustainable**." Finally, when I&Es are sent by IE Hub, Connell told us that they are even able to see "some of their **arrears being written off**." **This is a positive outcome for both customers and the company.**

## Watch another customer's journey story here!

<https://www.youtube.com/watch?v=b1XlusrcMGg&t=5s>



## Looking further ahead

IE Hub can be quickly and effectively used to anticipate the impact of this type of change on a household budget and what actual disposable income will be at this moment in time. IE Hub is a free, online application for consumers to assess their affordability.

## IE Hub registration is simple and confidential

Once an individual is comfortable using IE Hub they can then decide what other aspects of the service they want to use, including the Open Banking service and the ability to decide whom they want to share their data with (all fully compliant with UK data protection regulations).

As in the case of Sonia, IE Hub allows customers to share their Income & Expenditure information with multiple companies and puts them in control of their financial information. It is entirely consent-based and the individual can set the pace that they want to progress.

IE Hub's built-in intelligence means customers only answer questions that are relevant to their personal circumstances. **That means a faster process, no repetition, fewer mistakes, and a true Income & Expenditure profile.**

To illustrate the value of planning ahead we have set out a scenario below where there are likely to be several changes in a household's financial affairs because of external factors that may squeeze disposable income (i.e. the money left over once all essential bills are paid).



## A Case Study - Comparing costs from 2020 to 2022

### Basic information:

- Both people in the couple are employed.
- Net household income is £2,846 per month.
- Living in a private rented flat in the North East of England.

### Rent

Their rent rose by over 10% in 2020 during the pandemic, and their landlord has just told them that it will be increasing a further 5% in July 2022. This means that:

- In January 2020 their rent was £748 per month
- In July 2020 their rent was £822.80 per month
- In July 2022 their rent will be £905.08 per month

*This is a monthly increase in rent expenditure by £157.08 in 2 years.*

### Council Tax

Their property is in Band B in Newcastle. This means that:

- In the year 2019/2020, their council tax was £114.80 per month
- In the year 2021/2022, their council tax was £131.06 per month
- In the current year (2022/2023), their council tax is £135.26 per month

*This is a monthly increase in council tax expenditure by £20.46 in 2 years.*

### Fuel costs

Both are now travelling to work, just as fuel costs have started to rise. Fuel prices have increased from 114p/ litre in December 2020, to 142.94p/ litre in October 2021. Currently, petrol is 163.5p/ litre. They both worked at home until December 2021. This means that:

- From March 2020- to March 2021, their fuel cost was roughly £40 per month
- From March 2021- to March 2022, their fuel cost was roughly £104 per month

*This is a monthly increase in fuel expenditure by £64 per month.*

### Energy bills

They pay for their energy bills by direct debit. With the bi-annual energy price cap, energy costs have dramatically changed in the past 2 years. This means that:

- In 2020, for their gas and electricity, they paid on average £96 per month
- In 2021, for their gas and electricity, they paid on average £111.60 per month
- In 2022, for their gas and electricity, they are forecasted to spend £176.70 per month

*This is a monthly increase in energy bills expenditure by £80.70 per month.*

## Debts

- They have 3 credit cards where they pay the minimum monthly payment and 2 of the cards are near the limit because they used them to support the household costs between March 2020 and April 2021.
- They started to receive 'persistent debt' letters from card providers with suggested top-up payments. These amount to over £100 in 'top up' payments across 3 cards.
- One retail store card is particularly expensive with an APR of nearly 40%. They think the total balance of £10,000 will add around £100 per month to their current payments. Overdraft costs have also risen, costing nearly £1 a day when used.

## IE Hub

After putting the couple's finances through the IE Hub 'scenario planner' for April 2022 for the next financial year, they identified that they are over £300 per month worse off than they were 2 years ago. Despite having a slight increase in their salaries, this is not in line with inflation as their companies were hit hard during the pandemic. They also identify that they will be even worse off after October 2022

**In this scenario, the couple is required to take action now to manage their income and expenditure. IE Hub would allow this couple to view all of their income and expenditure, in order to make some crucial financial decisions ahead of October 2022.**

For anyone who is experiencing financial difficulty, then the level of disposable or surplus income is a critical factor to have. IE Hub can provide an 'affordability assessment' in terms of any debt repayment offers made. The Money and Pension Service (MaPS) has just updated its view of who will need debt advice in the future. In 2021, MaPS launched MoneyHelper, which is a service designed to encourage more engagement when people are in financial difficulty.

Affordability assessments are based on the completion of a Standard Financial Statement (SFS). IE Hub uses the SFS as the heart of its Income & Expenditure assessment process, which is why the output will be recognised and accepted by the firms whom we share the data with (e.g. your creditors).

<https://maps.org.uk/en/media-centre/financial-wellbeing-blog/2021-financial-wellbeing-blogs/who-will-need-debt-advice-in-the-future>

## Putting your customers back in control



Using IE Hub to build a budget by creating and managing Income & Expenditure forms means your customers can see all of their financial information at their fingertips.



If they are sharing the data they can decide when changes are notified. They are in control of what financial information is being shared in an industry-standard format (i.e. the Standard Financial Statement).



If their personal or financial circumstances change, they simply update their profile on IE Hub and share it with the relevant companies. IE Hub is very secure, meaning all data and information are completely safe.



The IE Hub core service is to enable customers to share their Income & Expenditure with companies on a share list in strict compliance with UK GDPR.

**We also provide a free service where, with customer consent, we can print and send an individual's Income and Expenditure to the companies that are not on our share list.**

## Get Social



<https://www.linkedin.com/company/iehub/>



<https://www.facebook.com/IEHubCustomer>



[www.iehub.co.uk](http://www.iehub.co.uk)



[joinup@iehub.co.uk](mailto:joinup@iehub.co.uk)