# Retail Lending

## Are you getting the best from your customer?

And are they getting the best from you?

MJW Topix

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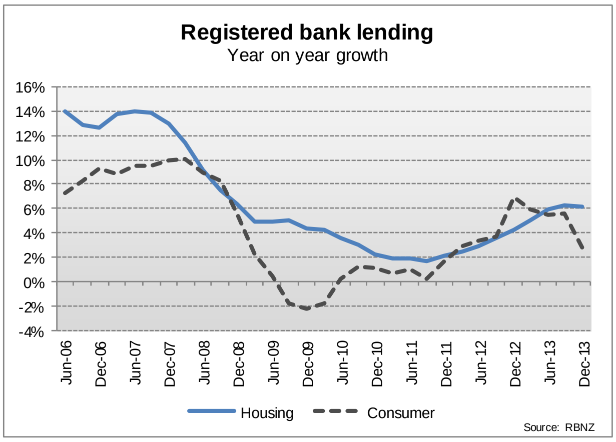
### The bank retail lending market

The last 6-8 years have been an interesting time in the housing and consumer lending market. Throughout the GFC, bank home lending continued to grow, albeit at a slower pace than prior to the crisis. It has clawed its way back to around 6%, though it's a long way off from the 14% seen back in 2007.

Consumer lending by banks (i.e. personal lending for anything other than a home) started to contract in 2009. However, it has generally increased since 2010 albeit sporadically at times.

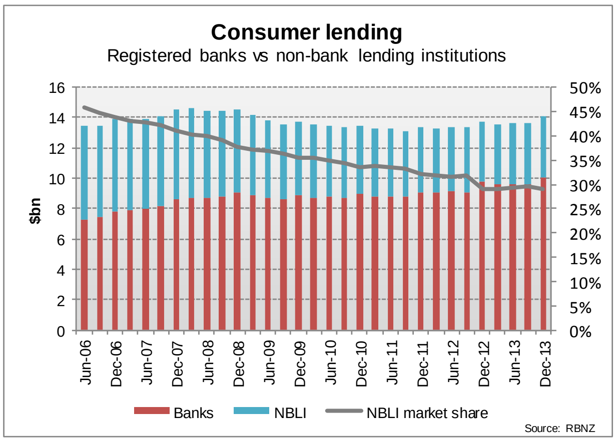



Looking at more recent experience, there may be signs of the growth slowing down for both housing and consumer lending. The impact of LVR restrictions and the prospect of increased interest rates remain to be seen.

The chart above is for registered banks only. As we'll see below, at least some of the growth in bank consumer lending has been at the expense of reductions in lending by non-bank lending institutions.

### Non-bank lenders

The next chart shows that the NBLI market share for consumer lending has been declining steadily for some years. From holding almost half of the consumer lending market in 2006, non-bank lenders have stabilised at just under a third of the market today. The failure of a number of finance companies over the period and the drop off in deposits is evident.




### Some questions

For a registered bank:

- How do we retain the market share we have accumulated?
- Which slice of the market have we captured, and has this changed our customer profile? Is this the cream of the crop, the dregs left behind by our competitors or something else?
- Which customers represent the best long term value to us, and are we meeting their needs accordingly?

For a finance company or building society:

- How do we claw back our market share, and which tranches of the market should we target?
- With the Reserve Bank intent on cooling off the housing market, where does this leave our competitive offering, for home loans or other lending?

### The data to do something

As a credit provider you are in the enviable position that many of your customers utilise your product every day. Every time they swipe their credit card or store card, they tell you something about themselves.

Another question: are we adequately capturing the wealth of information that passes through our systems every day? And the corollary: do we know what to do with this data once we've got it?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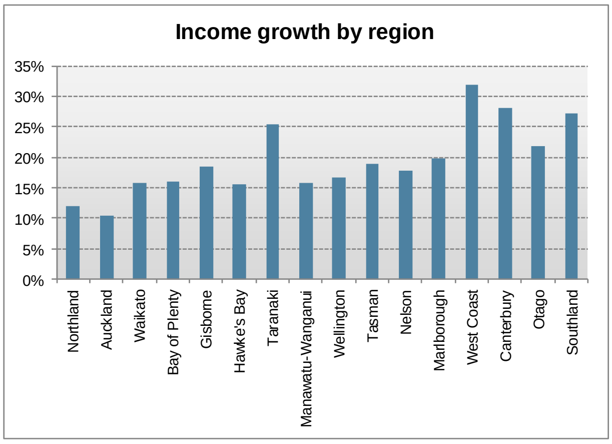
## Making the data talk

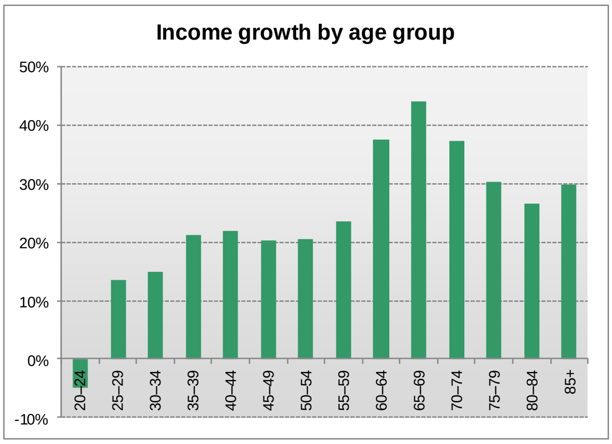
For a very simple example of 'making the data talk,' let's compare the census data between 2006 and 2013.

The chart below compares the growth in median income from 2006 to 2013 across the country.



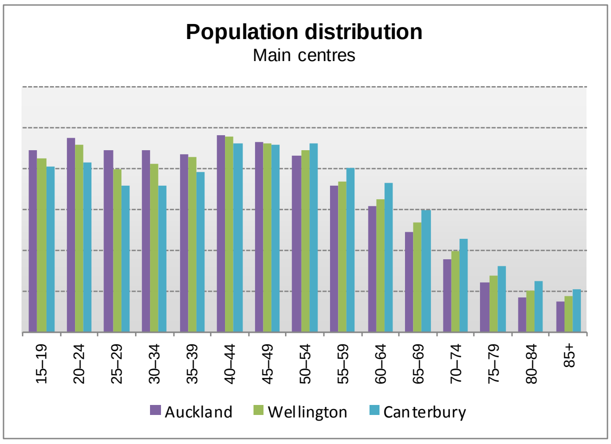

Of the main centres, Canterbury stands out as the strongest at 28% growth over the seven year period. Wellington achieved 17% growth while Auckland achieved a mere 10%.

But the story is not quite as simple as that. This second chart splits the income growth into age groups.




The clear trend here is that people in the 60+ age groups have seen higher increases than younger workers. Incomes for those under 25 have actually decreased over the period.

So how is this relevant to our comparison of incomes by region? One more chart should complete the picture. Below we illustrate the population distribution for Auckland, Wellington and Christchurch.




The picture that emerges here is that the Auckland population is highly concentrated at the younger end while the Canterbury population is less so.

So perhaps the strong growth in Canterbury incomes is more a reflection of the age of their population, rather than anything inherent in the economy of Canterbury (earthquake rebuild aside).

Or perhaps (though less likely) the growth in incomes for the 60+ population is really just an outworking of the fact that the older workers are more concentrated in Canterbury where income growth is strongest.

## Conclusion

The issue we've tried to illustrate above is called multicollinearity. It's the effect of two or more variables telling you a similar story, and the difficulty in trying to establish which of them is the driver.

So how is this relevant to the retail lending market? Well, the details are different – and far more complicated – but the underlying message is the same. Don't just take what your data tells you at face value. Dig down until you get the full story.

Our work with insurers, finance companies and numerous central and local government agencies has revealed many interesting and unexpected discoveries. It's amazing what your data can tell you when you know where (and how) to look.

**ABOUT MELVILLE JESSUP WEAVER**
Melville Jessup Weaver is a New Zealand firm of consulting actuaries. The firm was established in 1992 and has offices in Auckland and Wellington. The firm is affiliated to Towers Watson, a global professional services firm that helps organisations around the world optimise performance through effective people, risk and financial management. Towers Watson has offices in 25 countries and the business covers human resources services, reinsurance and Tillinghast.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