Segmentation and monitoring financial vulnerability

Full webinar and additional slides

25th May 2023

What is this all about?

Using new insights from our segmentation, and from external sources, we are monitoring changes to financial vulnerability in the UK

This is the first edition of what we hope will be a regular release of insights to understand what is changing, and what is staying the same, for people in financially vulnerable circumstances

After the session, we will release an even more detailed presentation with additional insights

More information available at https://fair4allfinance.org.uk/segmentation/

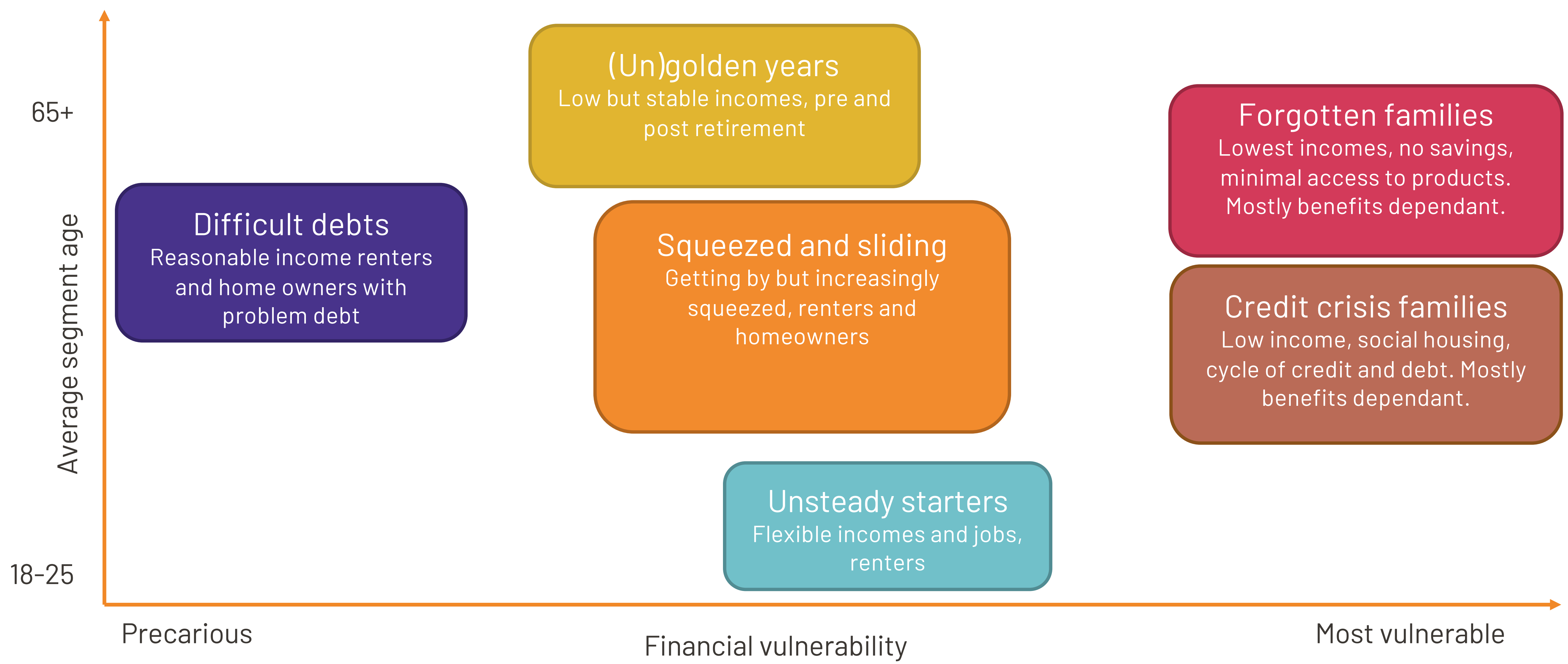
Who is speaking today

Lauren Peel – Fair4All Finance

Tom Johnson - Trajectory

Segments by age and vulnerability

Six segments show the breadth of financial vulnerability – the size of the box represents the size of the cohort



Segmentation of people in financially vulnerable circumstances

Defining financial inclusion

Problem debt

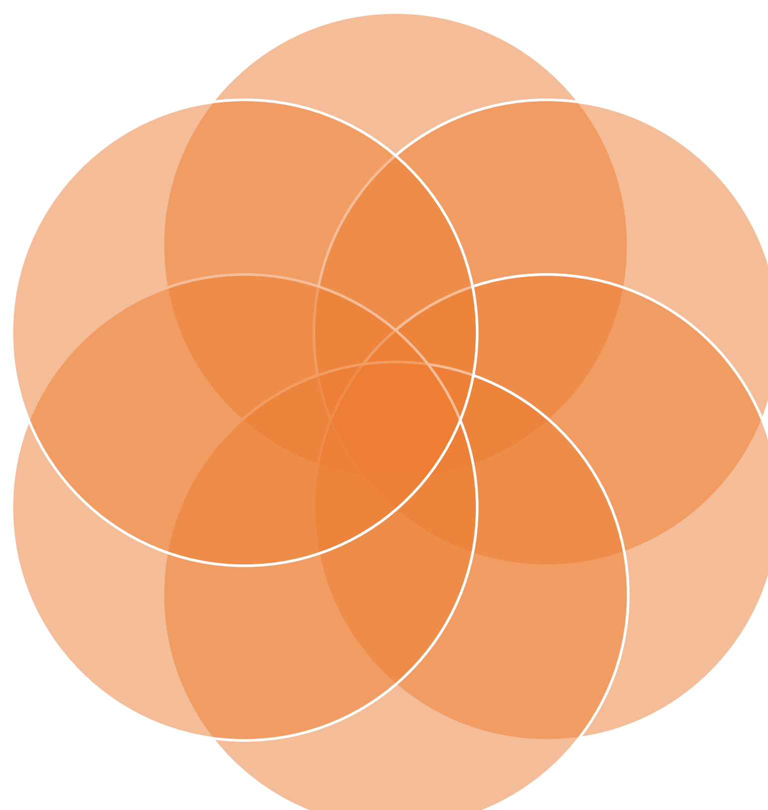
People can effectively manage their debt

Financial Capability

People are able to effectively manage their finances and build resilience for times of difficulty

Resilience

People can effectively cope with unexpected or income shocks



Access

People can easily access financial products and services as well as advice

Poverty premium

People do not pay extra for some products and services due to poverty premium

Insufficient Income

People have enough income to meet their expenses

Financial Inclusion means that individuals regardless of their background, income or personal circumstances are aware of and have timely access to appropriate and affordable financial products and services which enable them to manage their finances day to day, build their long-term financial resilience and wellbeing and participate in society

Data definitions

We are using insights from a range of data sets;

- **"Our segments" is how we are describing people in financially vulnerable circumstances**– an average or total here would be across all six of our segments
- We have looked at a **tracker** for our segments, people in financially vulnerable circumstances, between March 2022 and December 2022
- We have looked at the average for **people in financially vulnerable circumstances compared with a Nationally Representative sample** – both data sets were collected in December 2022

Where relevant, we have also used external data sources for the broader market landscape

You can find out more about our segments at **fair4allfinance.org.uk/segmentation/**

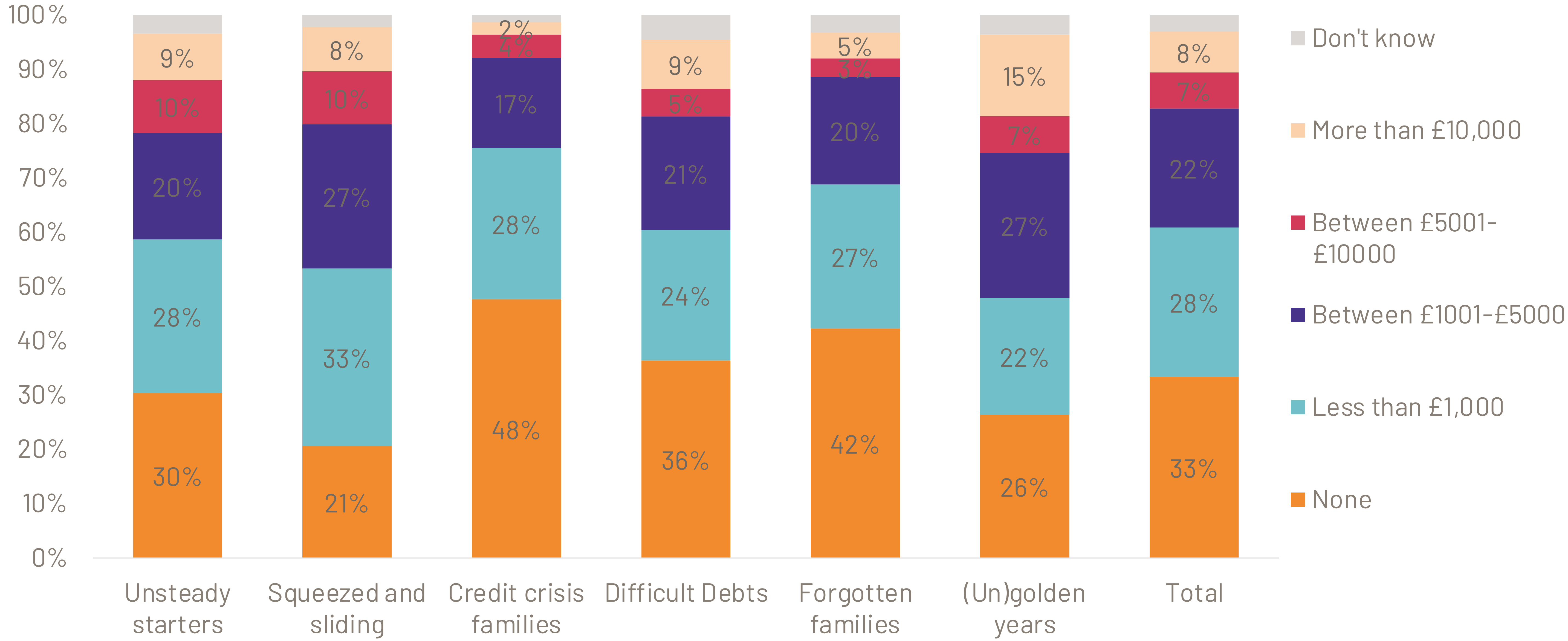
Economic changes since end 2022

- **Inflation** remains high, and i**nterest rates** continue to rise
- **Employment** has remained stable
- Winter weather was not as brutal as expected – alongside support on **energy** bills
- The UK manages to **avoid recession**
- Ongoing **strikes and industrial action**
- **Severe spending strain on the government**
- External impacts from the **war in Ukraine** and from global trade instability
- we continue to see contractions in the supply of non-standard credit as more **commercial providers exit the market**

1 Financial resilience

No/low savings across all segments

Q7 What is the total value of savings that you currently hold? (Online survey, n= 2,912)



Dec 2022

% of each segment with no savings

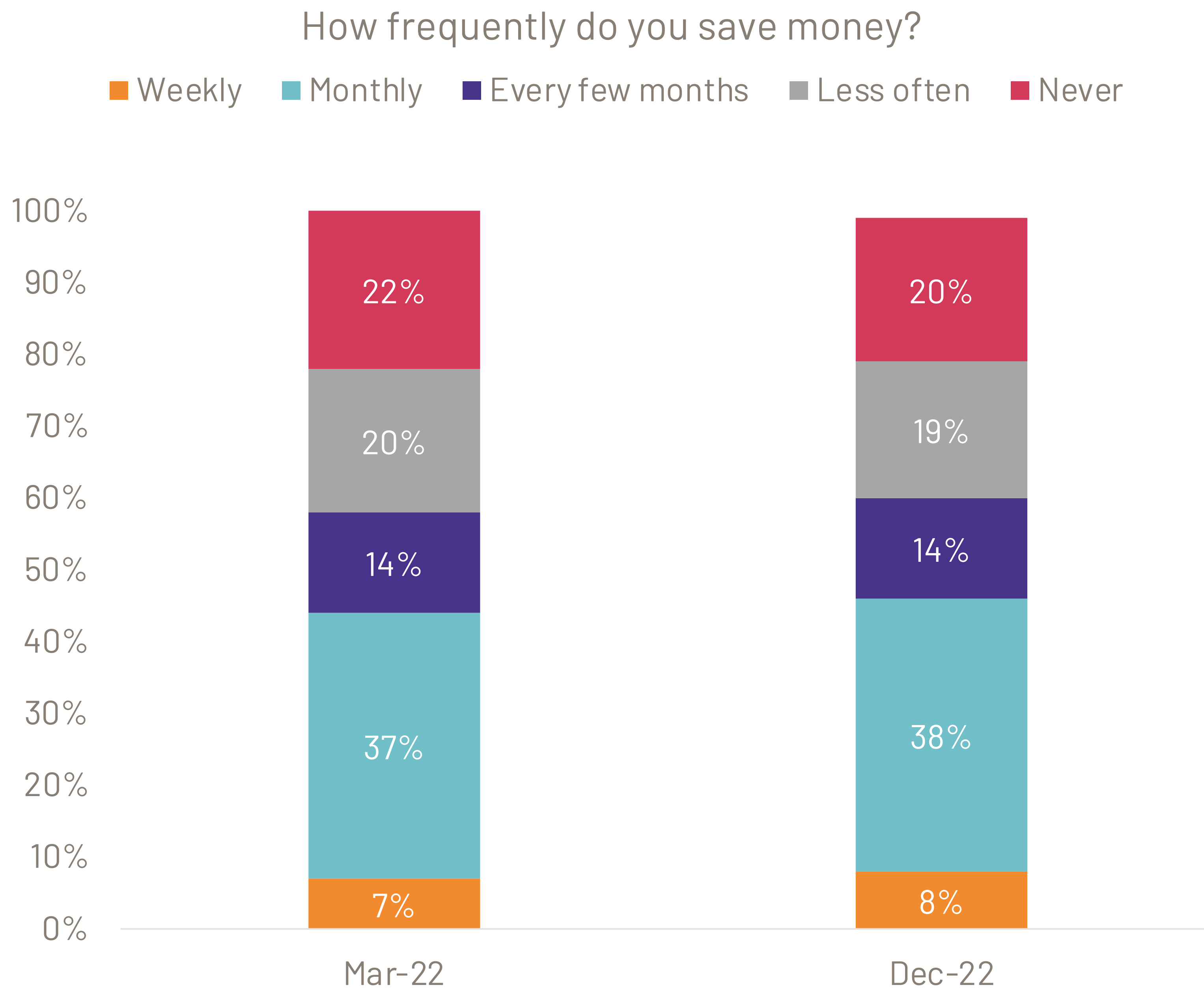
Segment	March 2022 (%)	December 2022 (%)	% change	Approx people with no savings
Unsteady starters	22	30	**+8%**	393,593
Squeezed and sliding	15	21	+6%	816,081
Credit crisis families	38	48	**+10%**	1,668,264
Difficult debts	32	37	+5%	805,413
Forgotten families	48	42	-6%	1,516,415
(Un)golden years	23	26	+4%	795,034
	30%	**34%**	**+4%**	**5,994,800**

Going under and without: JRF's cost of living tracker, winter 2022/23

On average across all low-income households, 29% have no savings, or less than £200 in savings.

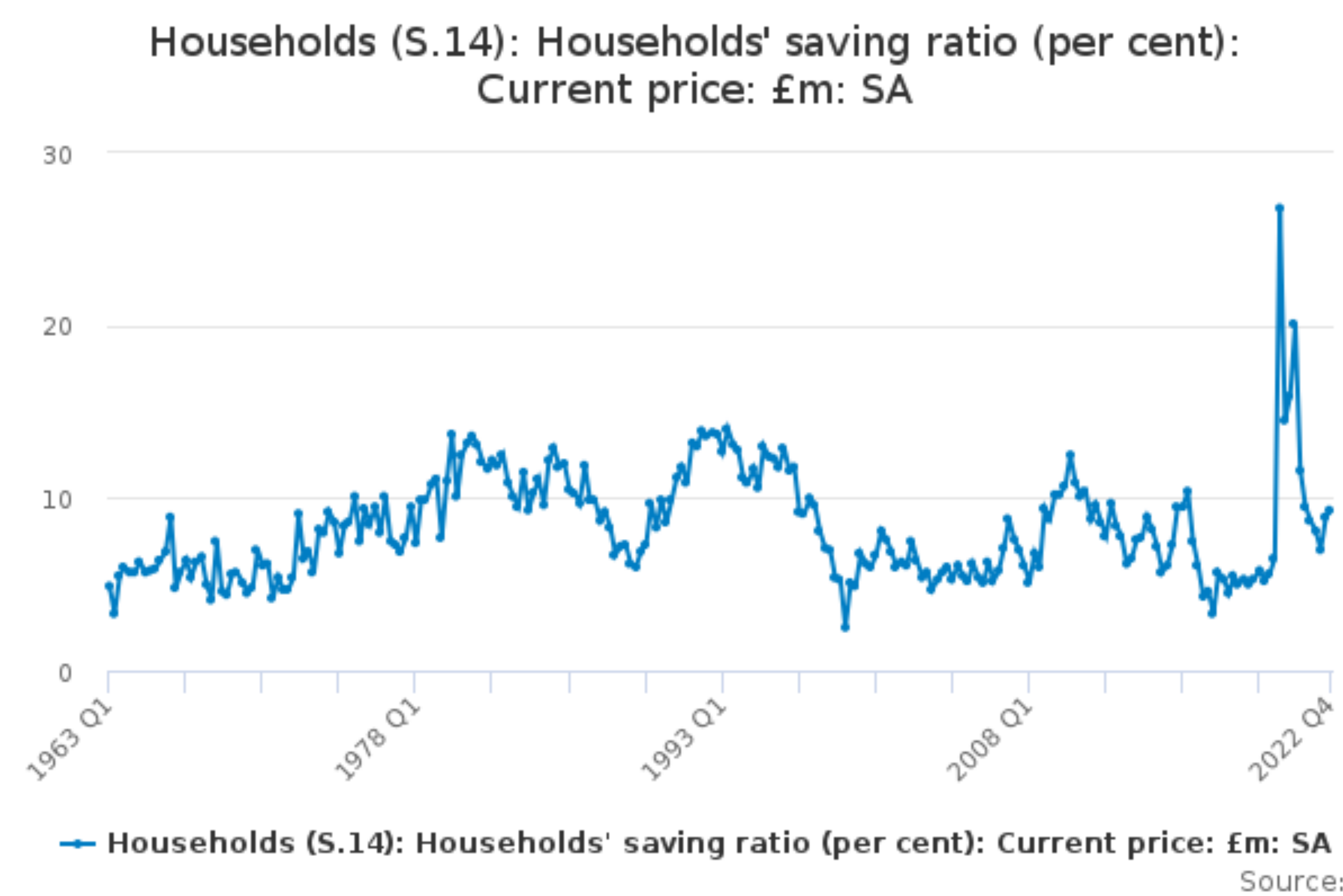
This figure rises to 58% for people on Universal Credit, 54% for lone parents, 49% for private and social renters, and 47% for people aged 18-34, and people struggling with their mental health

But, people still want to save



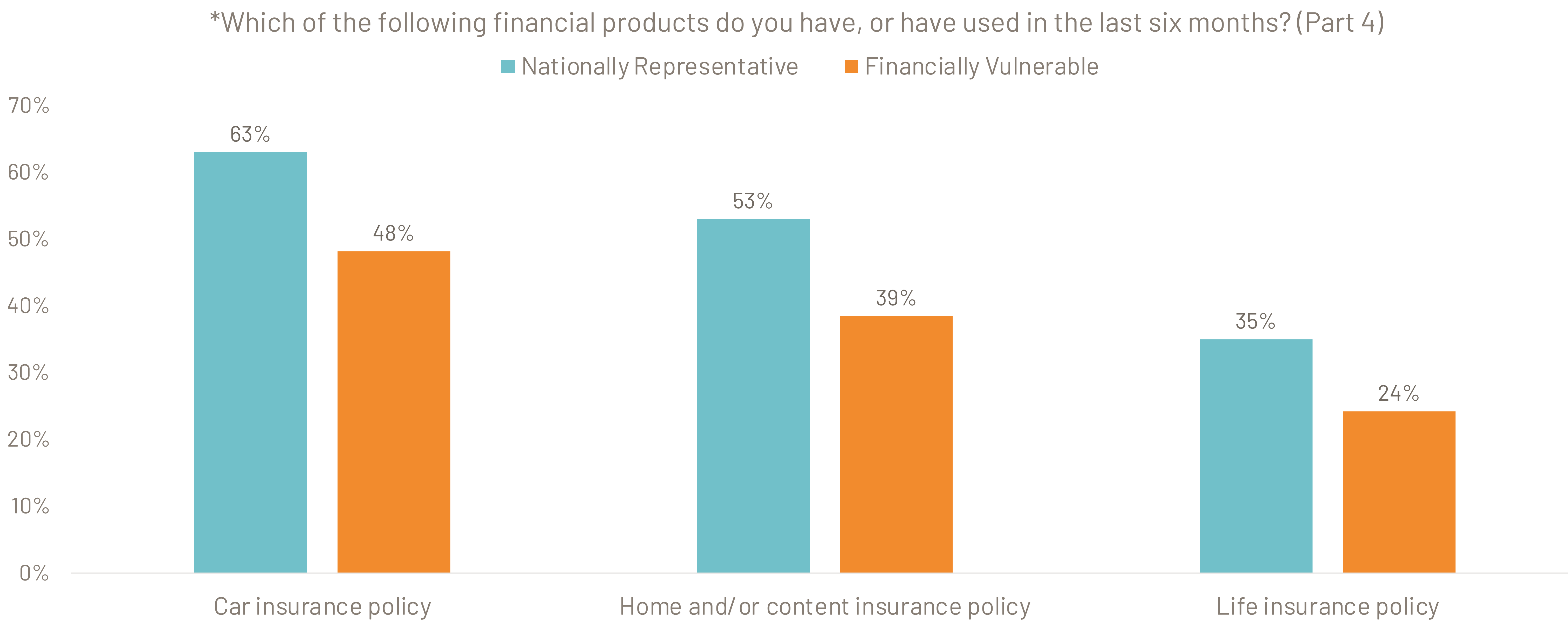
Base= 6,267 (Mar = 3165; Dec weighted = 2912)

Resolution Foundation Living Standards Outlook 2023
More than 1 in 4 (27%) can't afford savings of £10 a month. Up from 6% in 2019/2020



ONS March 2023

Our segments are less likely to have insurance

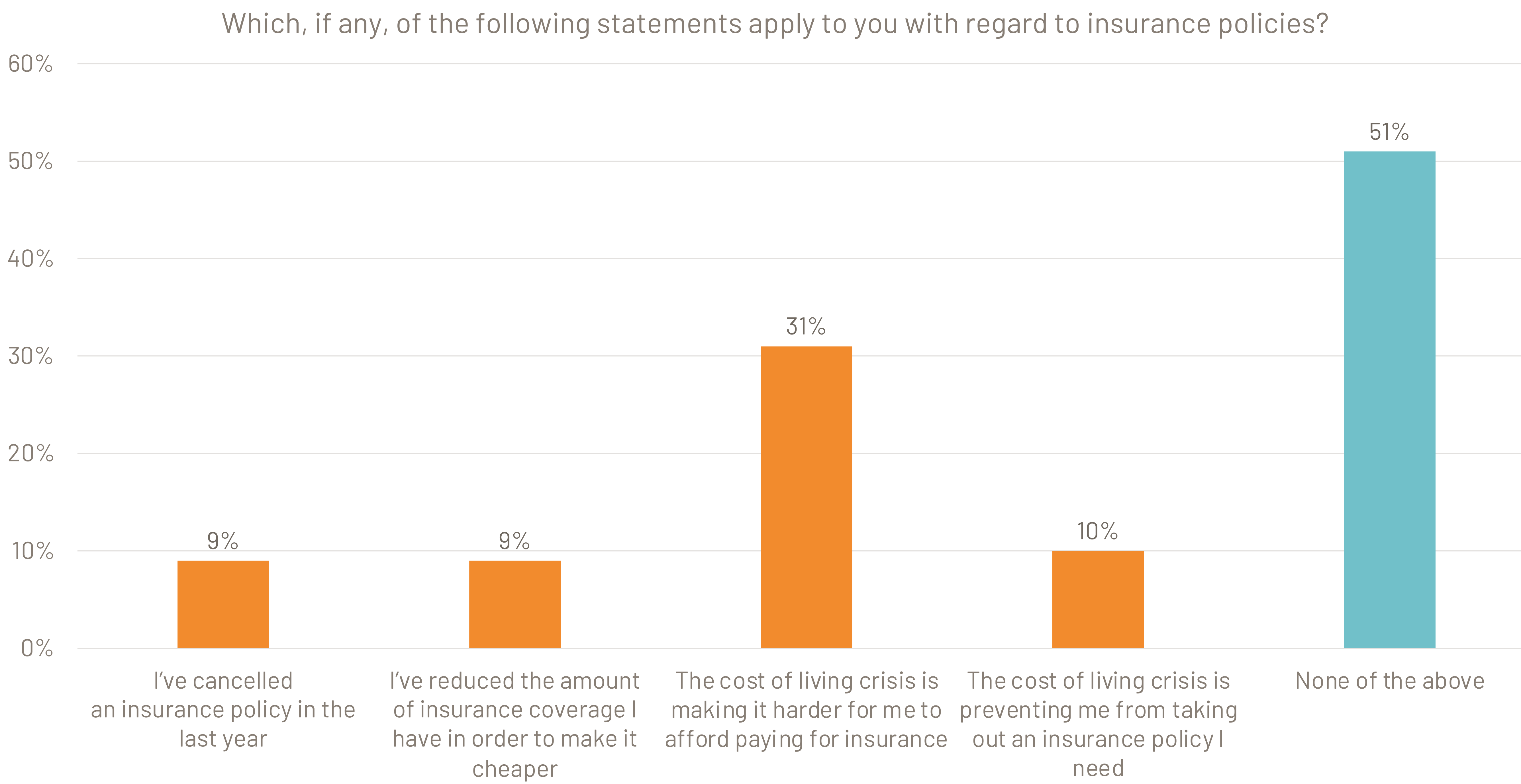


Dec 2022

Dec Base = 2912 – Weighted

Health insurance statistics (finder.com)

Cost of living is impacting ability to retain insurance



Dec 2022

FCA Financial Lives January 2023

For adults who were insurance or protection policyholders in May 2022, 8% (3.6m) cancelled at least one of their policies and 7% (3.1m) reduced the level of cover on at least one of their policies in the 6 months to January 2023, specifically to save money due to the rising cost of living.

The policies cancelled by the highest proportions of May 2022 policyholders were:

- extended warranty
- separate home contents insurance
- pet insurance
- gadget insurance
- mobile phone insurance

No more than 1.5% of May 2022 policyholders cancelled any other type of policy.

So what?

It makes sense that with costs going up, and salaries not rising as fast, **people are using their savings to pay for ongoing costs** and at the same time making cost savings elsewhere such as saving less, seeking financial help from friends or family, cancelling pensions and insurance payments. In turn this impacts their financial resilience, and increases the need for credit as savings fall.

All segments – especially Unsteady Starters, Squeezed and Sliding – want to maintain a savings behaviour and save for their future and for their families: **what propositions or activities can help this?**

For example, in our **recent research on deductions lending, 7 out of 10 borrowers** agreed that this type of payroll linked lending – when packaged up with a savings element – helped them to save more regularly, even when they had never done so before. Only 16% of benefit loanees had a savings account before the loan, 73% have saved more since taking out the loan and 78% plan to continue to save.

In insurance, we've convened a **Financial Inclusion Action Group** with stakeholders from across the insurance sector including major insurers, brokers and price comparison sites who share our mission to increase the financial resilience and wellbeing of people in vulnerable circumstances through **improving the availability of fair and accessible insurance products** and services specifically home, motor and income protection products. Contact jake@fair4allfinance.org.uk for more information

2 Insufficient income

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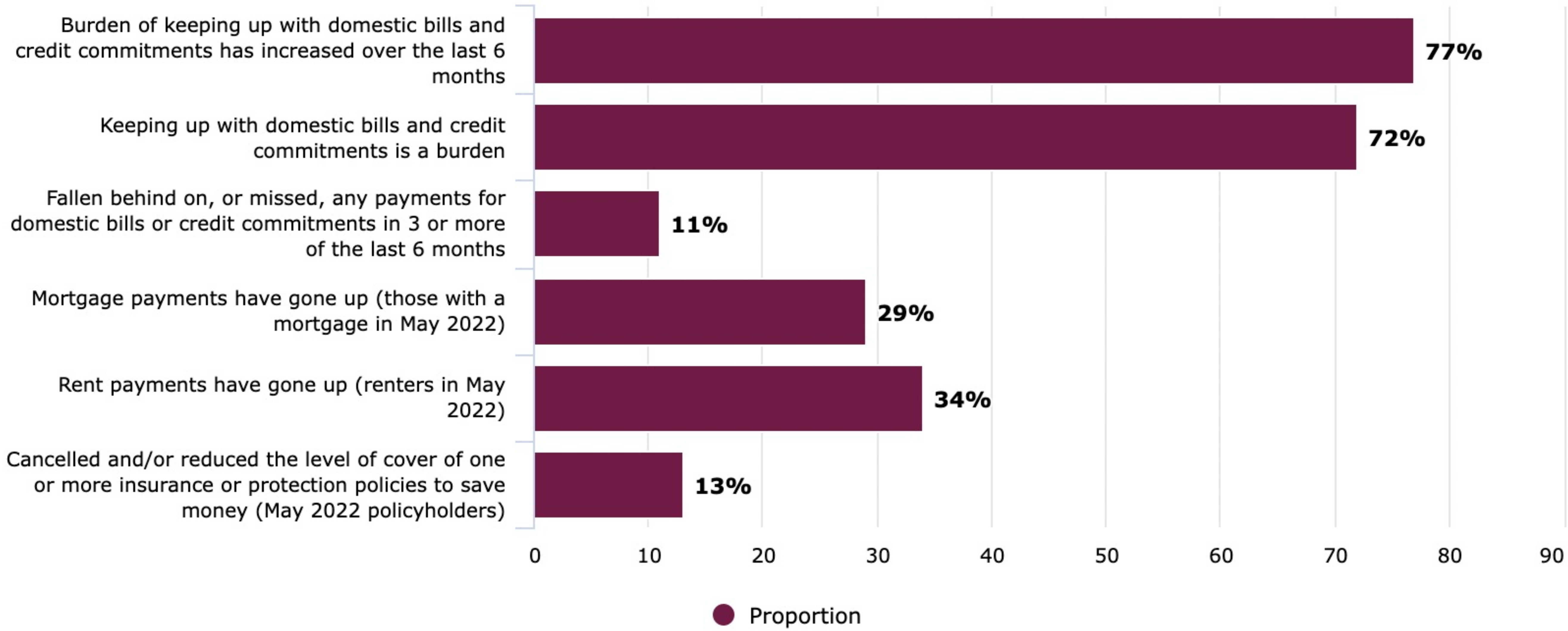
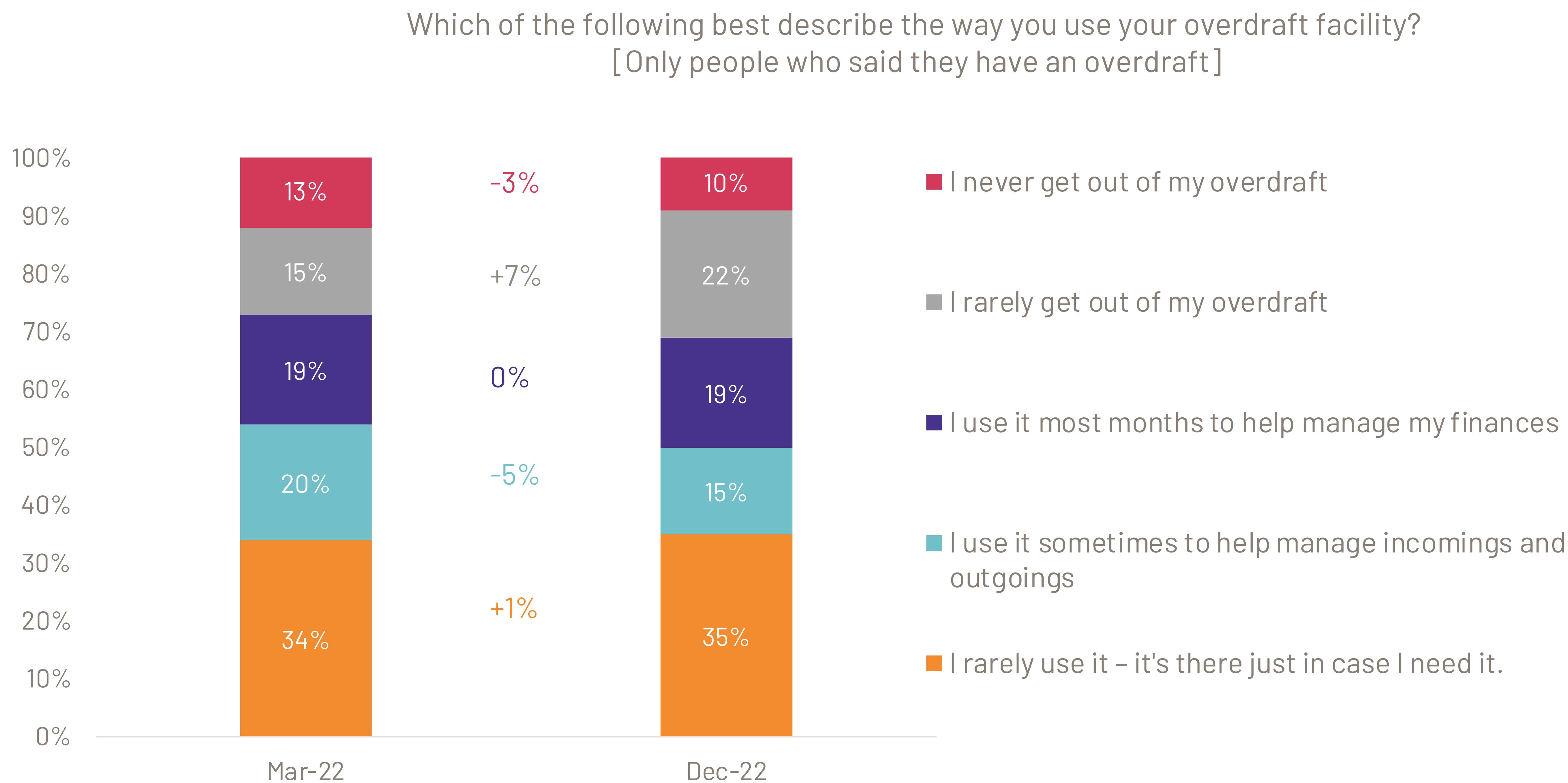
FCA Financial Lives data shows scale of cost of living challenges

Figure 1: How people's financial situation has changed over the last 6 months (Jan 2023)

Source: Financial Lives cost of living (Jan 2023) recontact survey

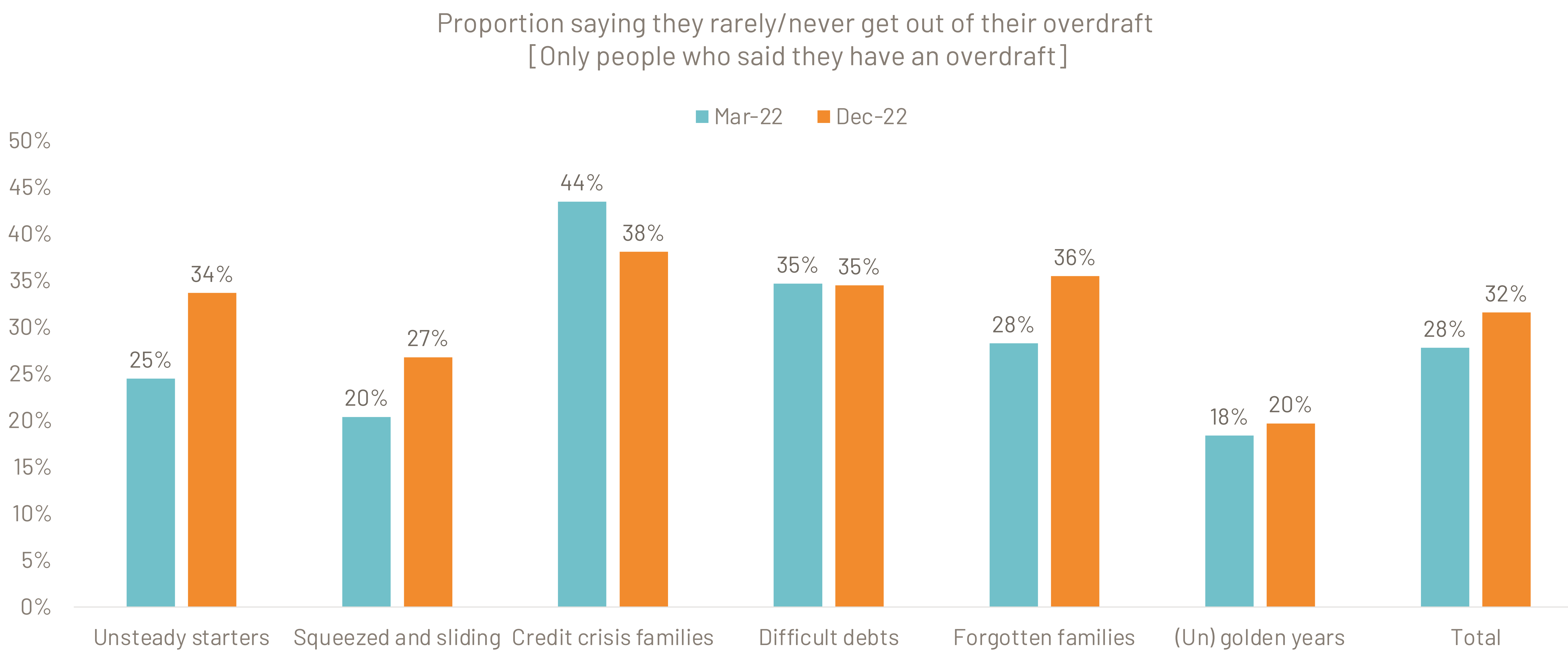


A greater proportion rarely got out of their overdraft in December



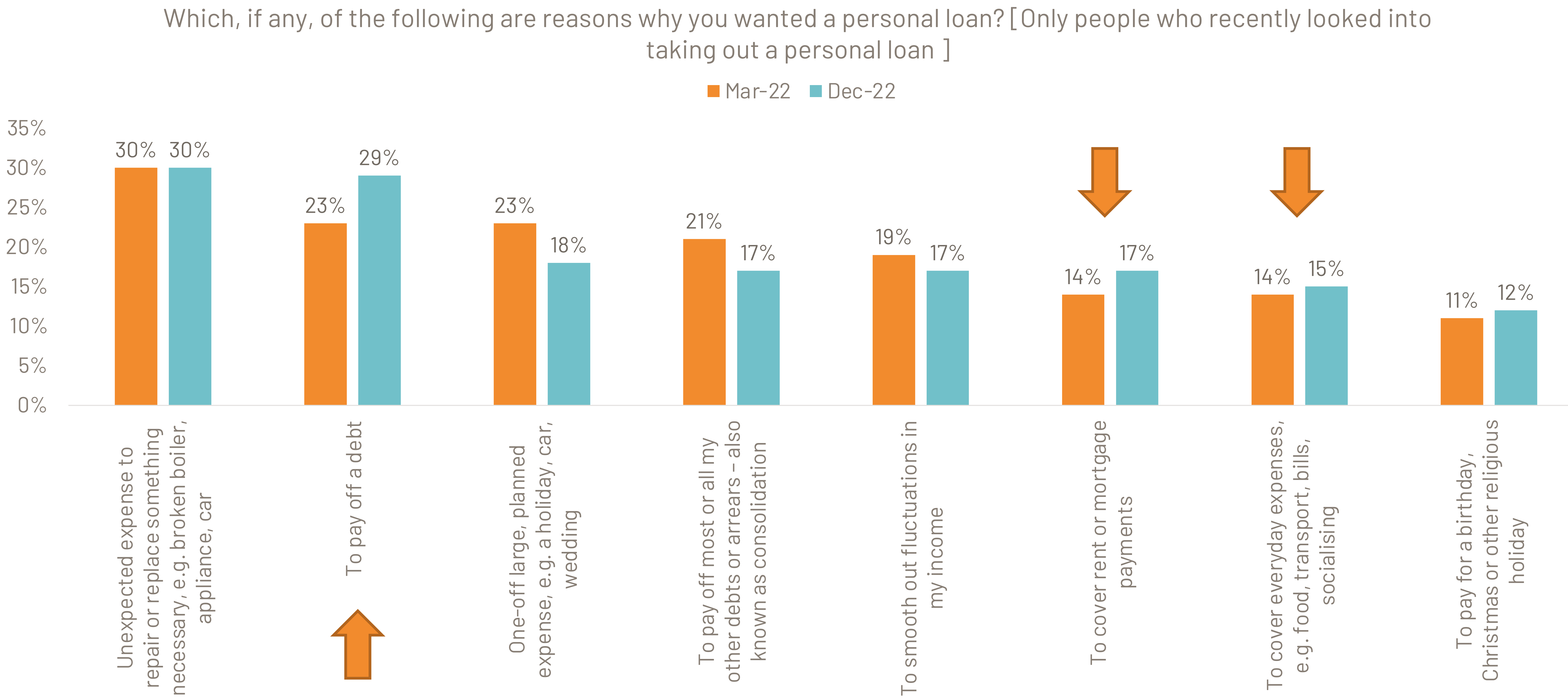
Base= 1,468 (Mar = 726; Dec weighted = 705)

Some segments have seen bigger changes in their overdraft usage than others



March Vulnerable Consumer Survey (n=726) / December Vulnerable Consumer Survey (n = 704)

Slight increase in people seeking loans to cover ongoing costs



Base= 2,666 (Mar = 1470; Dec weighted = 1211)

So what?

As the gap between income and expenses closes, and in some cases starts to exceed it, **overdrafts, savings and credit usage is increasing to balance household budgets**. Deficit budgets will become the norm for many in our segments.

More community finance providers, and other organisations are adding **benefits calculators and grant checkers** into their journeys – often finding up to £400 a month in unclaimed benefit entitlement*. Two CDFIs, Scotcash and Salad, have helped more than 88,000 lower income households to identify £428m in benefits that are due annually. You can find out more about the work we are doing on benefit calculators and grant checkers by contacting **senthan@fair4allfinance.org.uk.**

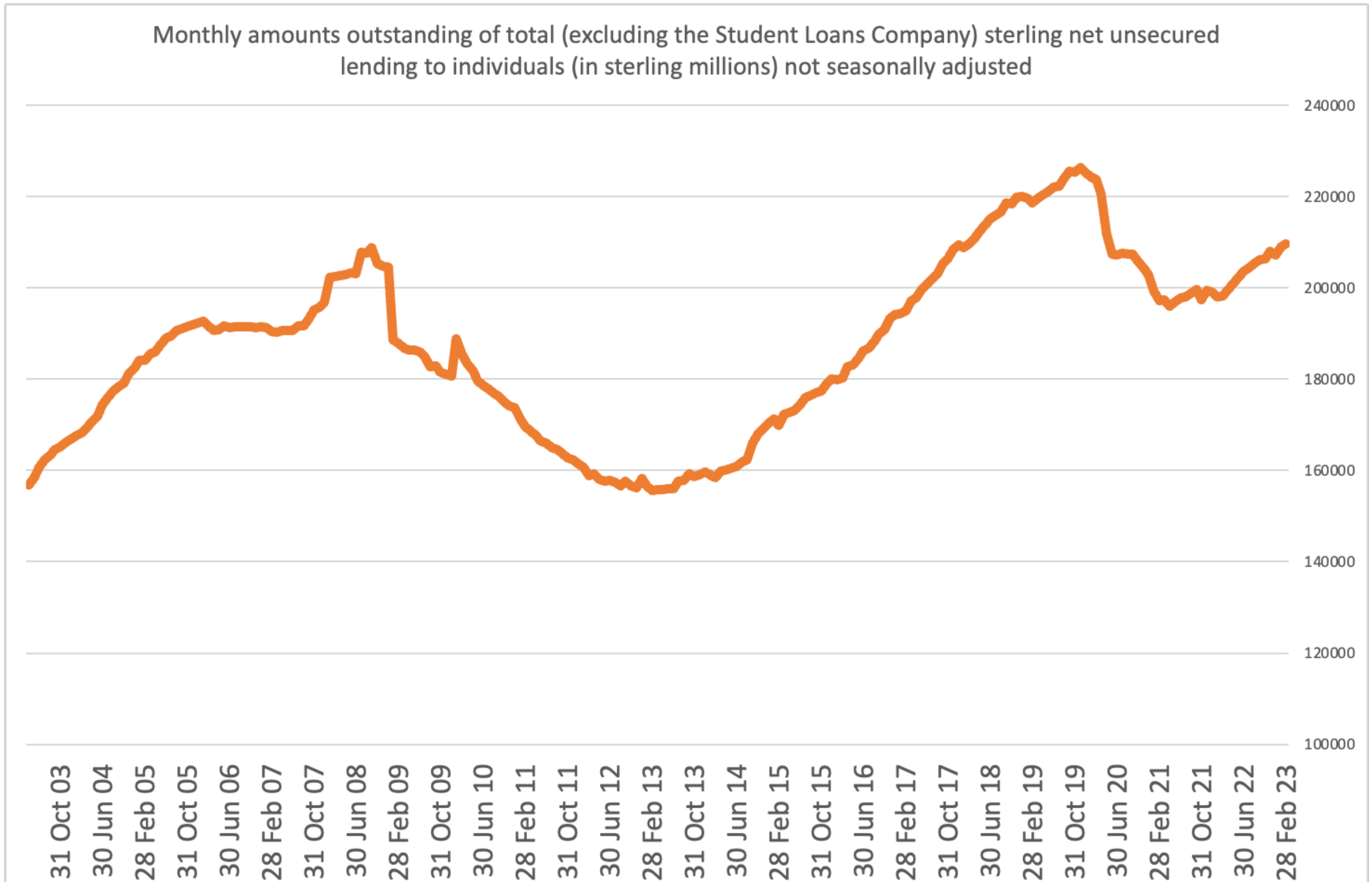
Our report "Banking response to Covid-19 - How the pandemic gives us lessons that can help people in vulnerable circumstances now" found that reintroducing an offer of a £500 interest-free overdraft to customers who are experiencing financial vulnerability, and where it would be appropriate for their circumstances, would benefit many in vulnerable circumstances.

Banking Response to Covid-19 - Fair4All Finance

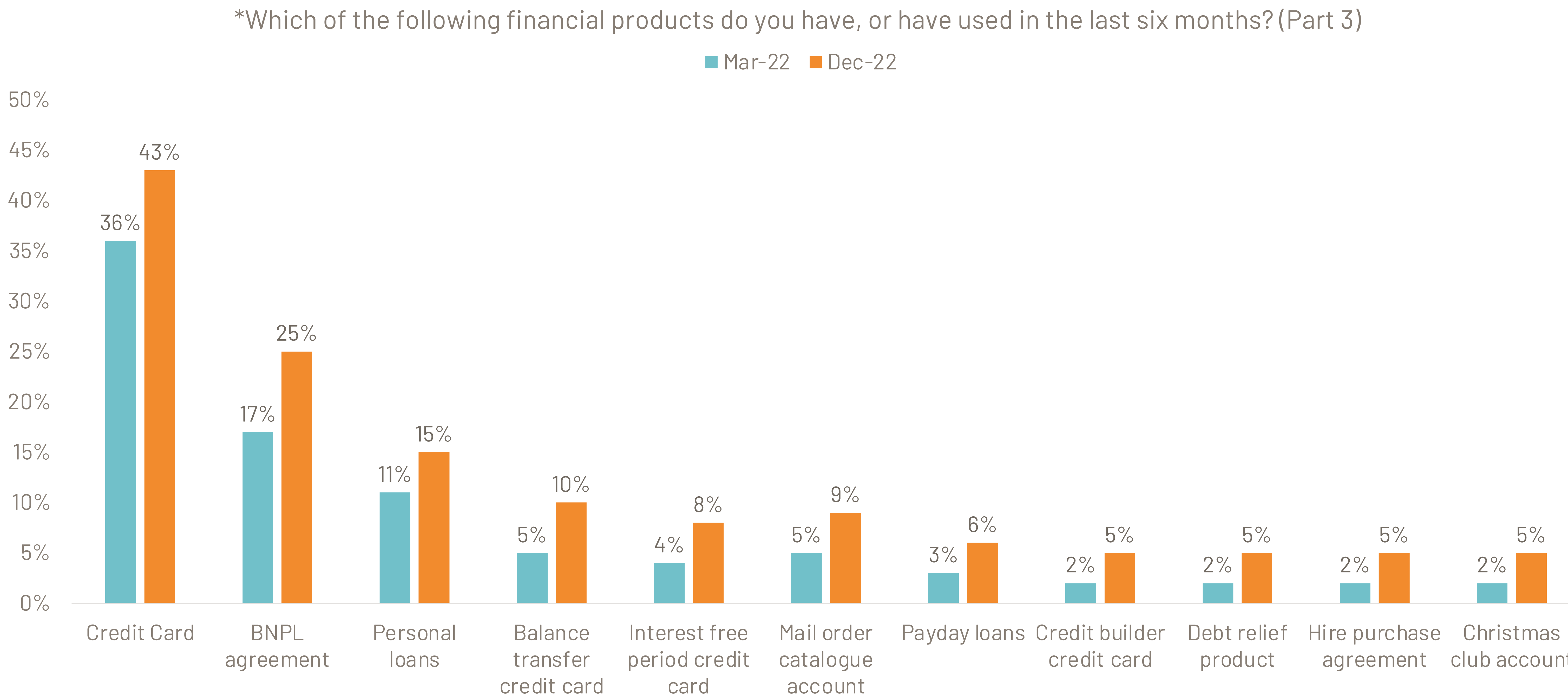
* Stats from Inbest.ai

3 Demand for credit

Demand in the credit market



Our segments report an increase in all credit sources, especially credit card and buy now, pay later



Base= 6,267 (Mar = 3165; Dec weighted = 2912)

* Please note the wording/formatting of the question has changed between the March and December survey

% of each segment with personal loan

Segment	March 2022 (%)	December 2022 (%)	% change	Approx people with personal loans
Unsteady starters	9	17	**+8%**	223,036
Squeezed and sliding	13	19	+6%	738,359
Credit crisis families	11	13	+2%	451,822
Difficult debts	12	16	+4%	348,287
Forgotten families	7	12	+5%	433,261
(Un)golden years	8	9	+1%	275,204
	10%	**14%**	**+4%**	**2,469,969**

Key segment changes: sources of debt

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Segment	Credit type	Change Mar-Dec	New %	Segment average	What does this mean?
Unsteady starters	**Credit card repaid in full**	-40%	8%	10%	Those with credit cards struggling to clear balance, would benefit from consolidating
	Borrowing <£1000 from family/friends	-35%	5%	7%	Less able to borrow informally
Squeezed and sliding	Minimal changes in sources				
Credit crisis families	**Home collected credit - regulated**	-73%	1%	1%	Down across almost all sources – and now in line with segment average for sub-prime (would previously overindex)
	Storecard	- 61%	3%	4%	
	Hire purchase	-55%	3%	3%	Suggests all options increasingly hard to access
	Catalogue debt	-48%	8%	7%	
Difficult debts	Mortgage	+63%	26%	15%	Moving from renting to mortgaged
	Credit card repaid in full	-41%	10%	10%	Increasing credit card debts as unable to make full repayments
Forgotten families	**Home collected from a non-regulated source**	+100%	2%	2%	Home collected credit – we saw a decrease in regulated and a substantial increase in unregulated
	Overdraft (arranged)	+30%	13%	14%	
	Hire purchase	-33%	2%	3%	Overdraft now in line with market average
(Un)golden years	Owe small amounts to family/friends	+53%	2%	7%	Still using less credit than other segments, but increasingly turning to family and friends, or catalogue, as well as BNPL
	Catalogue debt	+25%	6%	7%	

So what?

Demand for credit continues to rise, and people in financially vulnerable circumstances are increasingly hard to serve. Those in our two most vulnerable segments have seen significant reductions in sources of credit, suggesting even sub-prime options are no longer available to them.

Combined with market exits (particularly for the most vulnerable across our segments), it **continues to be a hard market to serve customers.**

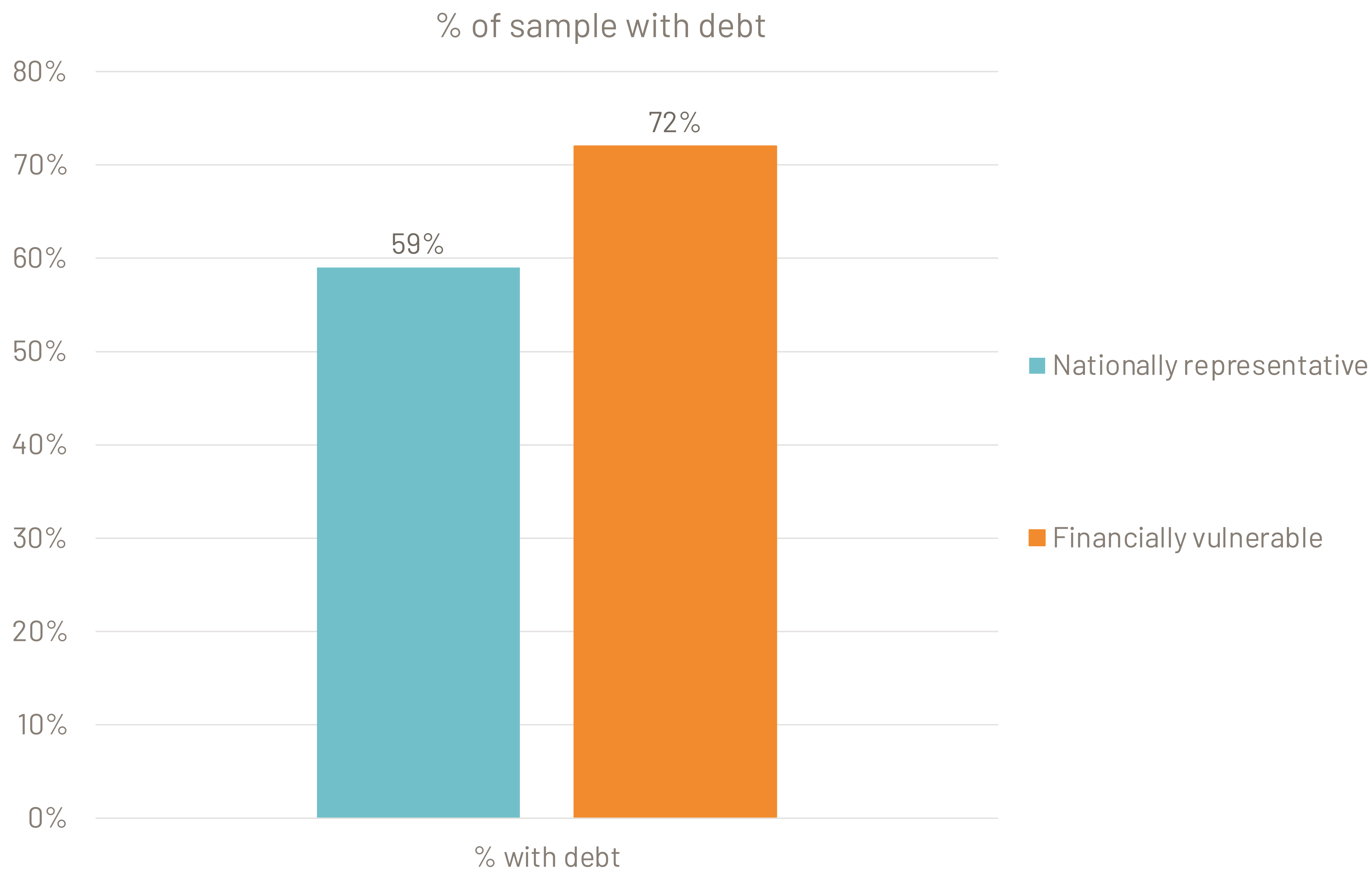
Our insights show the number of personal loans has increased for some segments more than others, at the same time the number of applications has fallen marginally, which also has a proportional impact on reduced decline rates across most of the segments. This could be linked to increased usage of credit cards and BNPL, and growing arrears on existing debts, where more people are not feeling in a position to apply for more credit.

However, there are **success stories,** and we continue to work with organisations who have effective ways of reaching and serving consumers to build financial resilience.

In our report "Banking response to Covid-19 - How the pandemic gives us lessons that can help people in vulnerable circumstances now" we also encouraged banks to widening their credit options to support customers in financially vulnerable circumstances – many customers who are on low or flexible incomes need access to personal loans that are less than £1k and that can be repaid within 1 year.
Banking Response to Covid-19 - Fair4All Finance

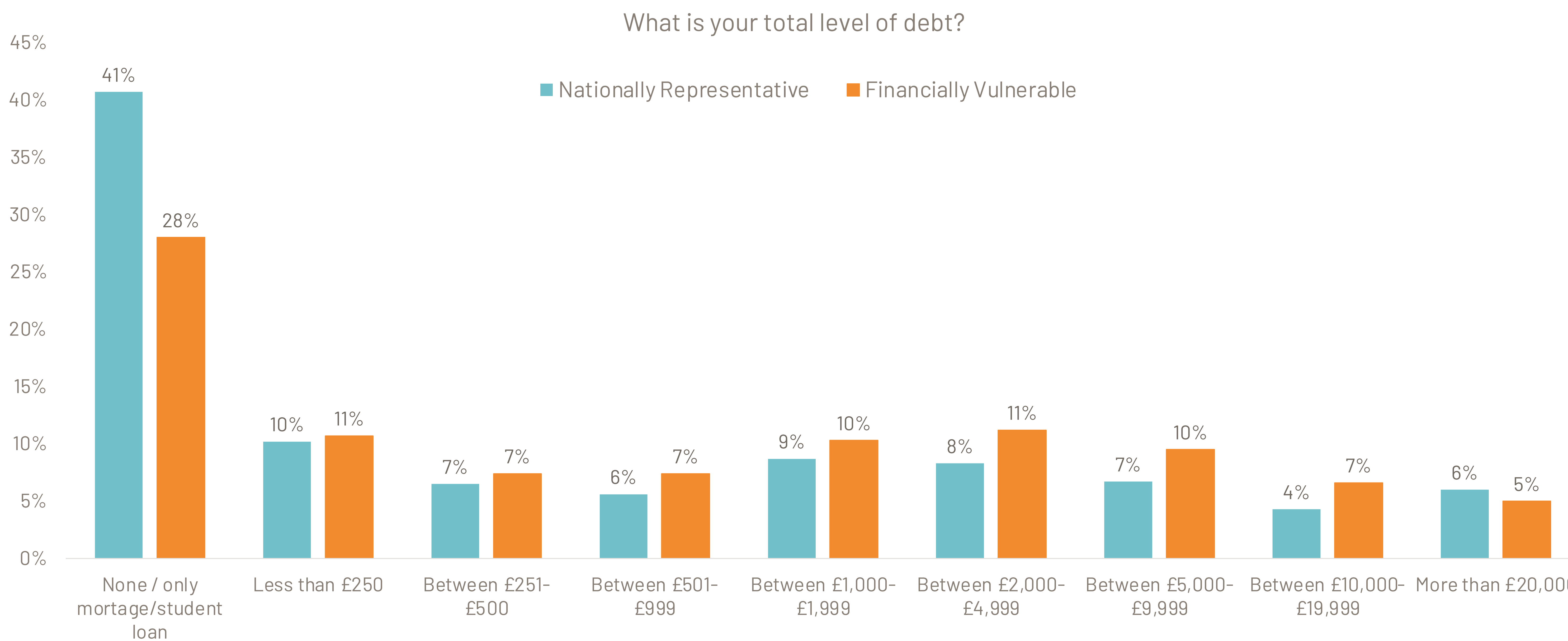
4 Problem debt

People in financially vulnerable circumstances more likely to have debt



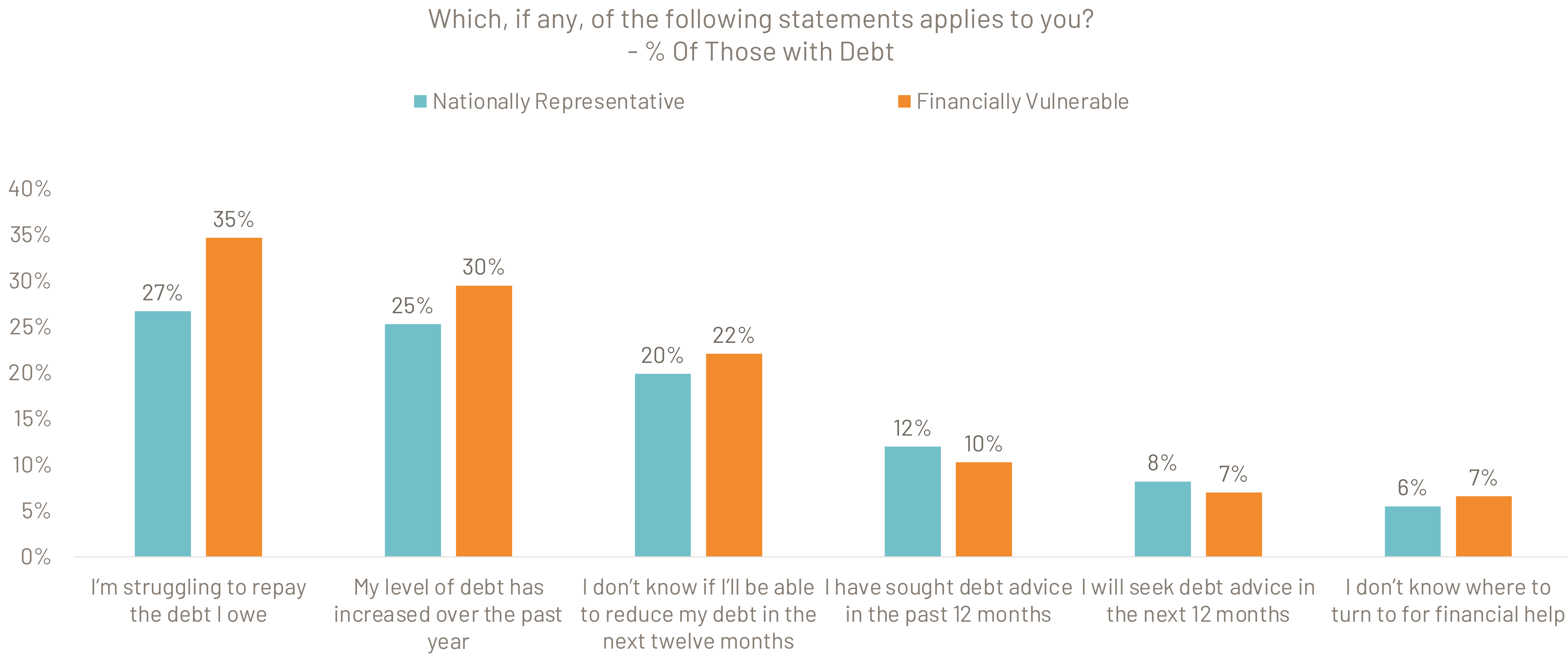
Trajectory Optimism Index (n=1500/890 with debt)/Vulnerable Consumer Survey (n=2906/2092 (weighted) with debt)

And are slightly more likely to have higher levels of debt: Dec 2022



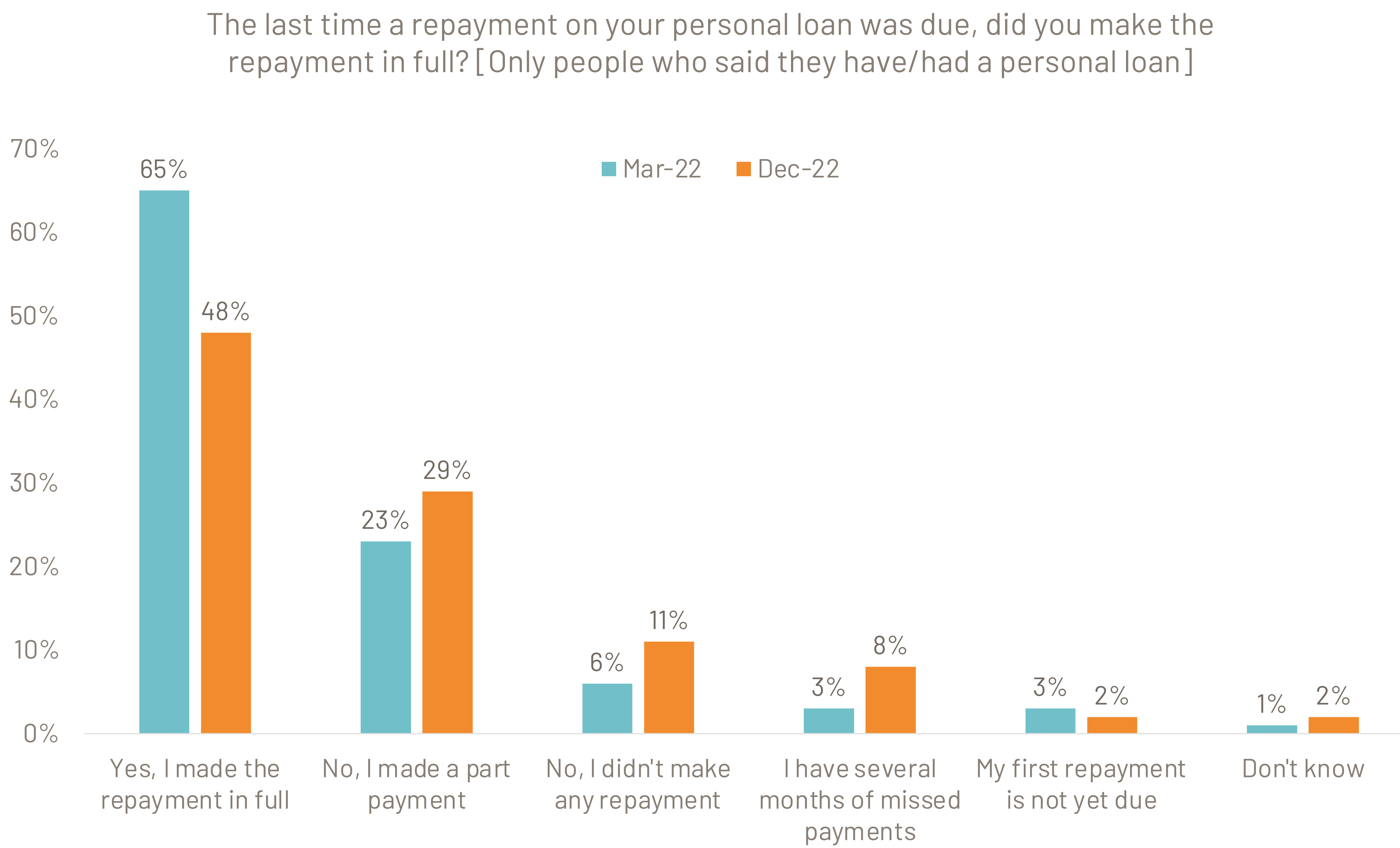
Trajectory Optimism Index (n=1500)/Vulnerable Consumer Survey (n=2912 (weighted))

They are more likely to be struggling with debt



Trajectory Optimism Index (n=1500/890 with debt)/Vulnerable Consumer Survey (Weighted n=2912/2092 with debt)

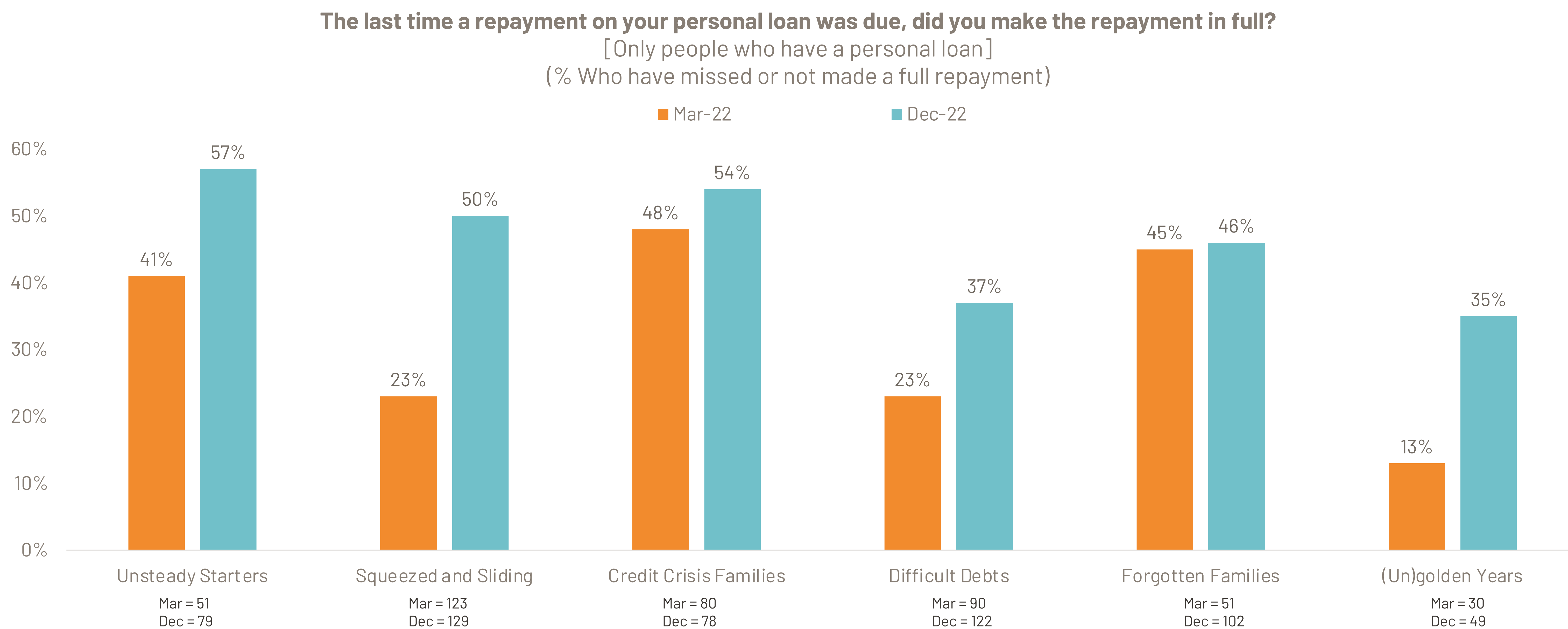
Which leads to partial and missed payments on personal loans



Base= 1,017 (Mar = 425; Dec weighted = 595)

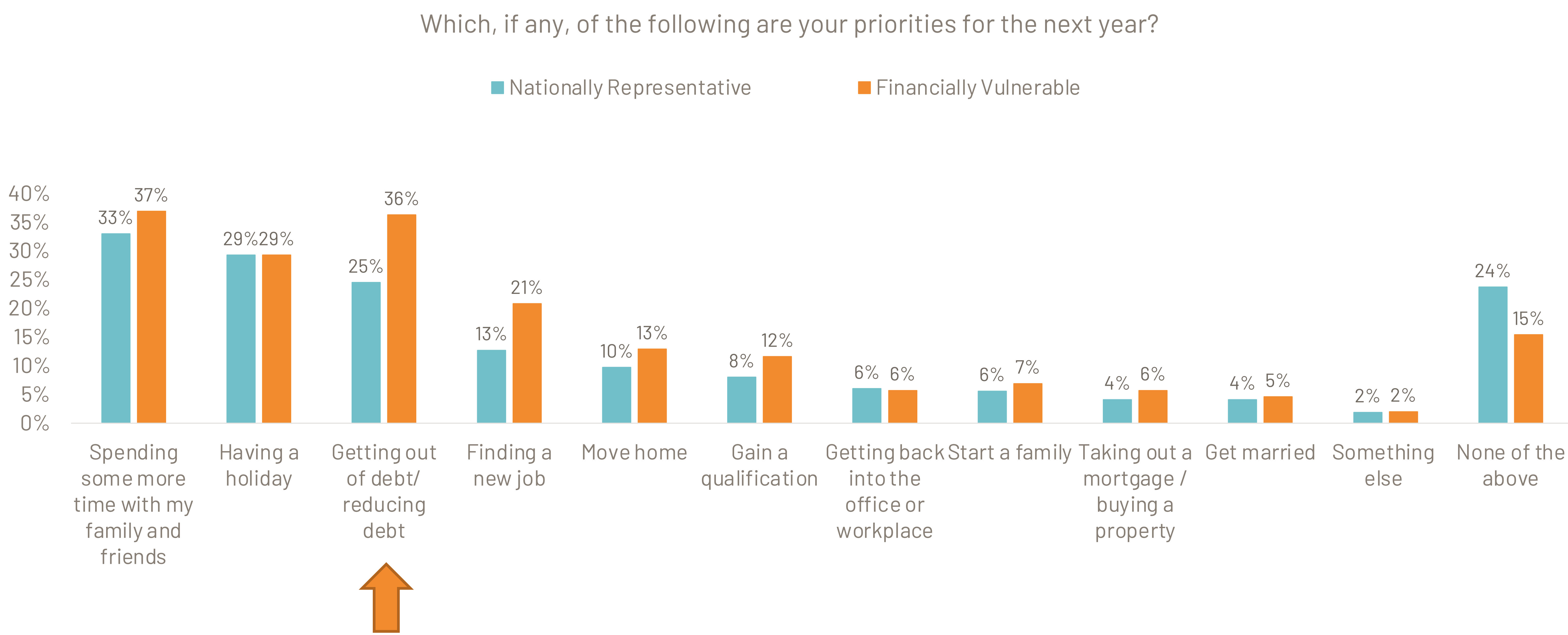
All segments struggling to make repayments

While Credit Crisis Families and Forgotten Families have always struggled, the biggest changes are in other segments – note (Un)golden years is a small base but a significant increase for a group that resists borrowing/



Base= 984 (Mar = 425; Dec = 559)

Our segments are more likely to prioritise getting out of debt or reducing their debt



Trajectory Optimism Index (n=1500)/Vulnerable Consumer Survey (n=2912 - Weighted)

So what?

Debt levels are increasing with people in financially vulnerable circumstances reporting increases 5% above the nationally representative levels over the last 12 months.

At the same time, debt is becoming harder to repay for many who tell us they are struggling to repay the debt they owe with a significant fall in people making repayments in full, leading to an accumulation of several months of missed payments.

Consolidation lending can be an option in circumstances where restructuring regular repayments and reducing the overall costs on existing debt commitments combine to improve short term financial stability, and longer-term financial resilience. This must include closing existing facilities rather than adding to existing debt.

Customers in financially vulnerable circumstances are less likely to speak to people for **advice**, making the way advice is available and included in customer journeys an important part of proposition and service development for providers.

In our report "Banking response to Covid-19 - How the pandemic gives us lessons that can help people in vulnerable circumstances now" we encourage banks to provide a wide and flexible support and forbearance offer including increased use of payment deferrals and interest holidays to customers facing financial difficulties.

Banking Response to Covid-19 - Fair4All Finance

What next?

Meeting the need of growing financial vulnerability

Fair4All Finance continues to focus on our key strategic priorities

- **Expand** **the provision of affordable credit**
- **Partner** **with banks and financial services providers to increase provision of services**
- **Develop** **new products and services to address market gaps**

Our ongoing segmentation work and insights, supports the design and development of more effective financial products and services to improve financial resilience

We want to **partner with providers to develop and deliver propositions** that meet the needs of customers in financially vulnerable circumstances.

You can access our full package of segmentation resources here **Fair4All Finance segmentation model - Fair4All Finance**

How can you get involved?

Expand the provision of affordable credit

We're shaping the next phase of our **awareness raising campaign** and looking for input – **alex**@fair4allfinance.org.uk

We are open to supporting **strategic mergers** between credit unions and not for profit lenders subject to our criteria **–** **kate**@fair4allfinance.org.uk

We are going to consult on our Community Finance Resilience fund in June and want views on how best to make £5m+ accessible and helpful – **vince**@fair4allfinance.org.uk

Partner with banks and financial services providers to increase provision of services

We are offering **deep dives into specific segments** with organisations who are looking to **design and deliver new propositions for these segment**s, or iterate existing propositions to be more inclusive of people in financially vulnerable circumstances –

We also partner with banks and building societies who have funding and wish to deploy it to support market wide financial inclusion initiatives

diana@fair4allfinance.org.uk

Develop new products and services to address market gaps

We are significantly expanding the **no interest loan scheme pilot** and are looking for partners who can deliver at scale – including mainstream lenders **Georgia**@fair4allfinance.org.uk

We also have funding available to scale including mainstream lenders **consolidation lending** for these segments – **kate**@fair4allfinance.org.uk

We are funding the integration of **benefits and grants calculators** into community finance journeys and want to expand this – **senthan**@fair4allfinance.org.uk

Thank you

Further reading

From Fair4all Finance

Research into payroll and benefit deductions lending for community finance providers – March 2023

How banking measures introduced during Covid-19 can support financially vulnerable consumers during the Cost of Living crisis – January 2023

Update on our insurance activity – April 2023

From other sources

Resolution Foundation Living Standards Outlook January 2023

Going under and without: JRF's cost of living tracker, winter 2022/23

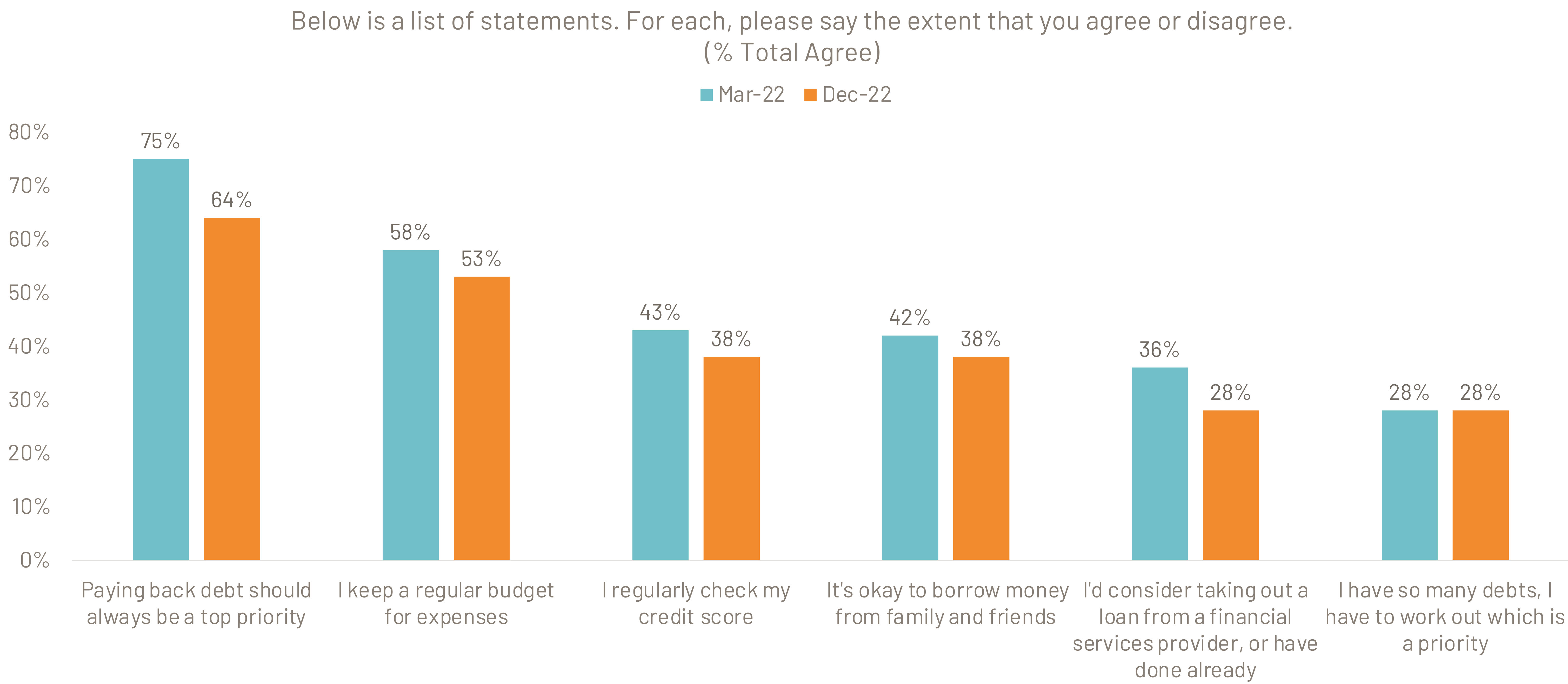
University of Bristol and abrdn Financial Fairness Trust - Financial Impact Tracker: December 2022

Segment overview

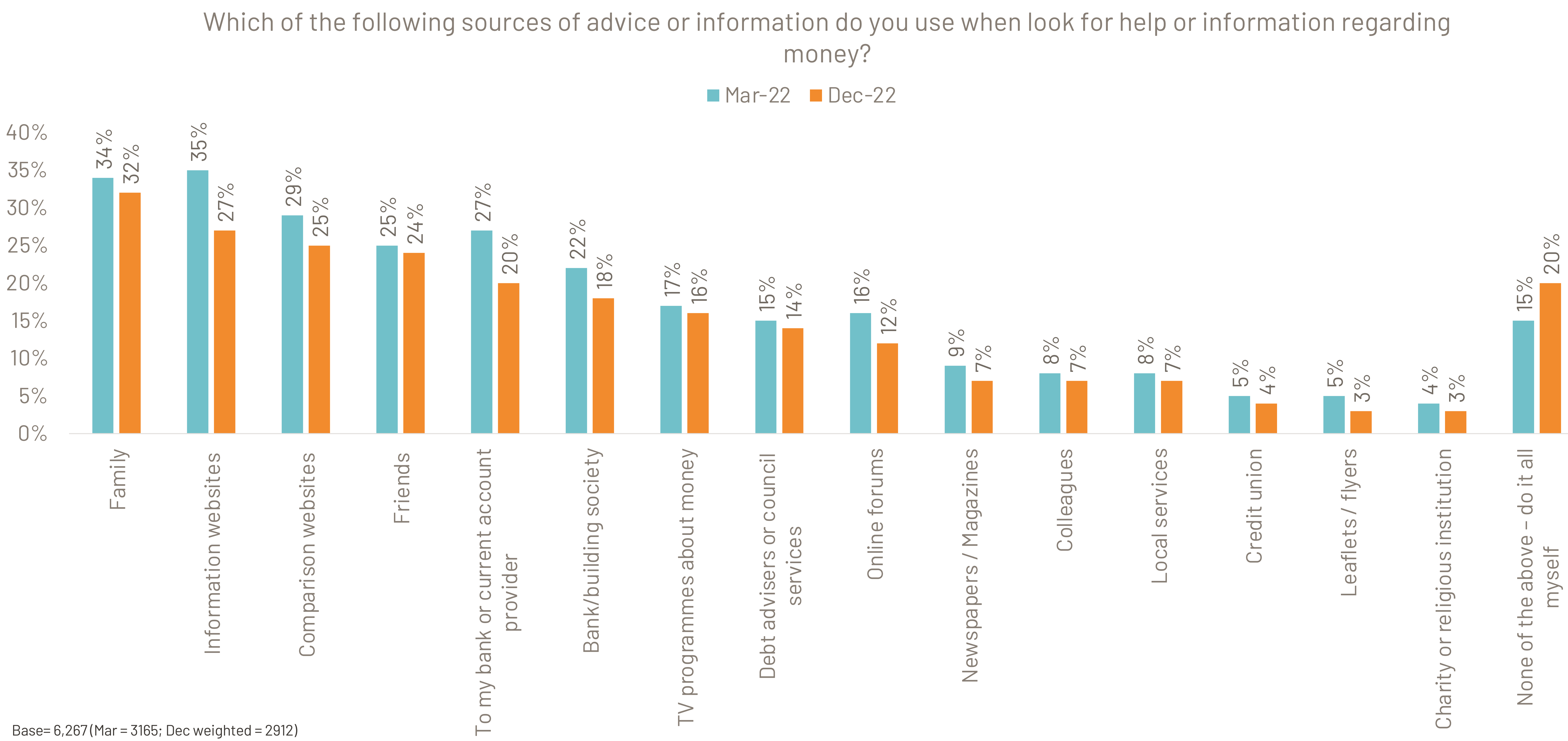
	1.3m people	3.9m people	3.5m people	2.2m people	3.6m people	3m people
	1 Unsteady starters	**2 Squeezed and sliding**	**3 Credit crisis families**	**4 Difficult debts**	**5 Forgotten families**	**6 (Un)golden years**
Defining variables	Zero hours contracts Payday loans/short term credit usage	Using savings as income	Short term loans Food bank usage Struggling to repay debt	Struggling to repay debt Higher Income	Food bank usage Lack of credit usage	Worried about money Lack of credit usage
Describing variables	18-34 HH income £25k+ Renting (private or from friends/family) Less likely to have children at home, but still present Multiple debts, regular borrowers at small amounts Debts £500 - £5k	25-44 HH income £30k+, incl. £50k+ Mortgaged and renting families Mixed levels of savings and debt – debt increased in last year High credit card usage Currently using more mainstream providers	25-44 HH income <£25k, mostly from benefits and some part time or zero hours work Social housing Higher mental health issues 5+ debt sources – BNPL, payday, loans, credit card No savings Debts <£1k-£10k	35-44 HH income £25-£50k Private renters and home owners Highest debt levels, with some missing payments and multiple debt sources Savings <£5k, and infrequently Debt levels £2k-£20k	25-54 HH income <£20k, many <£10k Social housing Reliant on benefits, some carers High health issues Where there is debt it's likely due to arrears on bills/services No savings	45-65+ HH income <30k – state pension (some private pension), some still in work Social housing, some homeowners High physical health issues Mixed savings – many not able to increase savings Lowest debt levels

Additional information

Prioritising paying back debt had decreased for financially vulnerable customers



Base= 6,267 (Mar = 3165; Dec weighted = 2912)



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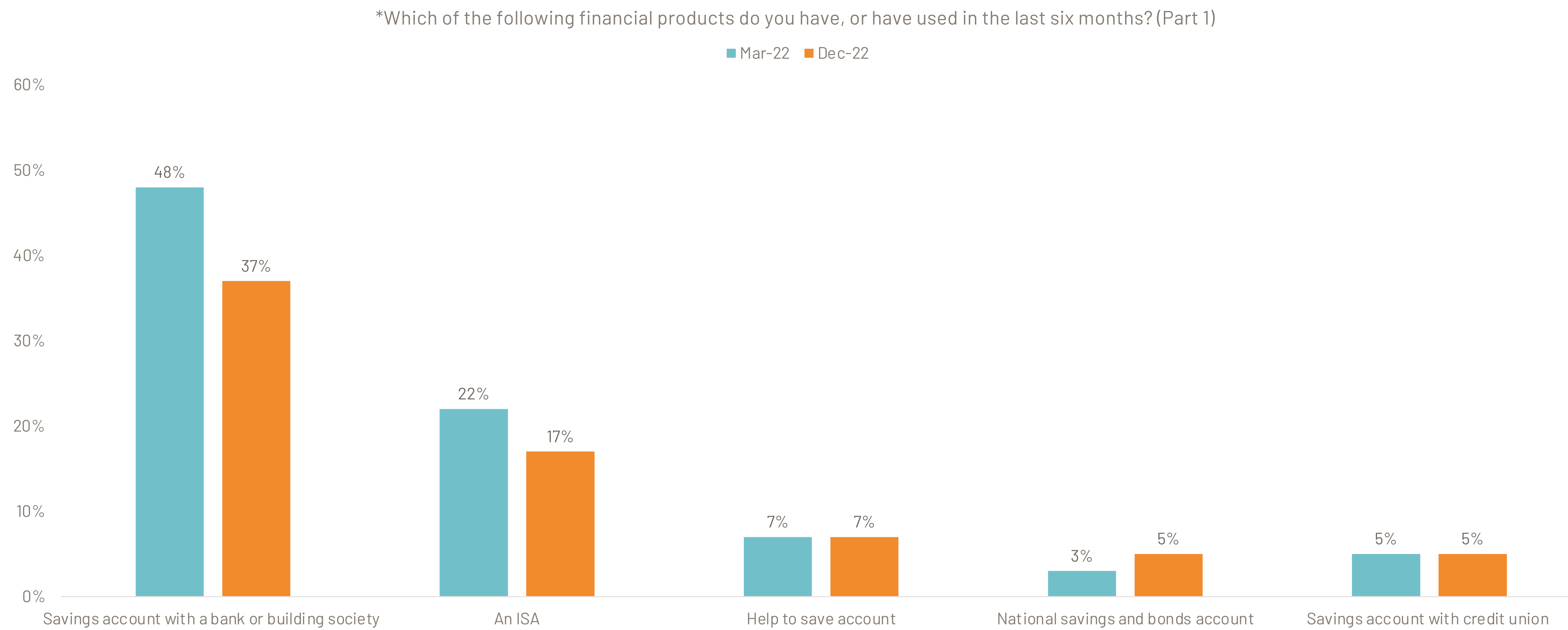
A smaller proportion sought advice in December

Base= 6,267 (Mar = 3165; Dec weighted = 2912)

Savings

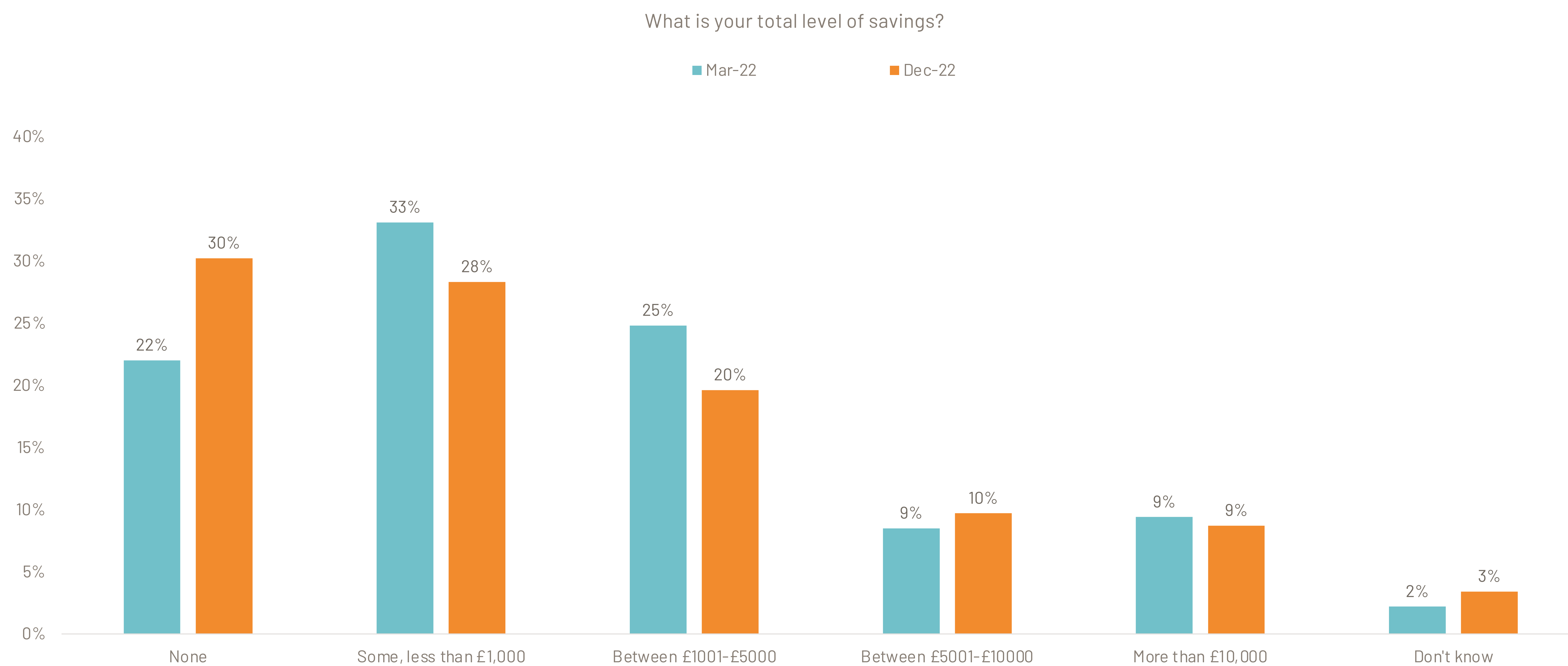
The proportion of our segments with savings accounts had decreased between March and December



Base= 6,267 (Mar = 3165; Dec weighted = 2912)

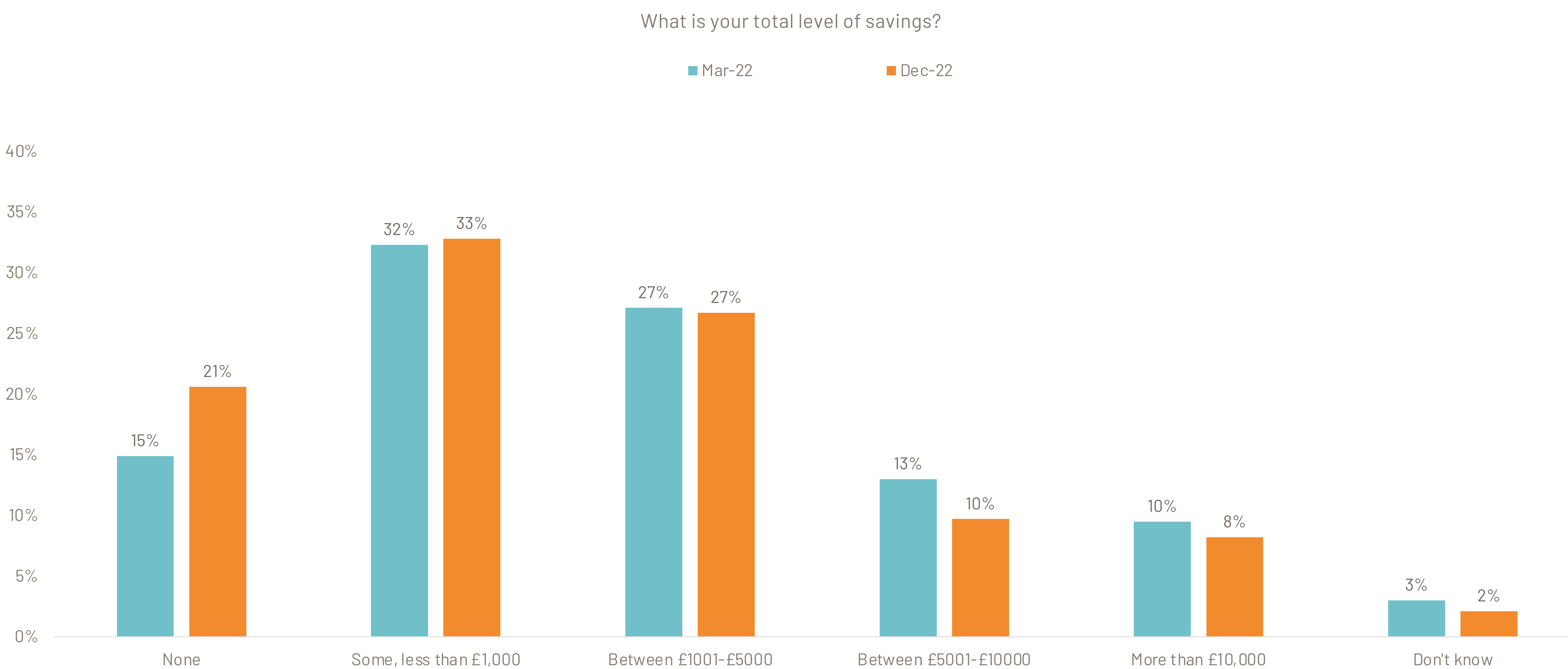
* Please note the wording/formatting of the question has changed between the March and December survey

Savings March to December 2022: Unsteady Starters



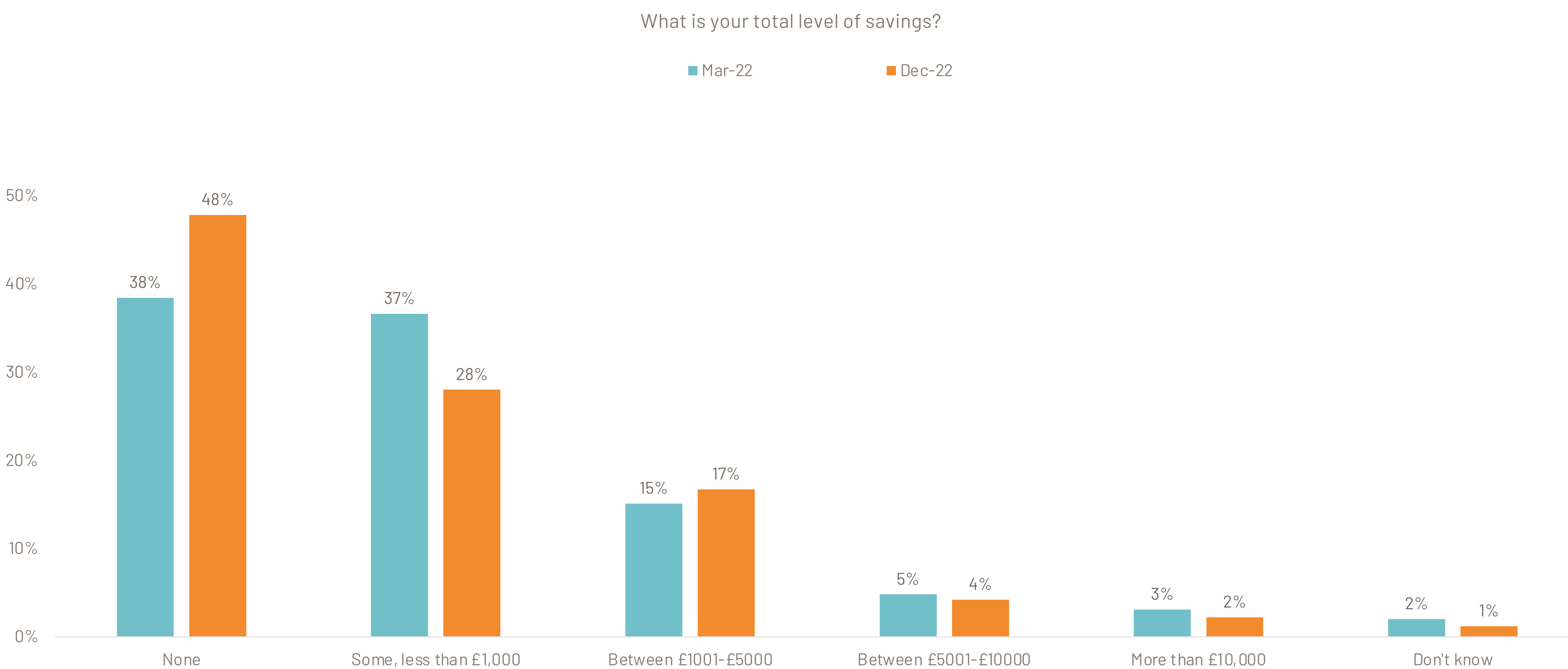
Base= 6,267 (Mar = 3165; Dec = 2906)

Savings March to December 2022: Squeezed and Sliding



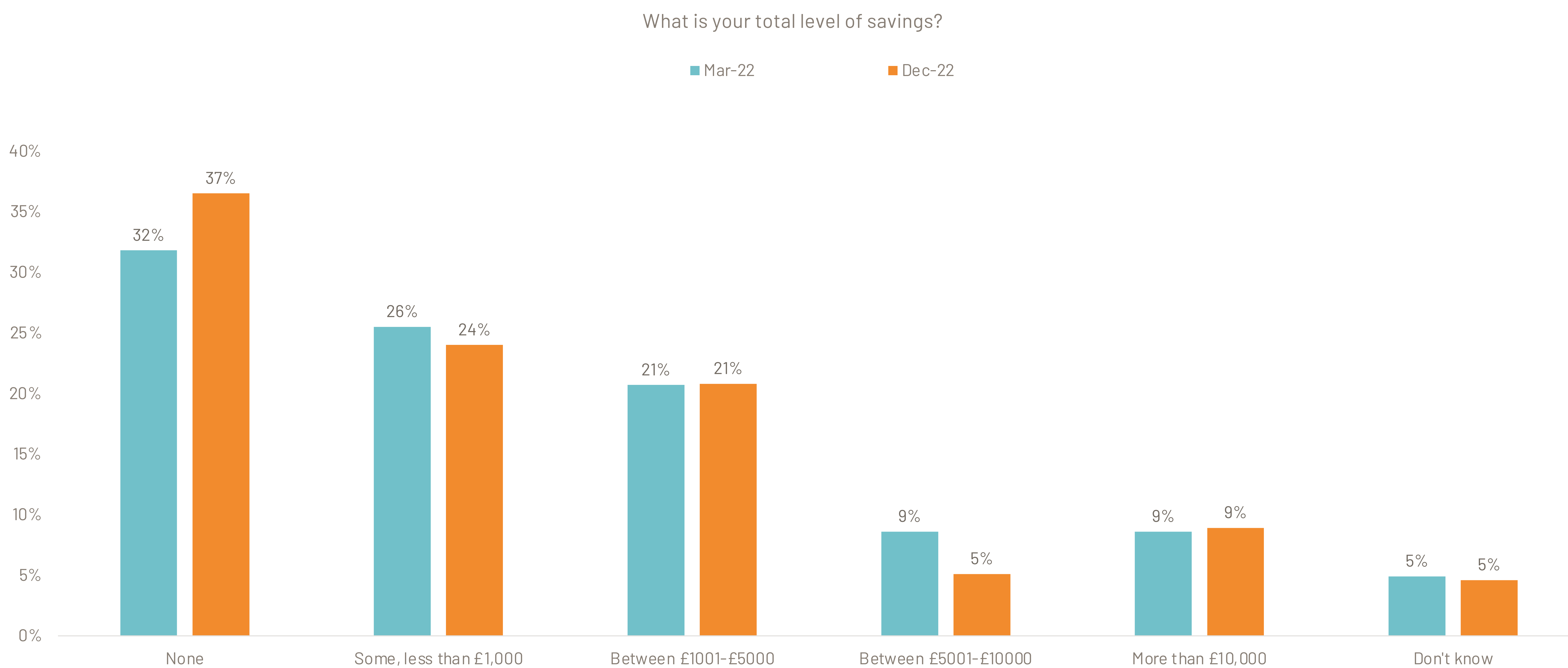
Base= 6,267 (Mar = 3165; Dec = 2906)

Savings March to December 2022: Credit Crisis Families



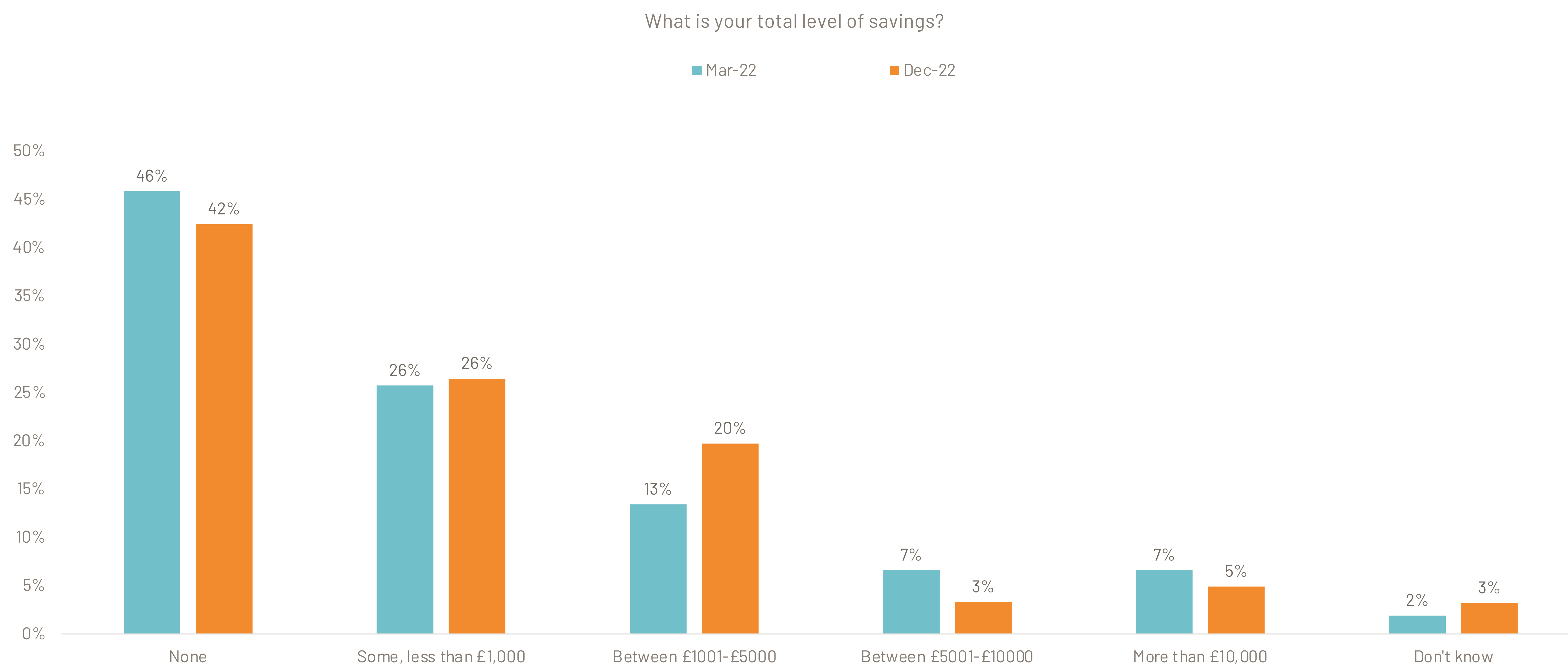
Base= 6,267 (Mar = 3165; Dec = 2906)

Savings March to December 2022: Difficult Debts



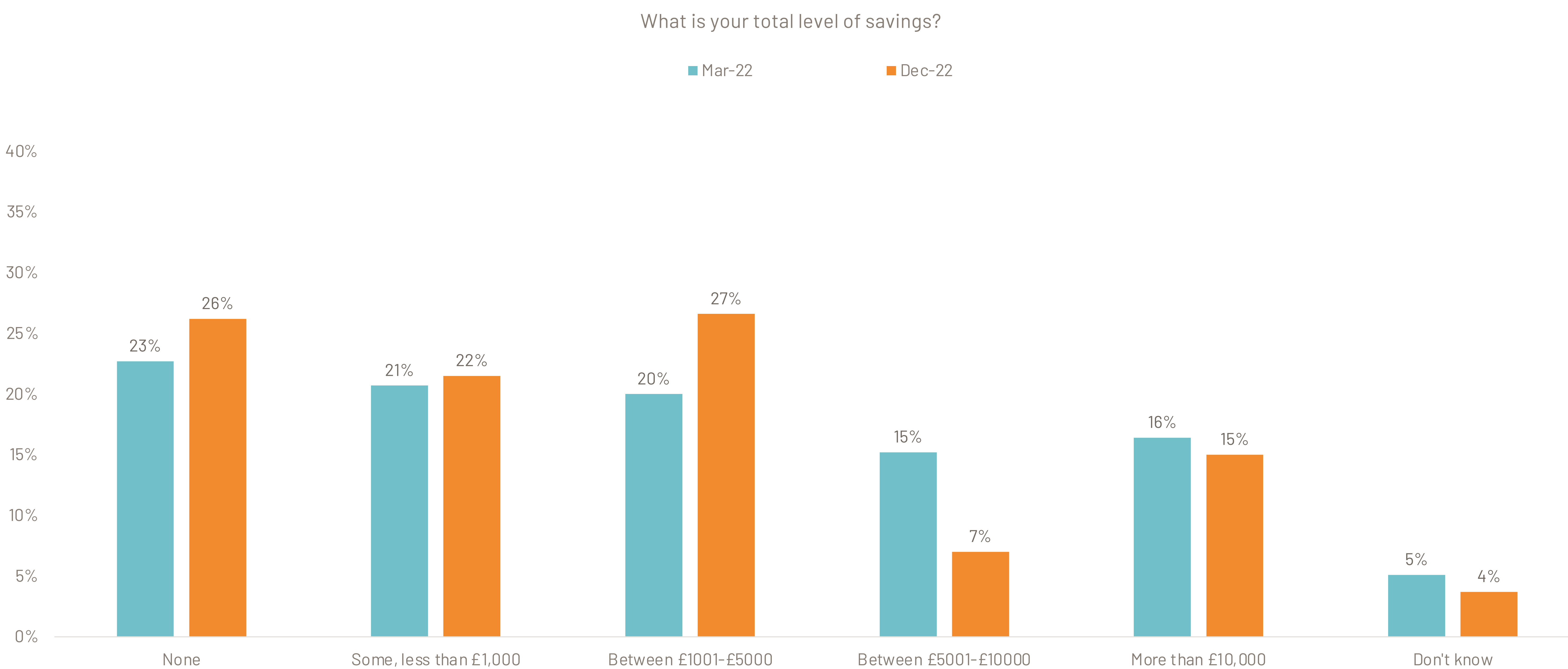
Base= 6,267 (Mar = 3165; Dec = 2906)

Savings March to December 2022: Forgotten Families



Base= 6,267 (Mar = 3165; Dec = 2906)

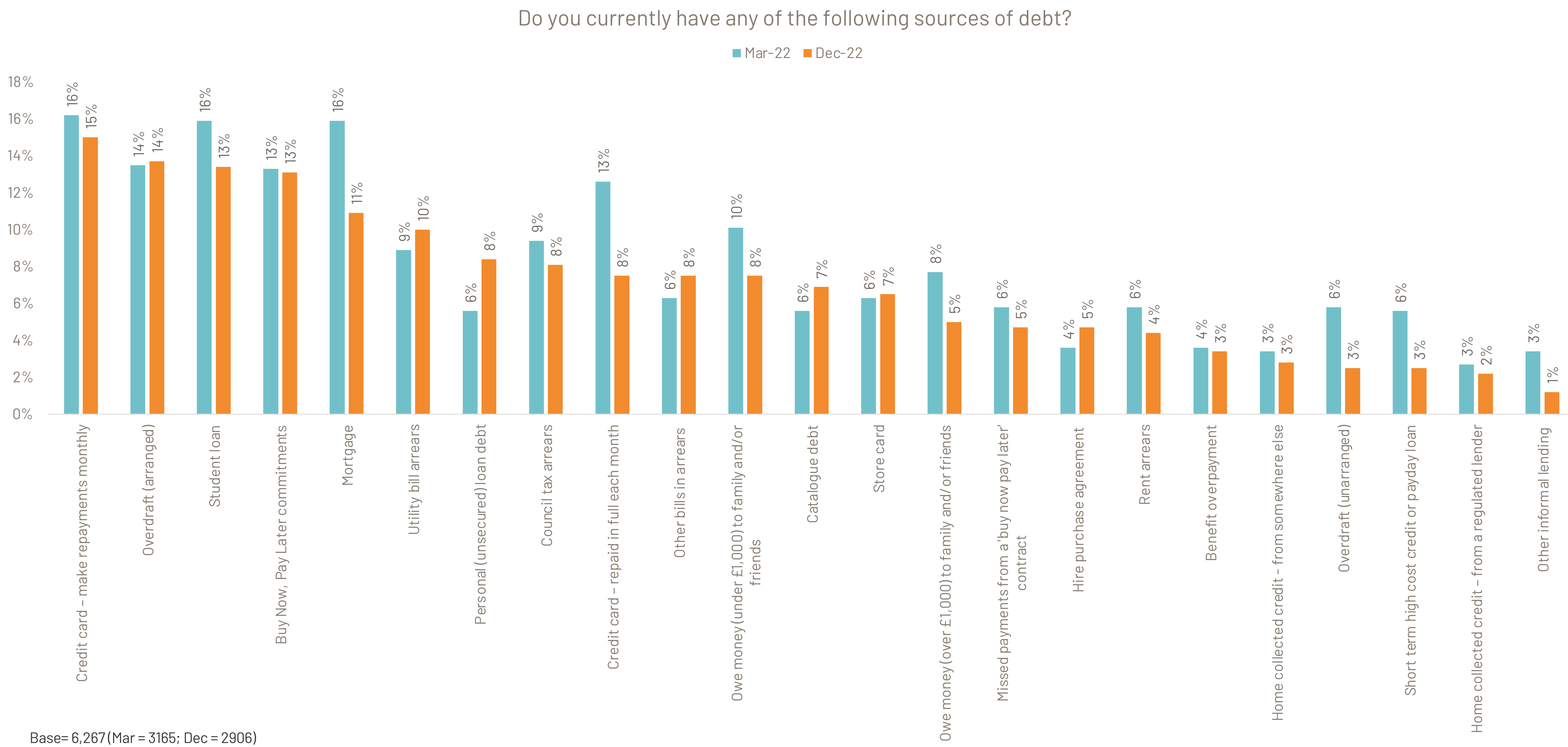
Savings March to December 2022: (Un)golden Years



Base= 6,267 (Mar = 3165; Dec = 2906)

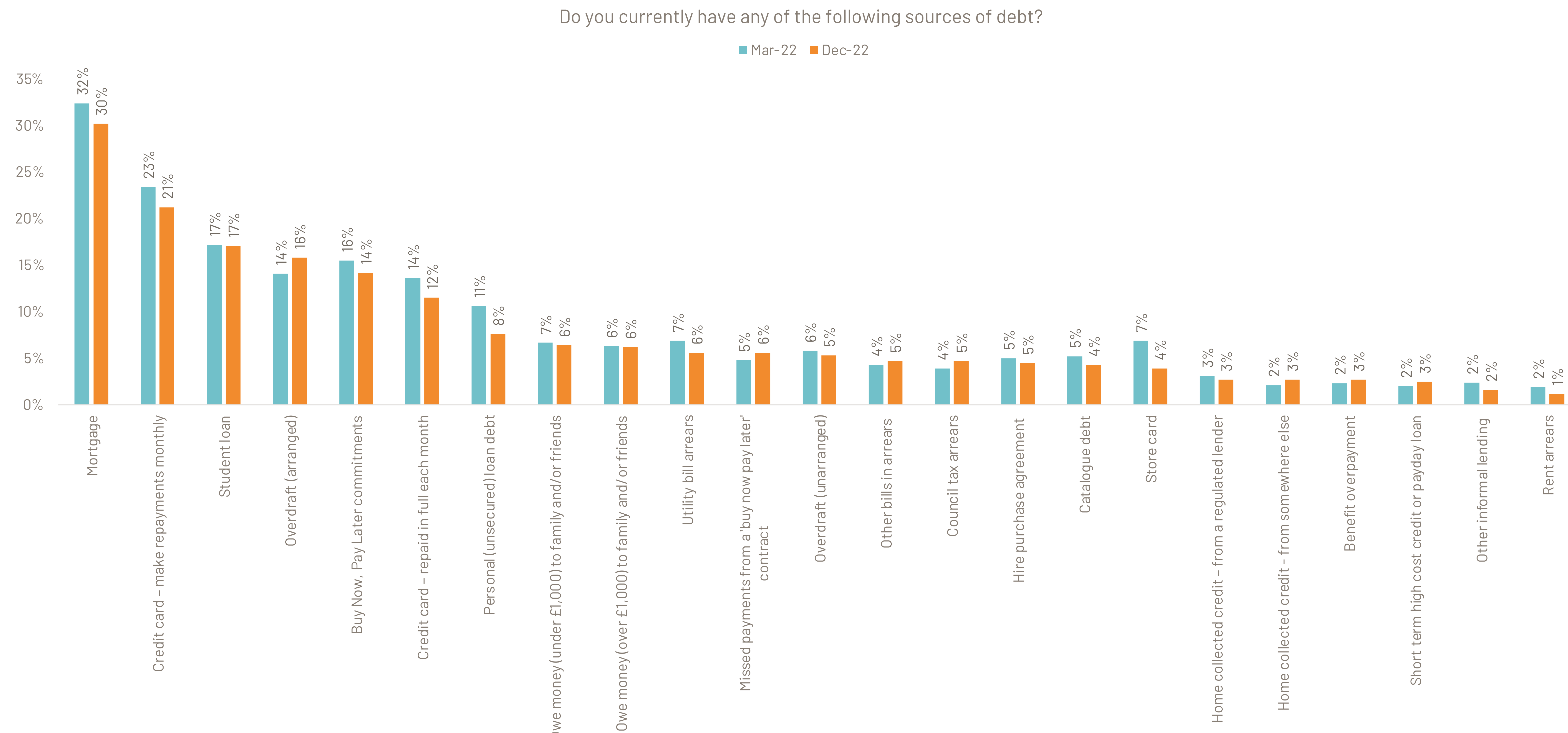
Sources of debt by segment

Sources of debt March to December 2022: Unsteady Starters



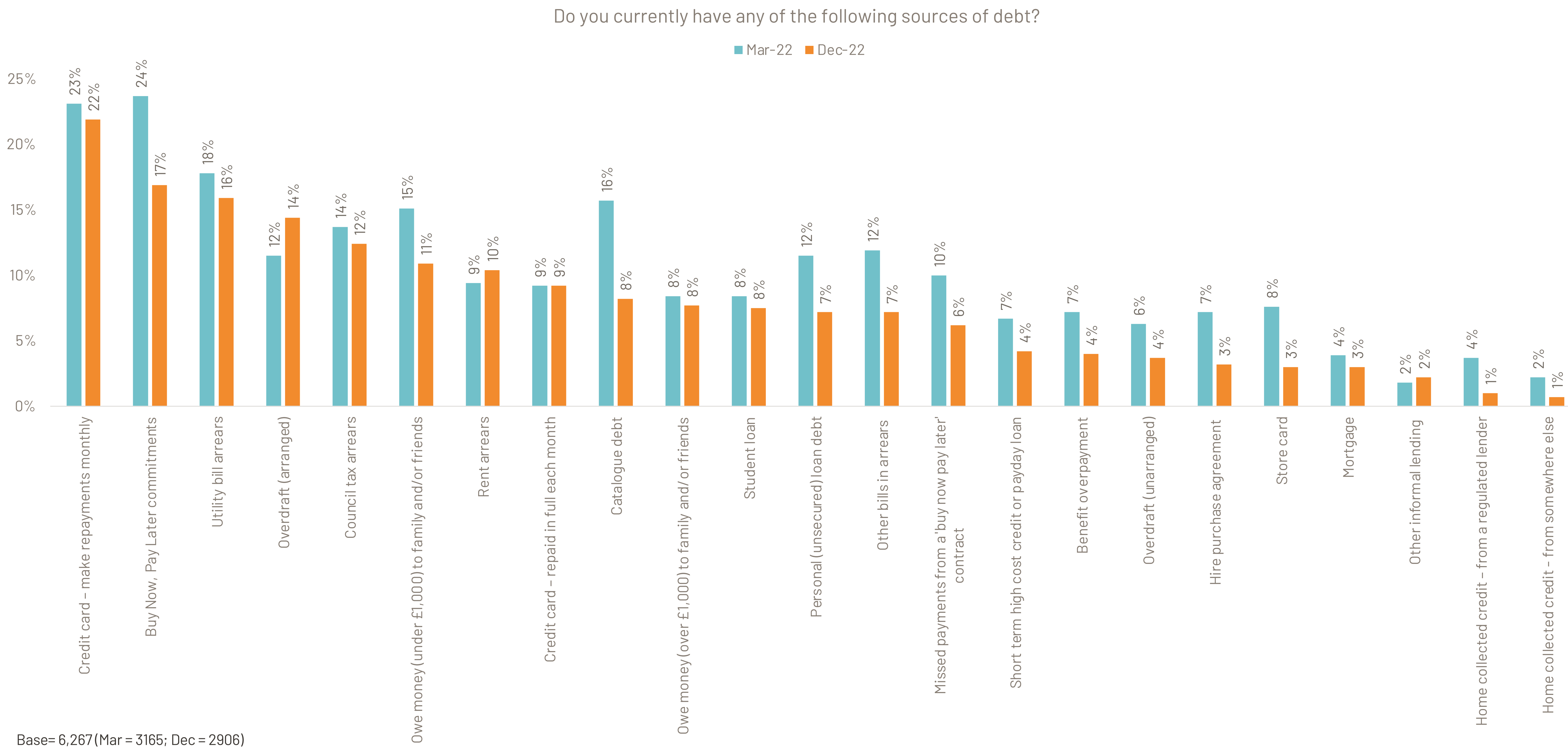
Base= 6,267 (Mar = 3165; Dec = 2906)

Sources of debt March to December 2022: Squeezed and Sliding



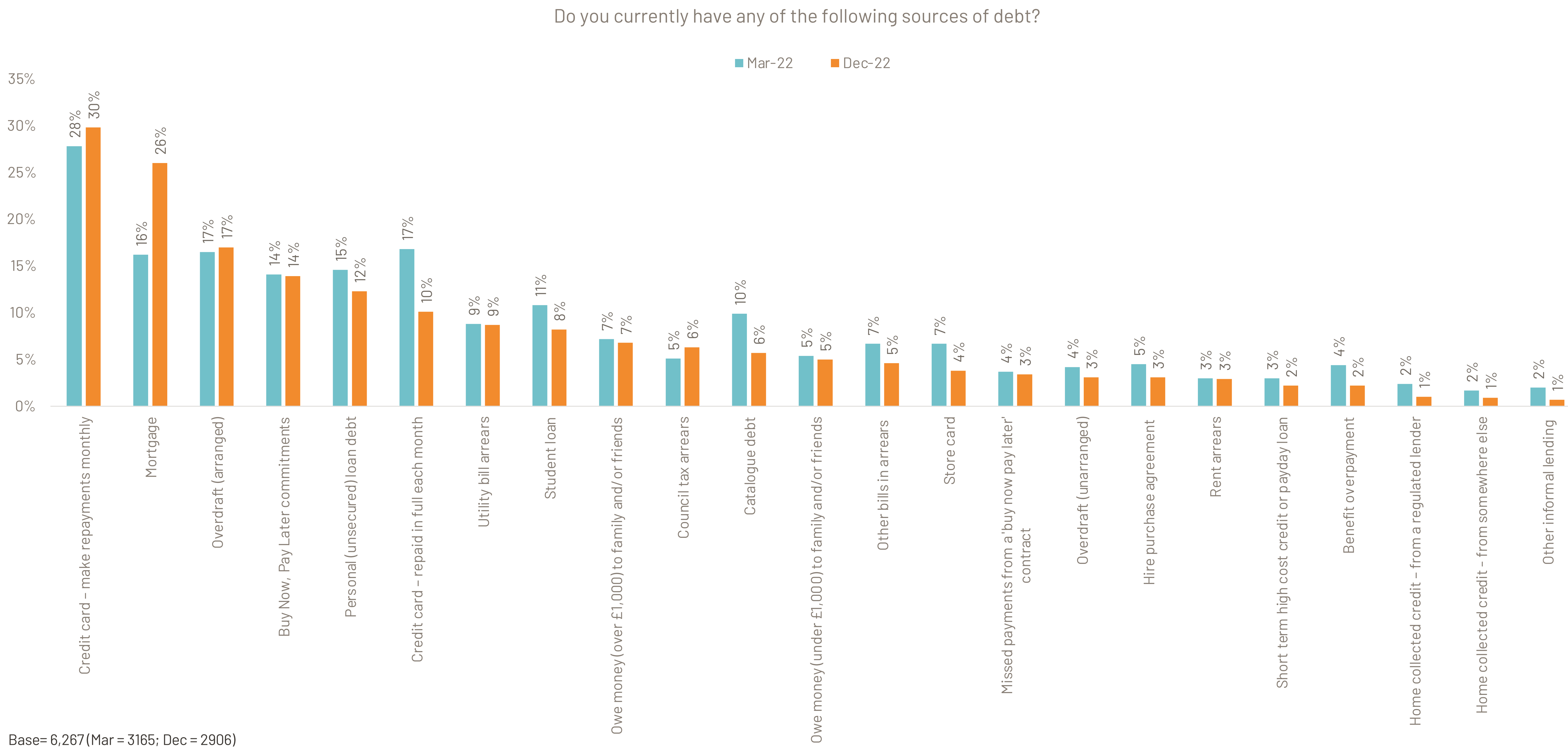
Base= 6,267 (Mar = 3165; Dec = 2906)

Sources of debt March to December 2022: Credit Crisis Families



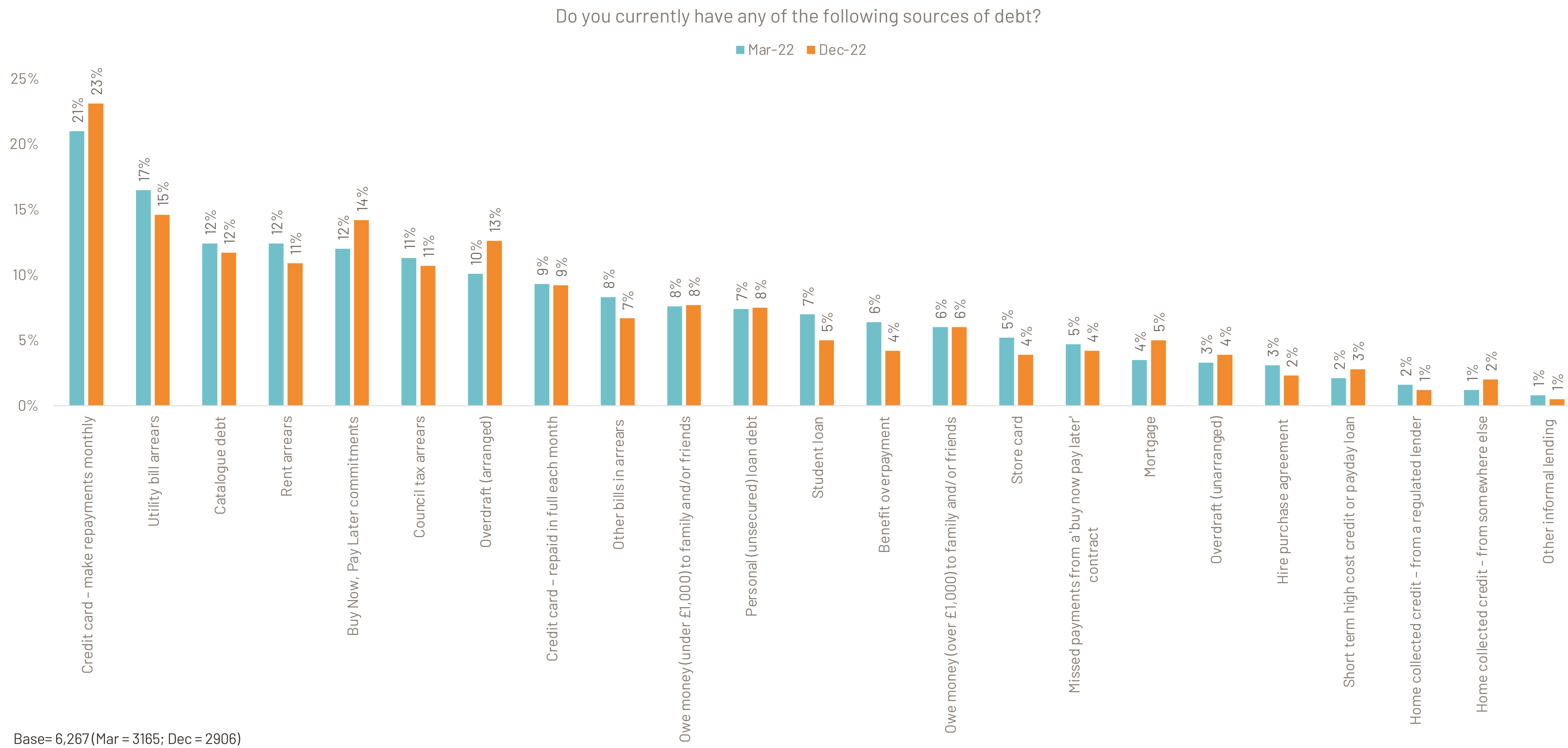
Base= 6,267 (Mar = 3165; Dec = 2906)

Sources of debt March to December 2022: Difficult Debts



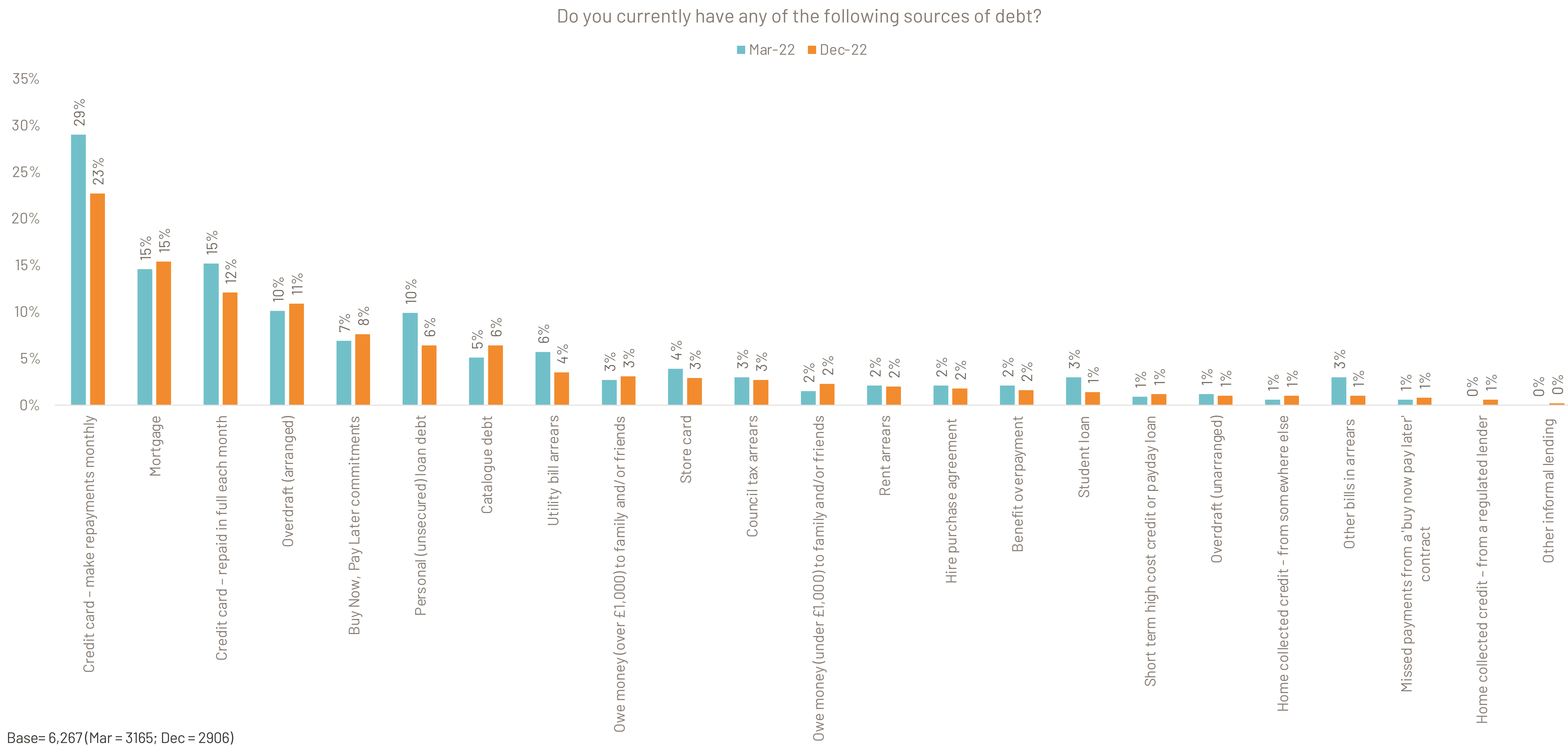
Base= 6,267 (Mar = 3165; Dec = 2906)

Sources of debt March to December 2022: Forgotten Families



Base= 6,267 (Mar = 3165; Dec = 2906)

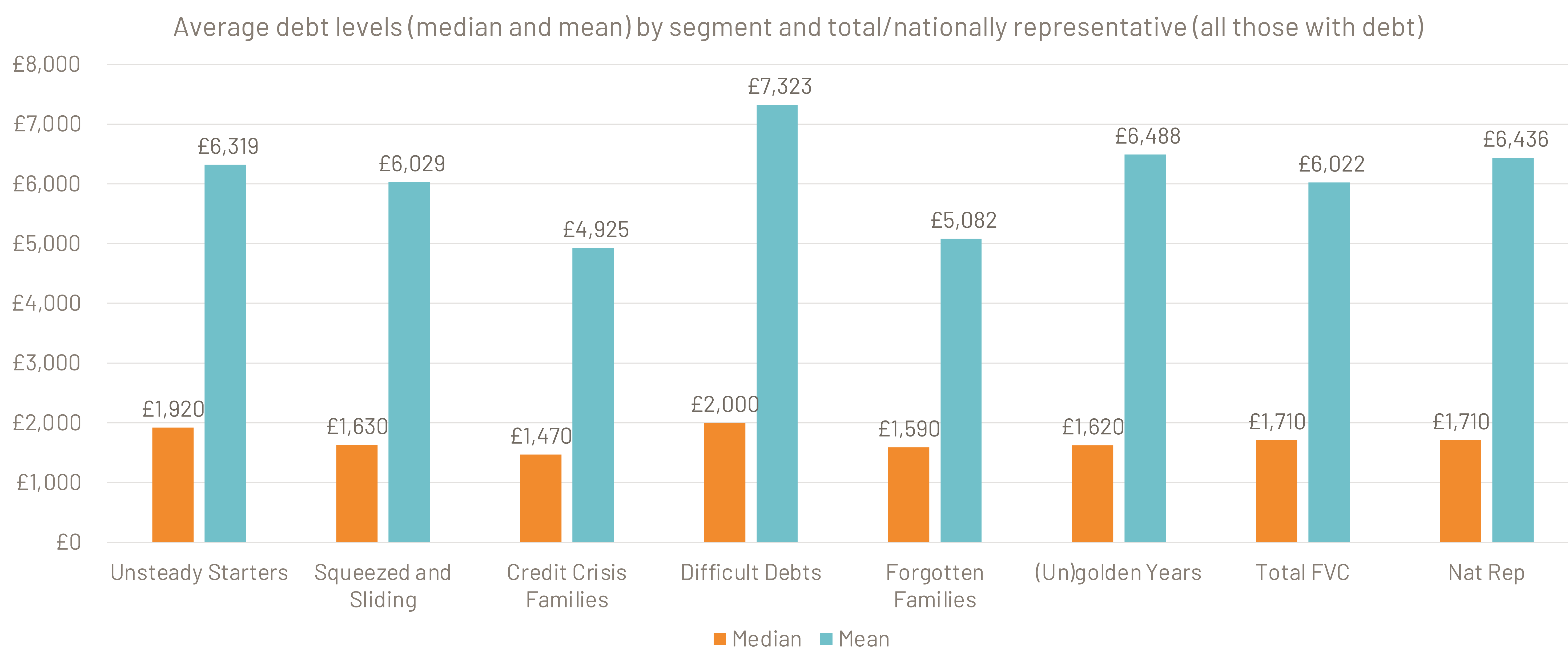
Sources of debt March to December 2022: Un(golden years)



Base= 6,267 (Mar = 3165; Dec = 2906)

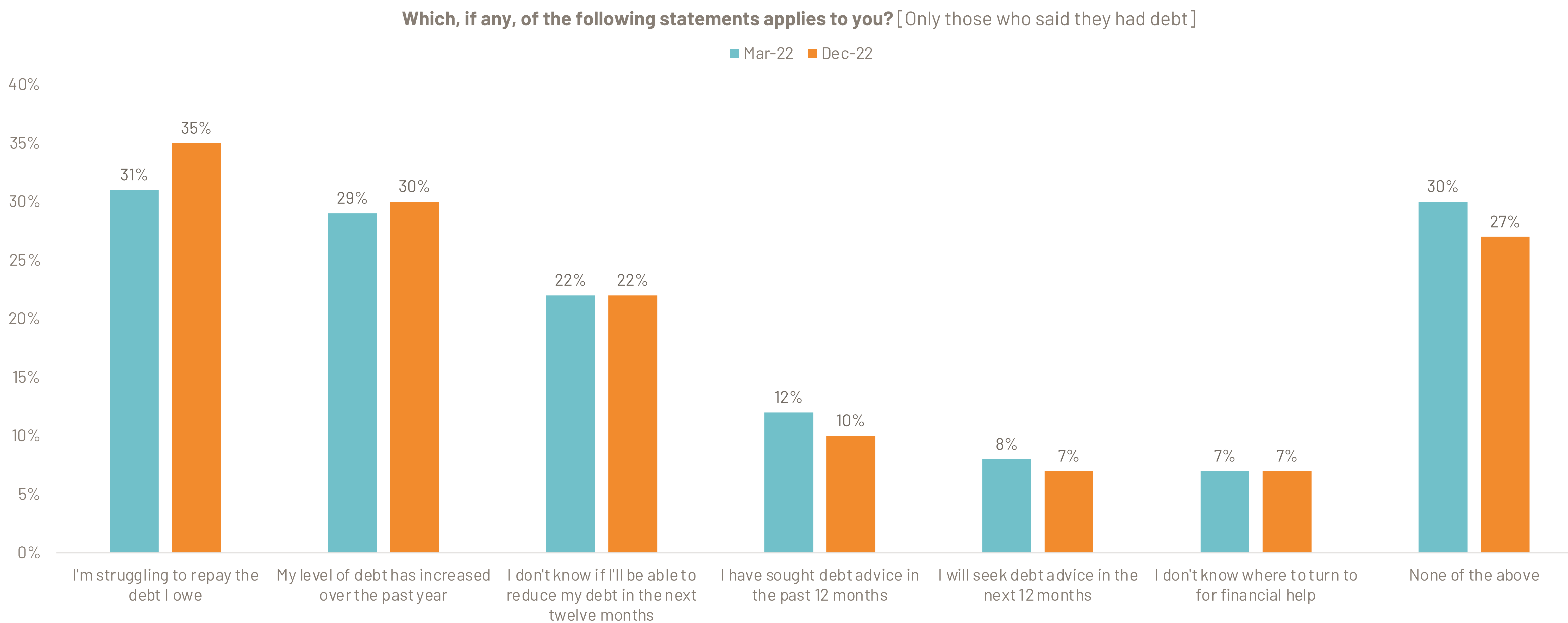
Levels of debt

Debt levels – average per segment



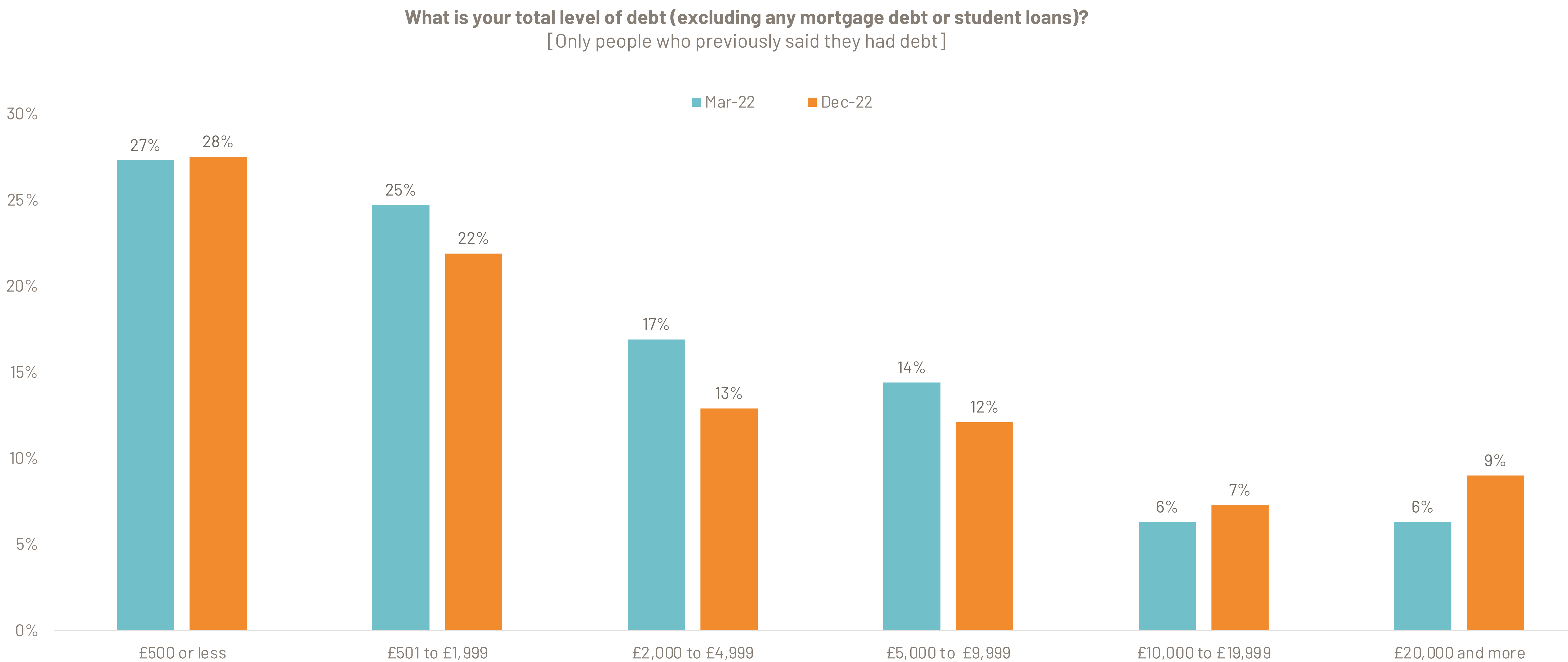
Trajectory Optimism Index (n=1500/890 with debt)/Vulnerable Consumer Survey (Weighted n=2912/2092 with debt)

Changes for financially vulnerable customers – who were struggling to pay back debt had increased since March



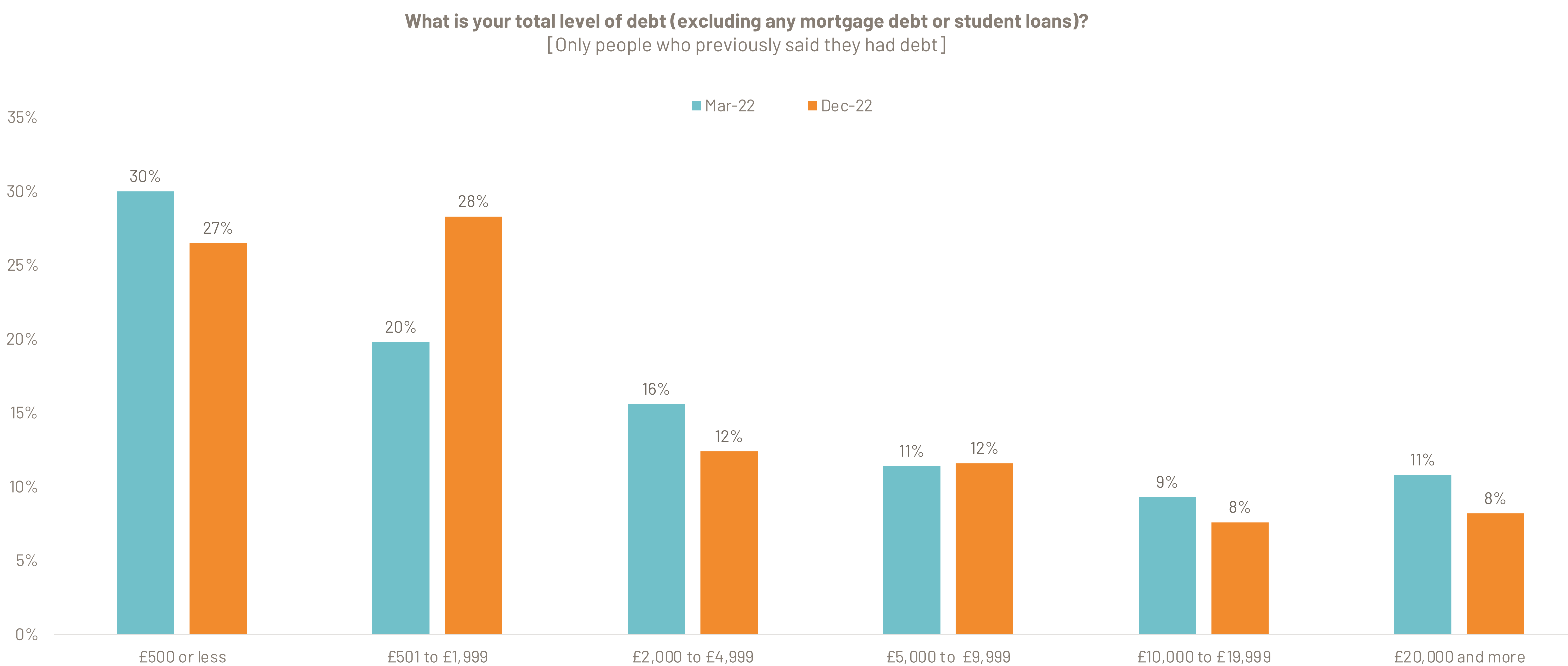
Base= 4,536 (Mar = 2354; Dec weighted = 2092)

Debt levels March to December 2022: Unsteady Starters



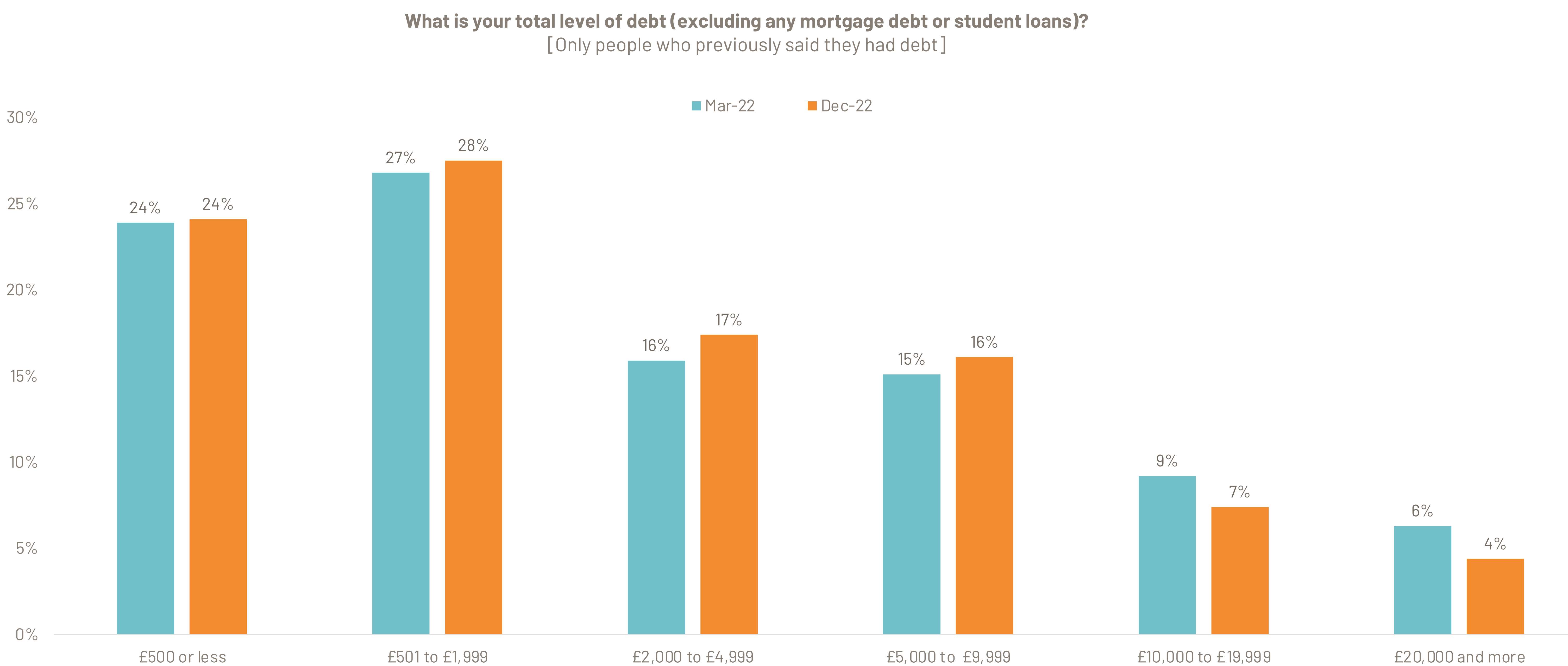
March Vulnerable Consumer Survey (n=319) / December Vulnerable Consumer Survey (n = 232)

Debt levels March to December 2022: Squeezed and Sliding



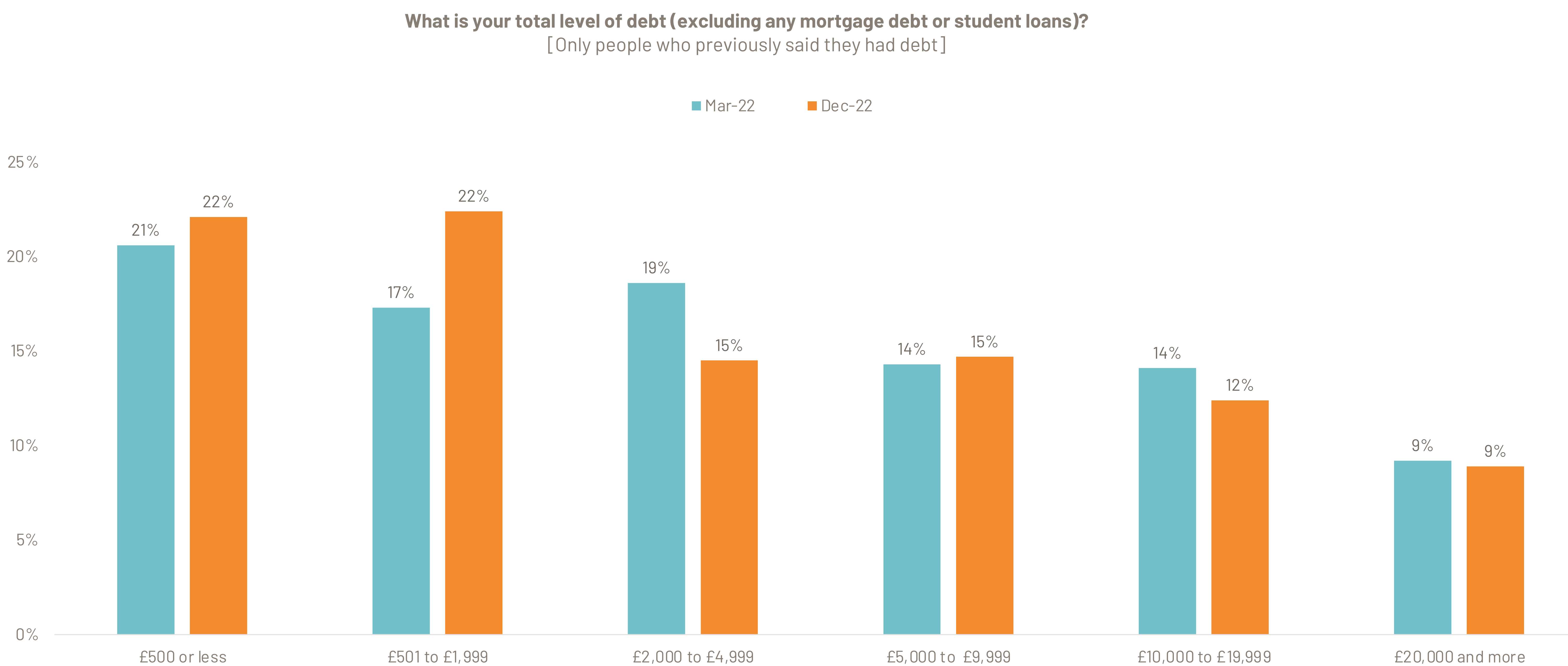
March Vulnerable Consumer Survey (n=643) / December Vulnerable Consumer Survey (n = 396)

Debt levels March to December 2022: Credit Crisis Families



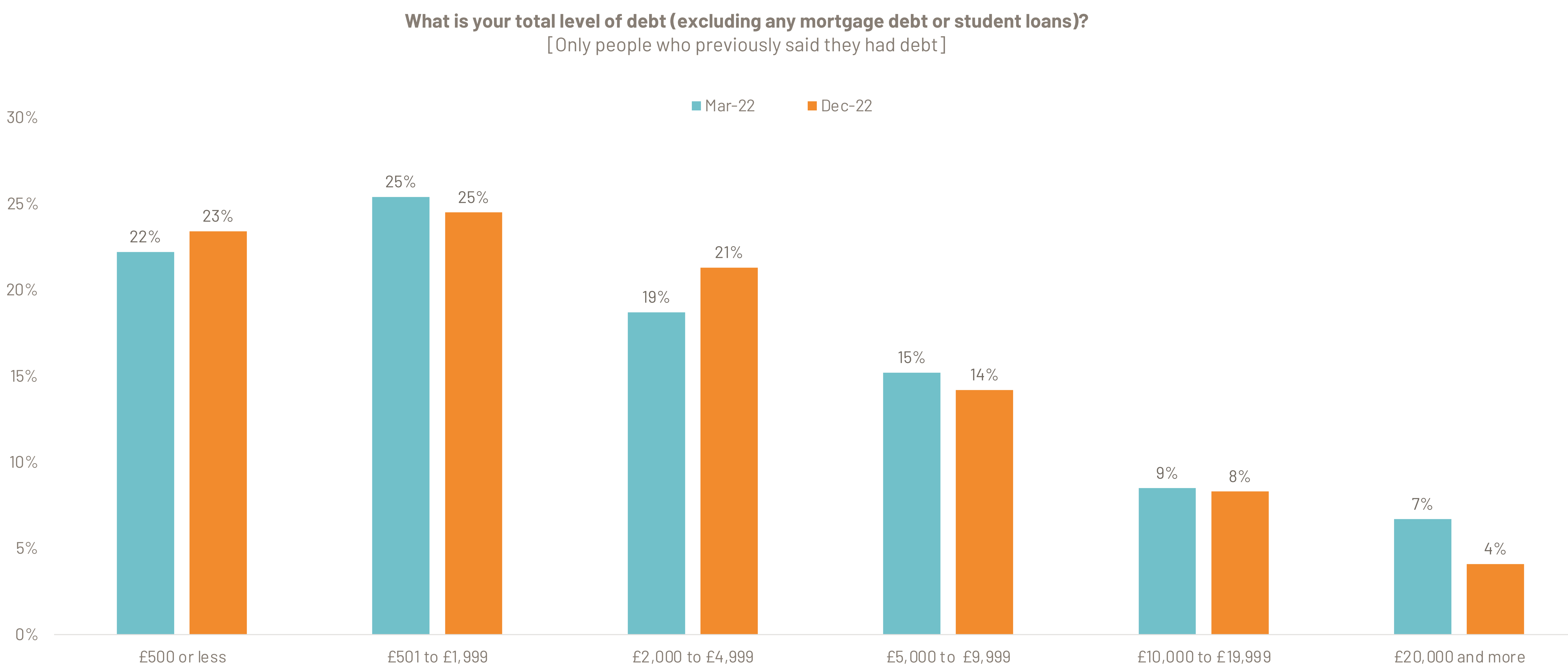
March Vulnerable Consumer Survey (n=403) / December Vulnerable Consumer Survey (n = 299)

Debt levels March to December 2022: Difficult debts



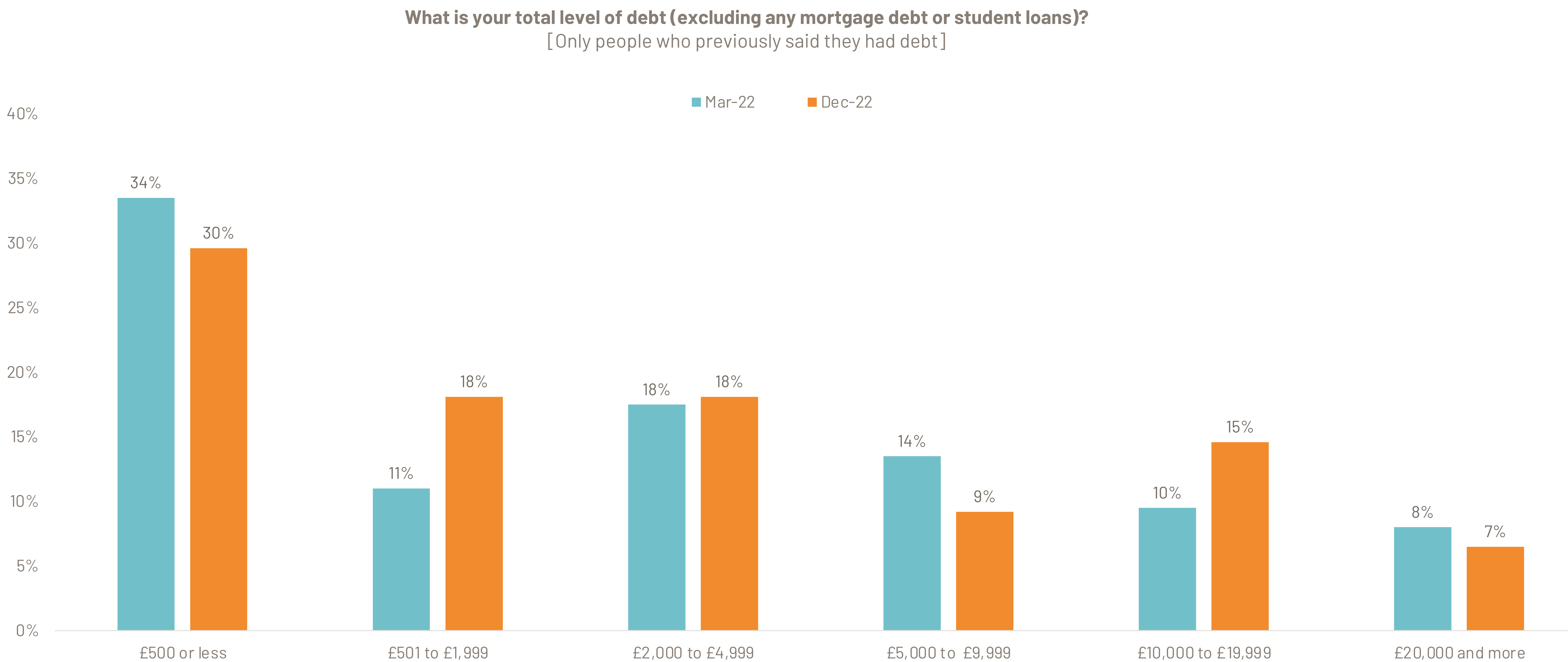
March Vulnerable Consumer Survey (n=446) / December Vulnerable Consumer Survey (n = 442)

Debt levels March to December 2022: Forgotten families



March Vulnerable Consumer Survey (n=343) / December Vulnerable Consumer Survey (n = 409)

Debt levels March to December 2022: (Un)golden Years



March Vulnerable Consumer Survey (n=200) / December Vulnerable Consumer Survey (n = 260)

Thank you