Experian Risk Radar Report

2024

Contents

Executive summary

Risk leaders optimistic, but more borrower pain predicted

Chief Risk Officers and key risk strategy decision makers at Australian credit providers have battened down the hatches over the last 12 months as they navigated their loan book through tumultuous economic conditions.

Risk leaders correctly predicted a spike in credit stress, missed repayments, hardship and loan defaults last year. This kept lenders busy in 2024 as they supported customers through changed financial circumstances and tightened their lending criteria and assessment processes to ensure responsible lending.

Looking ahead, most are optimistic about easing economic and geopolitical risk factors taking the strain off borrowers in the next 12–24 months.

However, there's more short-term borrower pain in store before circumstances improve. Risk leaders predict a continued increase in credit stress among borrowers for the year ahead, spurring lenders to invest in data, technology systems and regulatory compliance.

The predictions are reflected in Experian's credit bureau data, which records the repayment history of millions of credit active Australians. It shows a significant increase in financial stress among borrowers since interest rates started rising in May 2022. While missed repayments and defaults have plateaued in the last six months, the data shows a number of segments, including younger borrowers, those that opened accounts in the last five years, and those with multiple accounts are showing higher rates of financial stress.

These are the key findings from the fourth annual Risk Radar Report, which gathered in-depth insights from 30 risk leaders across the Big Four banks, online lenders, fintechs, credit unions and Tier 2–3 lenders. In combination with comprehensive new data from the Experian credit bureau, this report provides a snapshot of how credit risk decision makers have managed a turbulent 12 months, where their priorities are now and what they predict for the future.

With regulation, economic uncertainty, technological challenges and geopolitical pressures on the horizon, the 2024 Risk Radar Report highlights the extremely challenging yet vital role risk leaders play, painting a picture for what's to come for every borrower and lender across the country.

Some of the factors risk leaders are concerned about include

"Cost of living pressures combined with potential increases in unemployment rates."
Risk Leader at a Big 4 bank

"Macroeconomic factors driving increased arrears from RBA cash rate tightening."
Risk Leader at a Big 4 bank

"General economic environment leading to low consumer confidence. The key is unemployment. If unemployment doesn't deteriorate then the market should be okay."
Chief Risk Officer at a neobank

Credit stress increases in 2024

The average rate of missed loan repayments within Experian's credit bureau remains low overall, with just 0.8% of accounts being one repayment behind on average throughout the 2023–2024 financial year.

Due to seasonality, missed payment levels fluctuate throughout the year. Looking at the long-term outlook, Experian has observed signs of deterioration in several measures of financial stress and a noticeable upward trend in arrears (missed repayments and defaults).

There are proportionally 10% more accounts who have missed one repayment on average from FY21-22 to FY23-24, while the proportion of accounts three payments behind rose 38% to 0.2% on average during that period.

Borrowers that were four or more repayments behind, which is often the level where accounts are written off by lenders, increased 28% proportionally in that same period.

Experian's data also revealed a significant increase in the number of accounts with one or more missed repayments across certain credit products.

The proportion of auto loans with one or more missed repayments in 2024 increased 42% on average from January 2022, which was the highest increase of all products. Auto loan accounts were also the second most likely to be in arrears, with 6.1% of accounts being one or more payment behind in 2024.

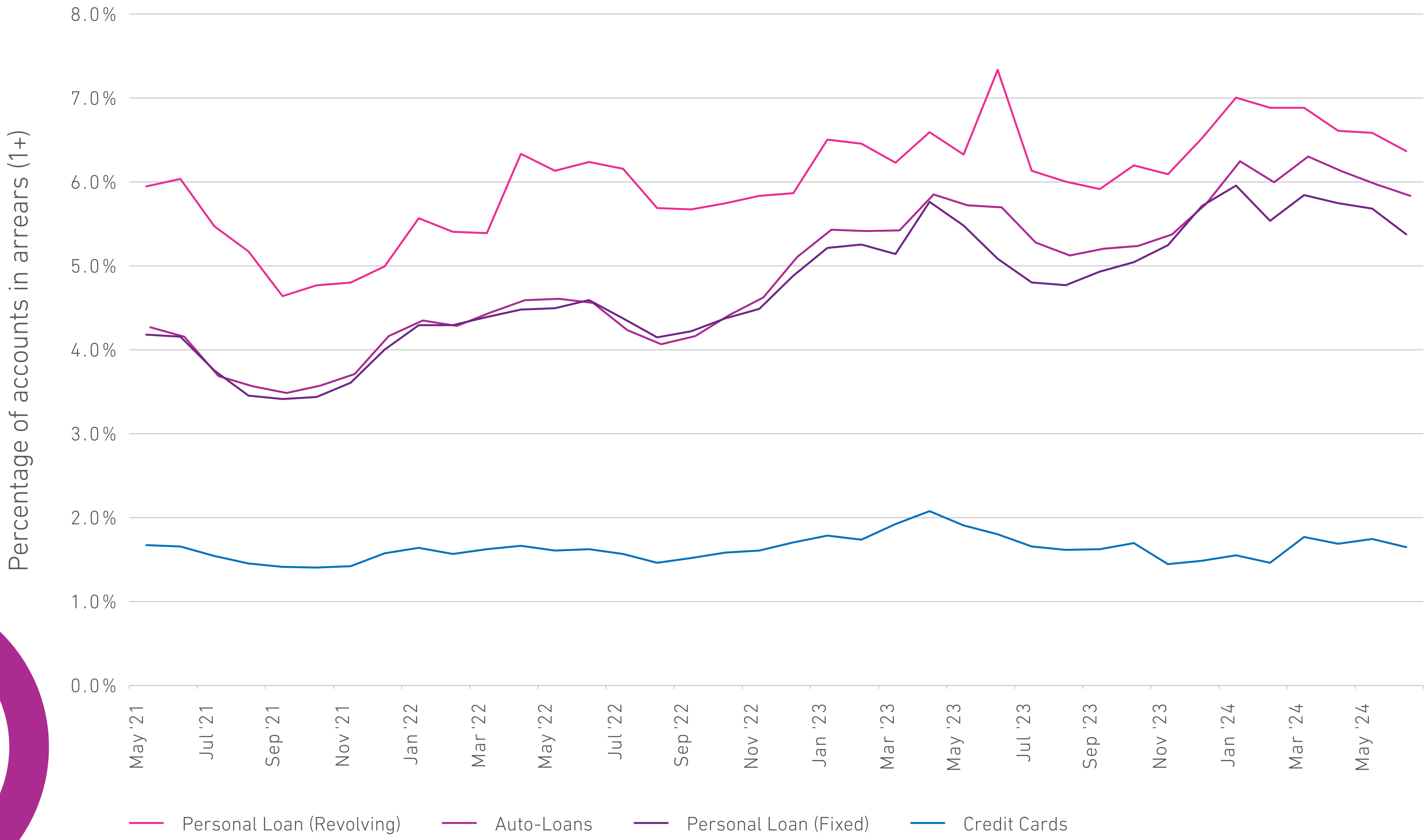
The proportion of personal loans in arrears have showed the highest levels of volatility in this period, up 38% since January 2022. In addition, 6.7% of personal loan accounts with a revolving credit limit (which allows the borrower to loan money up to a set credit limit, repay it and borrow again as needed) are one or more payment behind in 2024.

Mortgage holders have also been falling behind on repayments at higher levels, with the proportion of accounts one or more repayments behind going up 40% on average in 2024 compared to 2022. However, mortgage arrears remain low overall, with the most recent data showing just 1.3% of home loan accounts are behind on their repayments.

The trend data shows a steady spike in missed repayments since the Reserve Bank of Australia's (RBA) first interest rate rise in May 2022, and a steadying or decline since interest rates stabilised in November 2023.

Surprisingly, the data showed credit cards are the least impacted credit product, with arrears rates remaining relatively flat in the last 30 months. Credit card accounts are also three times less likely to fall behind on repayments than all personal loan accounts.

Arrears rates (one or more missed payments) over the previous 2 years



Economic uncertainty still causing credit risk concern

According to Australian risk leaders, the attention of the US presidential election and the impact on foreign policy and international trade relations ranked low in the potential impact on lenders.

Risk leaders are highly attuned to the financial strain on borrowers:

"Economic conditions and borrower leverage position."

"Cost of living pressures on existing borrowers."

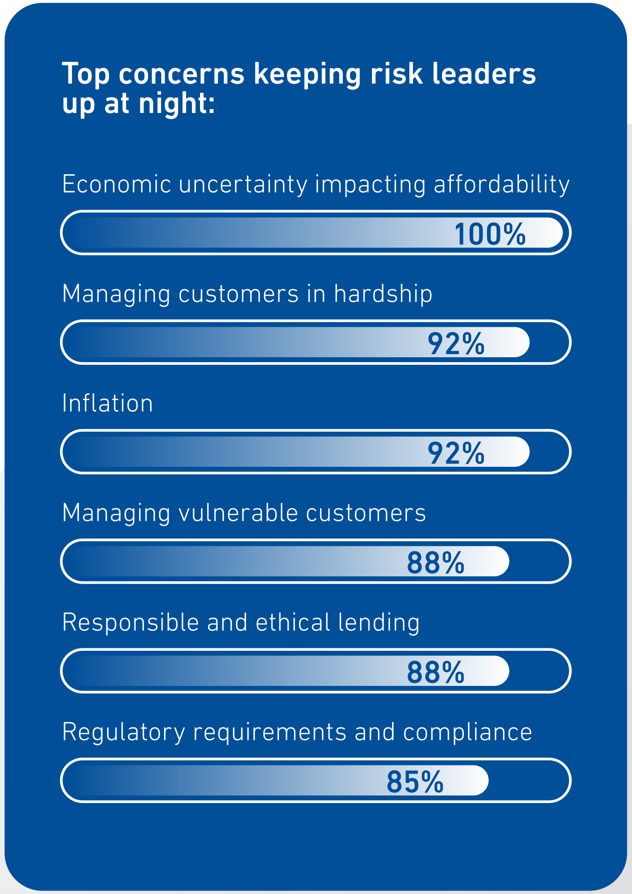
"Interest rates impacting repayment ability and servicing surplus."

"Inflation and cost of living pressures on borrowers."

"Inflation and housing affordability."

The highest concern for risk leaders was the economic uncertainty impacting affordability of customers. All risk leaders were concerned about this, with 65% 'very concerned'.

The performance of global financial markets (88%) and cyber risks (73%) are by far the most significant geopolitical risk weighing on the minds of risk leaders.



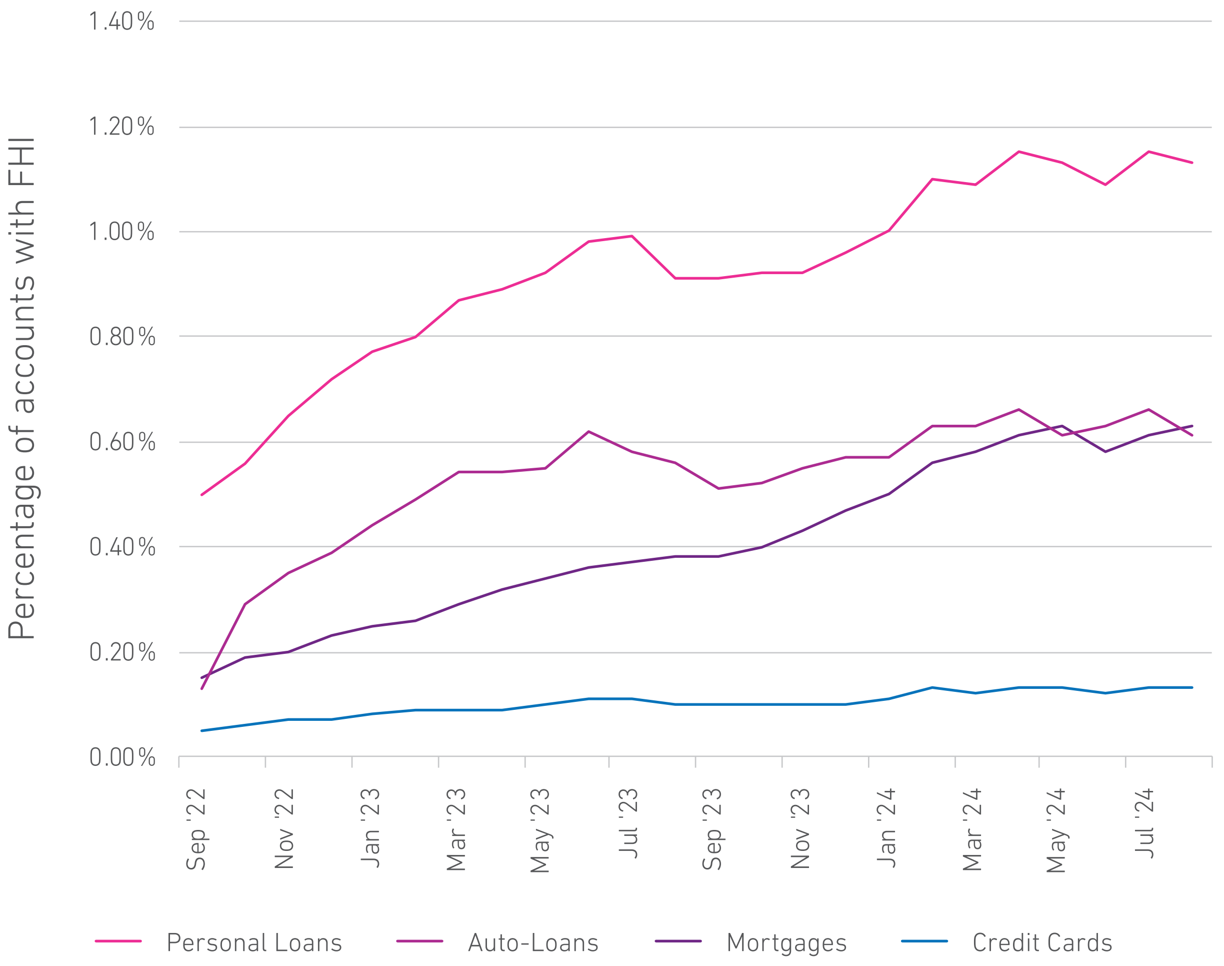
Hardship in focus

Managing hardship is one of the top factors that lenders are concerned about, and it has become a major influence on their risk strategies.

More than nine in ten (92%) risk leaders were concerned about managing customers in financial hardship, with 69% of those being 'very concerned'.

Experian's data shows the number of accounts that have a Financial Hardship Indicator (FHI) has steadily increased over the last 18 months, yet levels remained very low. Personal loan accounts were almost twice as likely to have a FHI (1.13%), compared to mortgages (0.63%) and auto loans (0.61%) as of August 2024. Borrowers were by far the least likely to request financial hardship support for a credit card account (0.13%).

Financial Hardship Indicators (FHI) at account level



Risk leaders on the strategy decision that had the most impact in the last 12 months

"Using transactional data to better identify customers who could be in financial stress and proactively engaging with customers before they are in arrears."
General Manager at a Big 4 bank

"Responsible lending obligations. Very difficult challenges to overcome as a new entrant. The whole regulatory environment favours incumbent banks."
Chief Risk Officer at neobank

"Early investment in Comprehensive Credit Reporting (CCR) has enabled the use of data to streamline responsible lending elements of credit assessment and reduce turnaround times and customer documentation requirements."
Retail and Business Lending Risk Manager at a Tier 2 bank

"A focus on automation combined with the utilisation of various independent data sources throughout the loan life cycle has assisted us to broaden our understanding of the consumer's circumstances and identify individual customer requirements."
Kelly Fraser, Chief Credit Officer. Taurus Motor Finance

Hardship has been under the regulator's microscope in recent months with the Australian Securities and Investments Commission (ASIC) releasing its review of hardship processes at 10 large home lenders in May 2024. The report's title, Hardship, hard to get help: Lenders fall short in financial hardship support, indicates there is more work to be done to support Australians struggling to meet their repayments. ASIC said lenders acknowledged that they need to improve hardship processes, with the review finding 70% had these programs in place.

"For people who reach out to their lender to signal they need support, this can be devastating. Too many Australians in financial hardship are finding it hard to get help from their lenders and it's time for meaningful improvement. ASIC has made this a priority focus area, and where appropriate, we will not hesitate to take enforcement action to protect consumers," ASIC Chair Joe Longo said.

With a heightened focus on hardship management in the last year, this was the area where risk leaders said they performed the best, with only 15% saying there was room for improvement. Almost two in five (38%) risk leaders rated themselves as 'very good', while almost half (46%) assessed their performance as 'good'.

Across all aspects of risk strategy, 81% of leaders rated their performance as 'good' or 'very good' in the last 12 months.

Lenders become more proactive in financial stress detection

To support customers facing financial stress and hardship challenges sooner, more lenders are attempting to be proactive in their monitoring and engagement with customers when their financial circumstances change.

The number of risk leaders that said their organisation was highly effective at proactively identifying customers in financial stress remained flat. However, more than half (54%) of risk leaders now say they are moderately effective at proactive identification, compared to 45% in 2023.

While one in three (30%) still don't rate their organisation's ability to reliably identify customers in financial stress, this was a marked improvement from 2023 (39%).

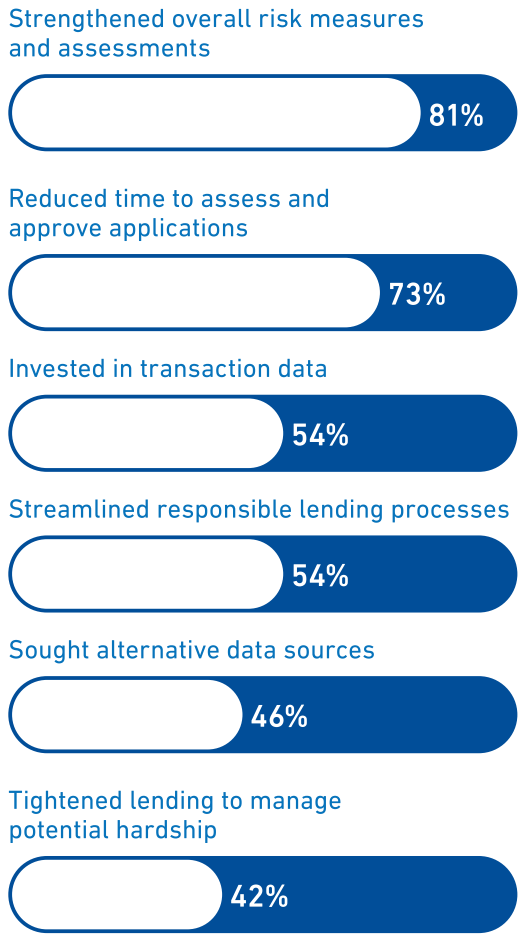
This improved financial stress monitoring continued, with almost a quarter of lenders (23%) now using sophisticated systems to identify red flags in a customer's transaction data, which is up from 16% in 2023. The number of risk leaders who didn't know if a customer was in financial stress decreased from 23% in 2023 to just 8% in 2024.

However, despite the heightened credit risk environment, more than two in three (69%) lenders say that the earliest they can detect a customer in financial stress is when they miss a loan repayment with them – a significant deterioration compared to 55% in 2023.

As a result, risk leaders reported greater priority being put on their collections processes, which ranked as the second highest priority behind hardship (73% said they have increased or significantly increased priority).

Experian's Director of Client Advisory, Credit Services, Charlotte Rankin, said investment in collections systems was a growing trend across customers. "We've seen a number of lenders undertake transformations of their technology systems with a focus on upgrading collections processes. While we haven't seen a significant rise in delinquencies, and most customers have clean books, it's a sign that if the volume of defaults does go up significantly, they want to be able to manage that increase."

Proactive measures taken in the last 12 months



Prediction for the year ahead

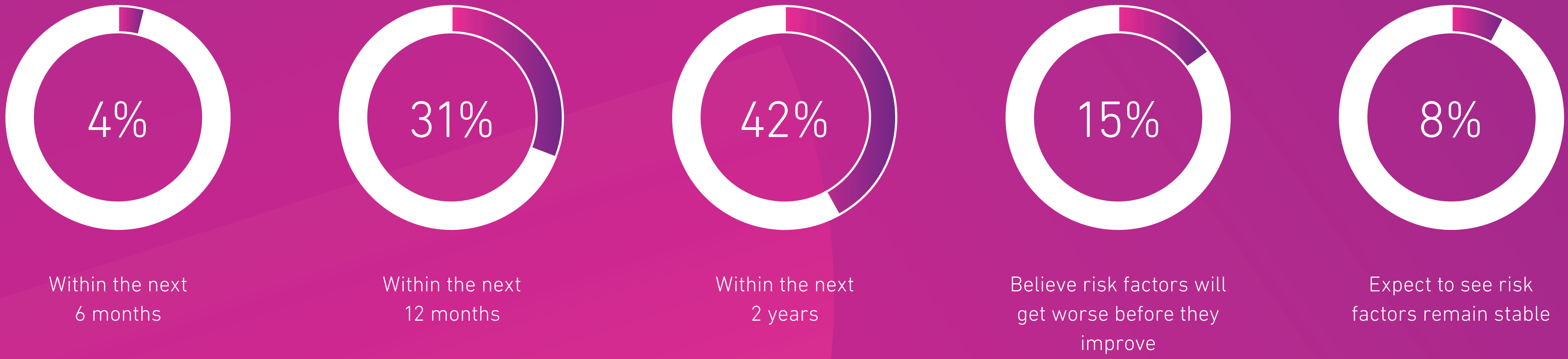
Almost four in five risk leaders (77%) think Australia is through the worst of the economic conditions and don't expect there to be an increase in risk factors driving higher rates of consumer defaults and missed repayments.

The most common timeframe for recovery was within two years (42%), while one in three (31%) were more optimistic and predicted an improvement within the next year.

On the other hand, some risk leaders are feeling 'glass half empty' about the economic environment, with 15% expecting conditions to worsen before they improve. An even smaller number (8%) don't see any change in the foreseeable future.

Reflecting on the predictions made by risk leaders in 2023, it's clear they were accurate in forecasting the economic challenges ahead.

When risk leaders predict risk factors for consumer defaults and hardship will reduce



Lenders tighten purse strings

Despite risk leaders not expecting economic risk factors to get worse, they do expect that borrowers will continue to falter at higher levels under the current weight of financial pressures.

More than two in three risk leaders (69%) predict we'll see higher credit stress, missed repayments and delinquencies in the next 12 months compared to the past year. While this was the common view among risk leaders, it's a significant reduction from 12 months ago, when 93% predicted higher credit stress, missed repayments, and delinquencies.

As a result, risk leaders across credit providers of all sizes have been busy in the last 12 months working hard to mitigate the higher risk environment. Four in five (81%) said they have strengthened their risk measures and assessments to better protect their organisation in 2024, compared to 57% in 2023.

The risks of financial stress and hardship in a tough cost-of-living environment has led more credit providers to tighten their lending criteria in the last year (42%), up 10% on 2023.

Highlighting the elevated risk environment and financial strain on households, the level of risk leaders that believe an individual's financial circumstances can change very quickly in the current market remained steady at 69% in 2024, compared to 68% in 2023.

For borrowers, it's now harder to get a loan than a year ago. More than half (54%) of risk leaders acknowledged it's tougher for credit applicants to have their loan approved in 2024, compared to less than half in 2023 (45%).

Young borrowers turn to personal loans

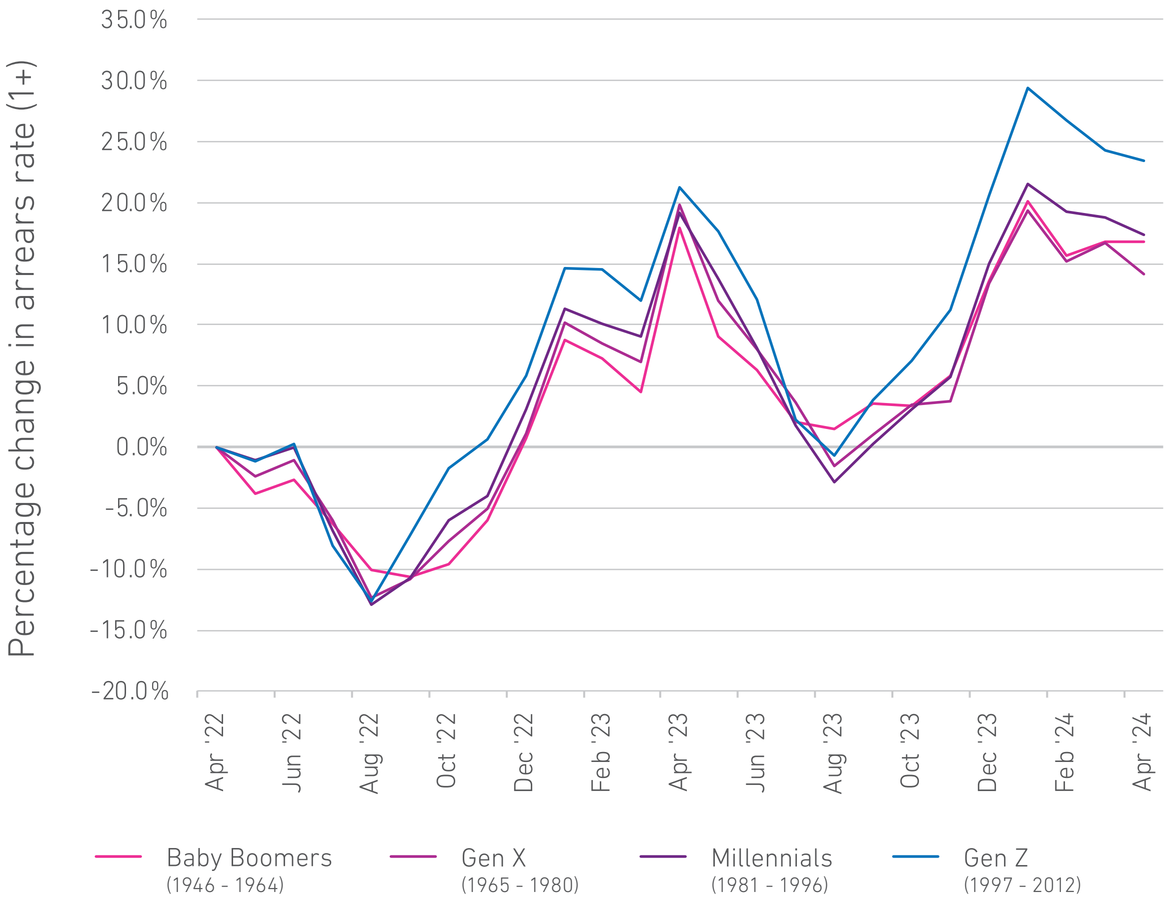
With the lending environment significantly deteriorating in the last 12 months, more than three in four (77%) risk leaders now believe it will be harder for younger borrowers to gain approval and maintain repayments.

Looking at the credit histories in Experian's bureau, it's understandable why risk leaders are cautious of lending to younger borrowers. The data shows personal loans are the credit product with the greatest repayment volatility with younger borrowers turning to unsecured personal loans at higher rates and then struggling to meet repayments at higher rates than any demographic in the last two years.

The number of open personal loan accounts reduced across every age group except for Gen Z (born 1997–2012), which increased 17% in just 12 months from April 2023.

The increase in Gen Zs taking out personal loans, coincides with a similar spike in missed repayments, up 26% in 2024 on average compared to April 2022 – the largest of any age group. Looking specifically at accounts with signs of significant financial stress, the data showed the proportion of Gen Z accounts that were three or more repayments behind had increased 42% on average in 2024, compared to April 2022.

Change in arrears rate (one or more missed payments) since April 2022



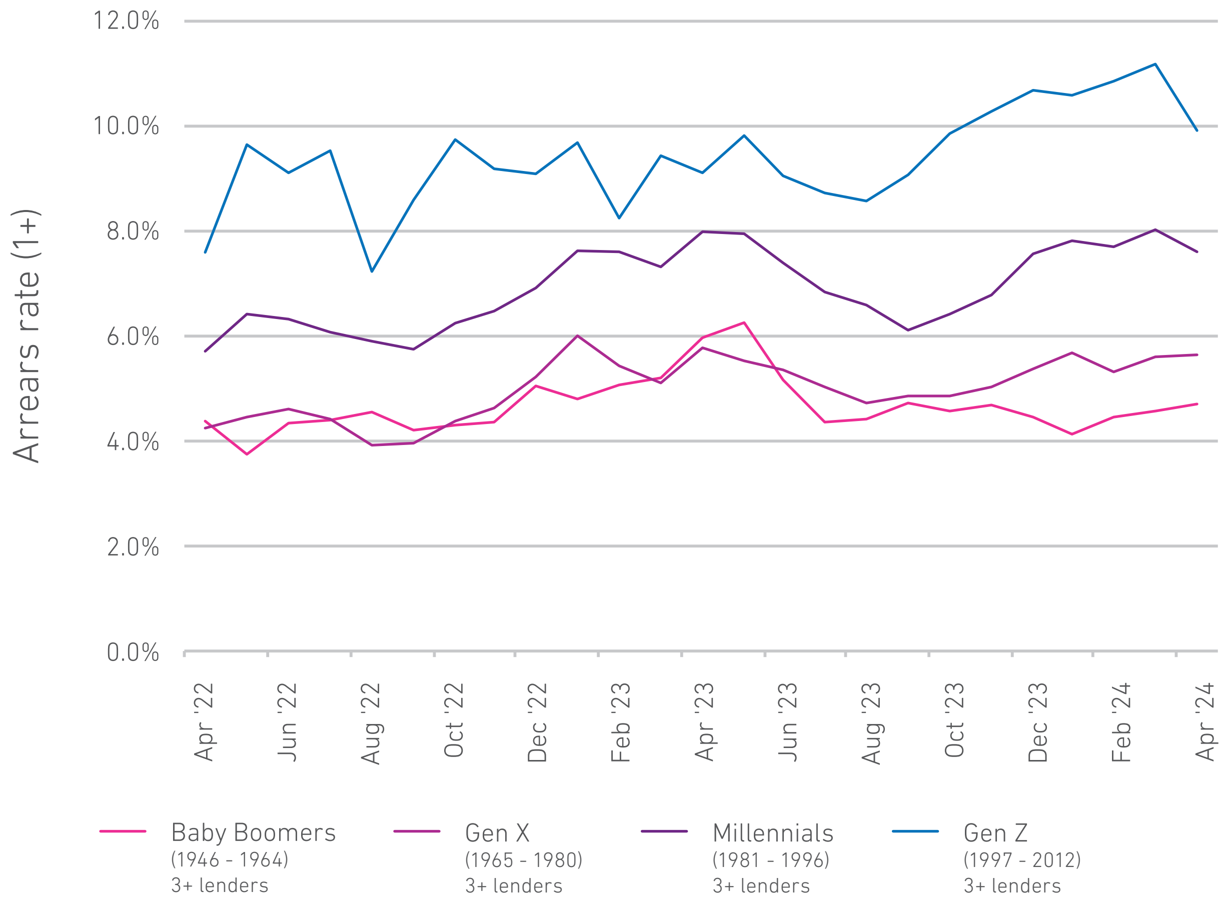
Of even greater concern are personal loan borrowers who have taken out loans with three or more lenders. Borrowers with multiple lines of credit with different lenders have traditionally been a sign of credit stress and increased credit default risk.

The data shows that one in ten (10%) Gen Z borrowers with personal loans across three or more lenders was one or more repayments behind, compared to 7.6% of Millennials (born 1981-1996), 5.6% of Gen X's (born 1965-1980) and 4.7% of Boomers (born 1946-1964).

The findings highlight the importance of lenders conducting thorough credit assessments, using the most accurate, up to date data available, to enable responsible lending decisions that protect both parties.

> *"Ensuring the credit system continues to allow younger people to purchase a home."*
> ***Risk Leader from a Big 4 bank** on priorities for the year ahead*

Arrears rate (one or more missed payments) by age group and number of personal loan account lenders



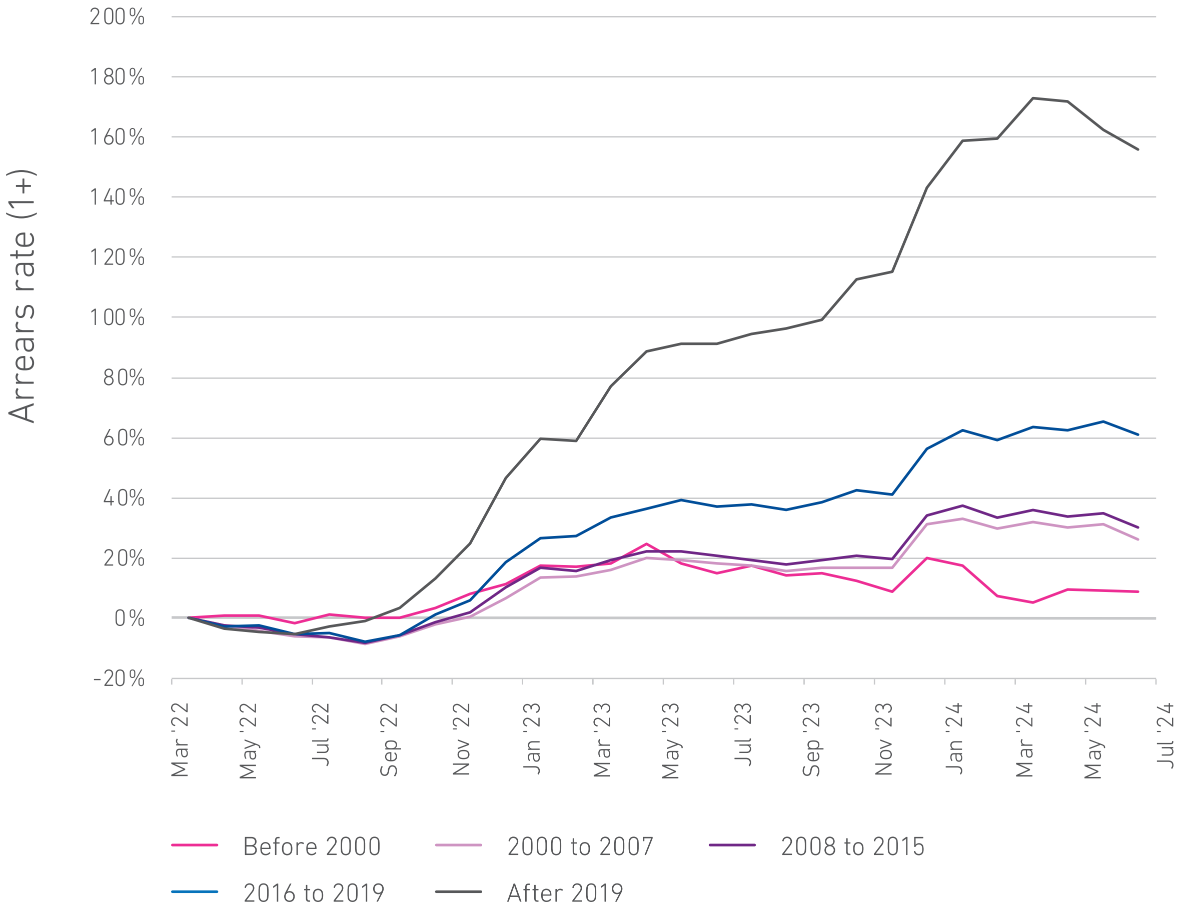
Risky repayment generation

Credit stress and rates of missed repayments are getting worse with every new generation of borrower.

The levels of missed home loan repayments increased significantly for borrowers that took out a mortgage in the last five years. The proportion of mortgage accounts that were opened after 2019 with one or more missed repayments have increased six times more than those that took out a home loan before 2007, and five times higher than home loans opened between 2008 and 2015.

The proportion of home loans taken out after 2019 that have fallen one or more repayment behind has increased 156% since March 2022.

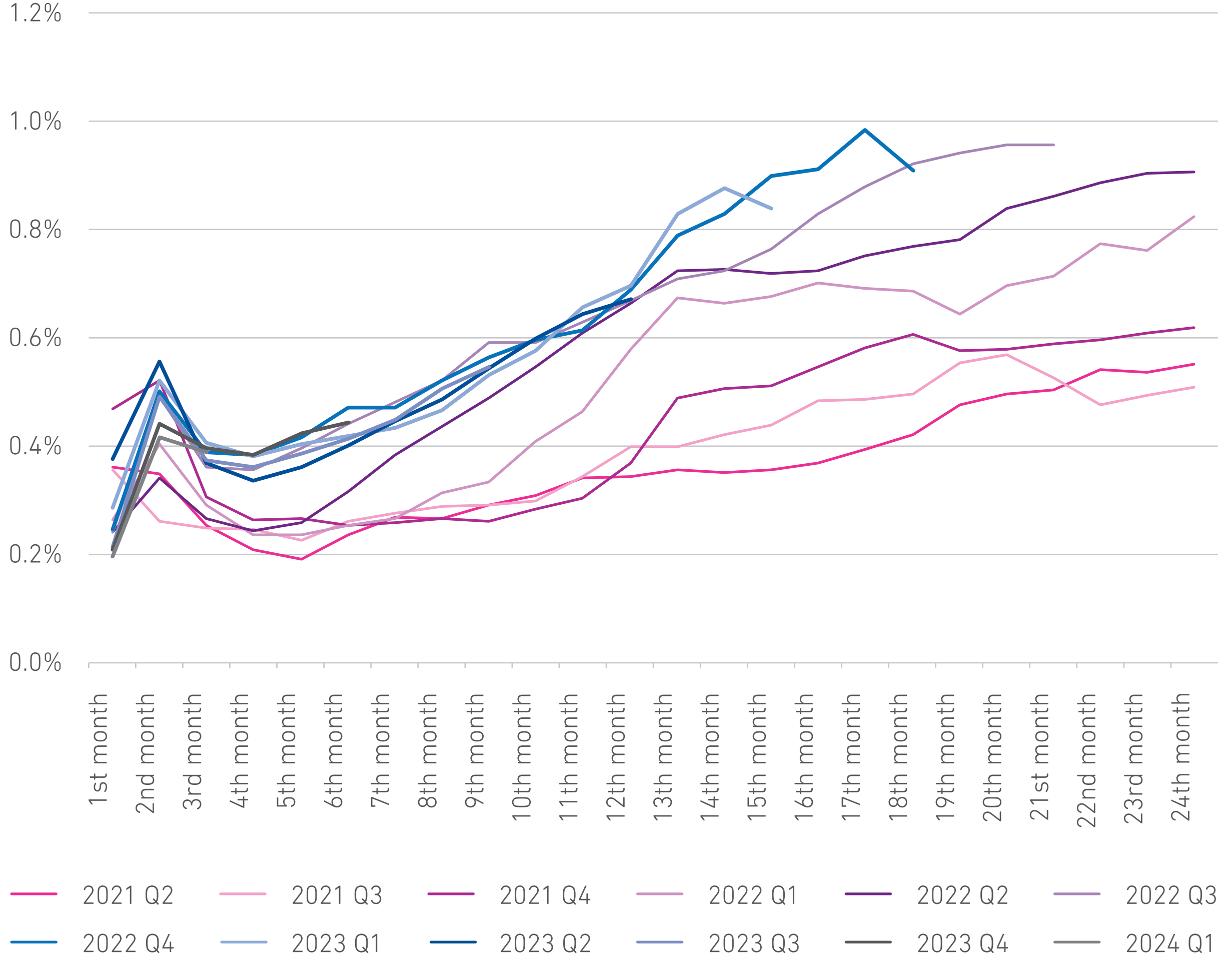
Arrears rate (one or more missed payments) change since March 2022 by year of opening



Diving deeper into more recent performance of new home loans, the levels of missed repayments is getting progressively worse. After six months, almost twice as many home loans taken out in 2023 had missed one or more repayment, compared to home loans opened in 2021.

The most recent borrowers to reach the one-year anniversary of their mortgage are behind on their repayments at a rate of around one in every 150 loans. This is twice the level of missed repayments compared to borrowers that opened an account in 2021, who hadn't reached similar rates of missed repayments even after 24 months.

Early stage performance of mortgages by vintage



Faster time to 'yes' or 'no'

It's not all bad news for borrowers. Lenders are competing to improve their credit decisioning processes and better support customer acquisition.

Many lenders have improved the speed at which they can assess a loan application, meaning they can say 'yes', 'no' or 'maybe – requires more assessment' much faster.

Almost three in four (73%) risk leaders said they have reduced the time it takes to assess and approve a customer credit application in the last 12 months, while more than half (54%) have streamlined responsible lending processes.

Underpinning the ability for any lender to automate processes is access to high-quality, reliable data.

More than half of risk leaders said they had invested in improved assessments through transaction data (54%) in the last year, while just as many (46%) were looking at alternative data sources (such as payroll data) to improve their analysis of a customer's financial situation.

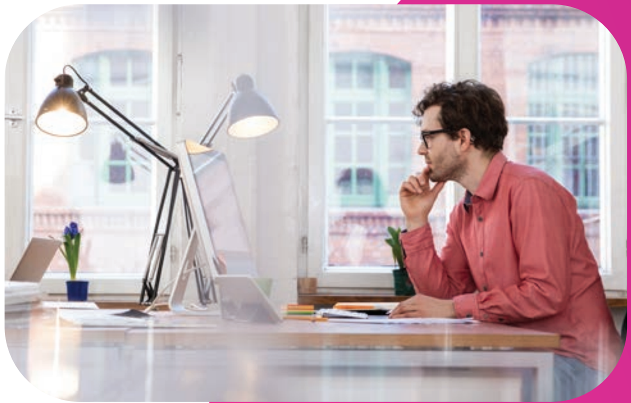
Despite the data investments made in the previous year, having access to the right data remains the biggest challenge for more than three in four (77%) risk leaders in 2024.

Fuelling the data challenge are legacy technology systems that some credit providers still operate, which can often struggle to import or export the required volume and quality of data to make accurate decisions at scale. Unsurprisingly, legacy systems became the second largest barrier for risk leaders this year (69%), a significant increase on the 59% who said in 2023 that said these systems were impacting the speed, flexibility and accuracy of their risk management processes.

More than half (54%) of risk leaders called out the need for more funding for risk technology in 2024, which was an improvement on the (64%) who called out limited resources and expertise holding back their risk management systems in 2023.

Experian Digital's Head of Innovation, Jordan Harris, said: "The rapid advancements we've seen in credit decisioning processes are directly tied to the strategic investments in high-quality data. By leveraging reliable transaction and alternative data sources, lenders can now assess applications faster, providing clearer outcomes for customers in record time. However, the ongoing challenge remains in upgrading legacy systems to fully realise the potential of these innovations. It's a critical step to ensure that automation and accurate decision-making can scale effectively across the industry."

At Experian, data, analytics and technology are creating new opportunities for businesses to elevate their credit decisioning process. With award-winning solutions, such as Experian PowerCurve, Experian Ascend Analytical Sandbox and Experian Digital Affordability, we are helping businesses make fast and informed credit decisions.



The biggest opportunity risk leaders want to tackle in the next 12 months

"Increase automation for simpler customers to free up underwriting resources for trickier customers e.g. self-employed."
Darren Tran, Head of Risk and Compliance at MoneyPlace

"Unlock more verification data to say yes to more customers without documents."
Risk Leader from a Big 4 bank

"Access to additional data sources for improved risk decisioning."
Risk Leader from a BNPL

Methodology

Experian Risk Radar research

Conducted in August 2024, this research engaged 30 Australian risk leaders, decision makers and influencers across financial services organisations. The survey was distributed through Experian networks as well as through the Australian Retail Credit Association (ARCA) to their members.

Information contained in this 2024 Risk Radar Report is of a general nature (based on the research conducted above), and is not intended to constitute advice or influence an individual or entity's decision-making. Experian makes no guarantee that such information is accurate as of the date it is received or that it will continue to be accurate in the future. Any individual or entity should consider the appropriateness of the information, having regard to their objectives, financial situation and needs, and if necessary, seek appropriate professional advice.

Experian Credit Bureau data

Experian holds bureau data on millions of credit active Australians. This aggregated, de-identified dataset of credit repayment histories was analysed to produce the insights in this report about missed repayments and hardship across credit products and age groups.

Experian collects and analyses the credit histories of over one billion people and businesses globally to produce credit reports. These are used by businesses to help make decisions about lending and lending terms. By providing an unbiased assessment of a customer, the reports widen access to credit so that individuals are closer to getting the credit they need, at a rate they can afford.

About Experian

Experian is a global data and technology company, powering opportunities for people and businesses around the world. We help to redefine lending practices, uncover and prevent fraud, simplify healthcare, deliver digital marketing solutions, and gain deeper insights into the automotive market, all using our unique combination of data, analytics and software. We also assist millions of people to realise their financial goals and help them to save time and money.

We operate across a range of markets, from financial services to healthcare, automotive, agribusiness, insurance, and many more industry segments.

We invest in talented people and new advanced technologies to unlock the power of data and innovate. As a FTSE 100 Index company listed on the London Stock Exchange (EXPN), we have a team of 22,500 people across 32 countries. Our corporate headquarters are in Dublin, Ireland.

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To learn more about how we can help with data, decisioning and credit risk management visit **experian.com.au/business**

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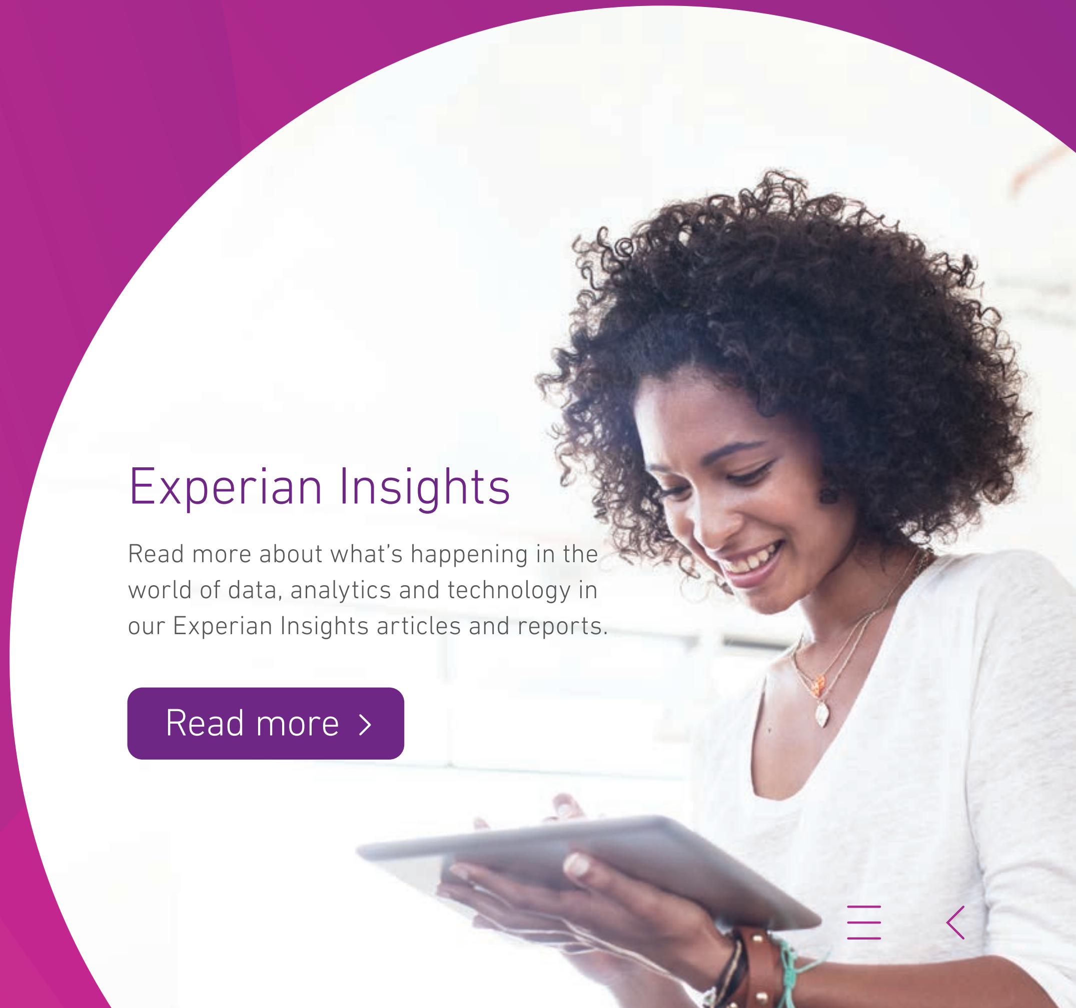

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