Fair4All Finance Segmentation Model

Credit Crisis Families: Deep Dive

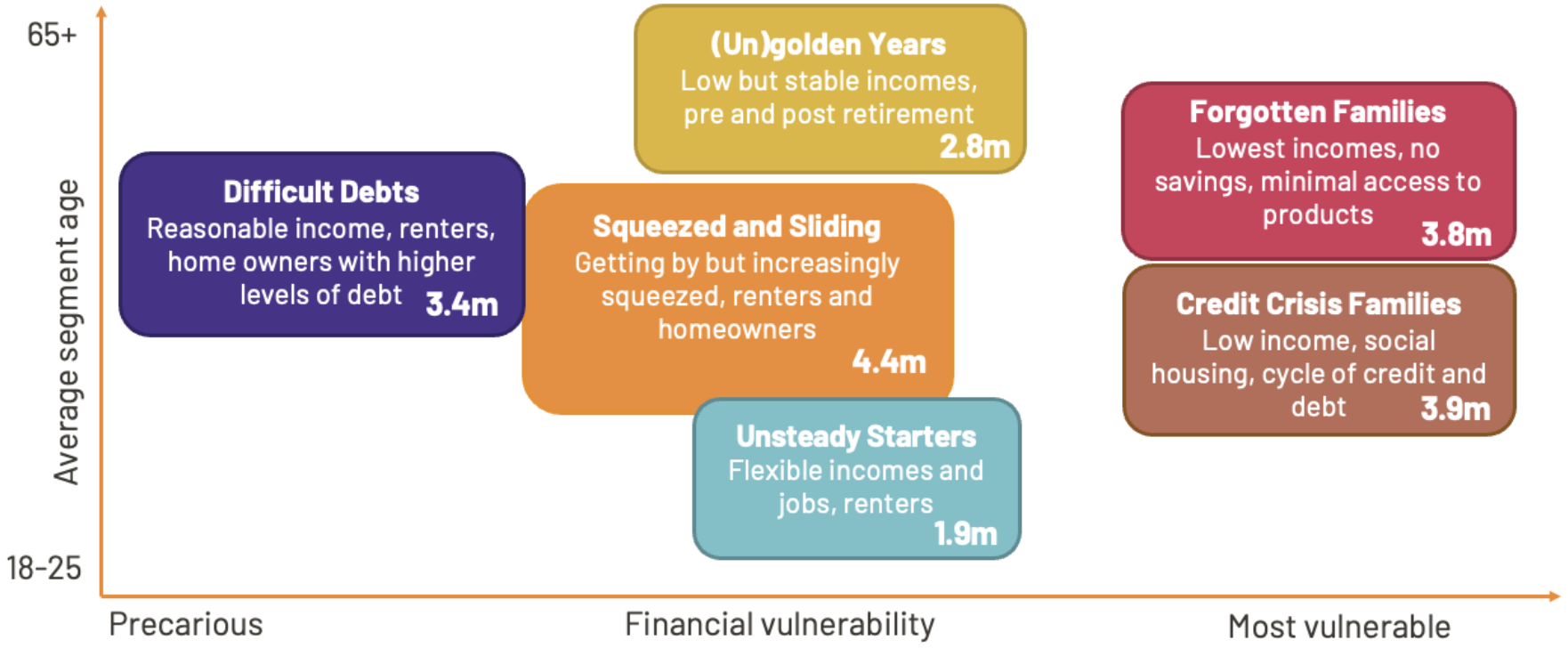
July 2024

Our purpose for segmentation

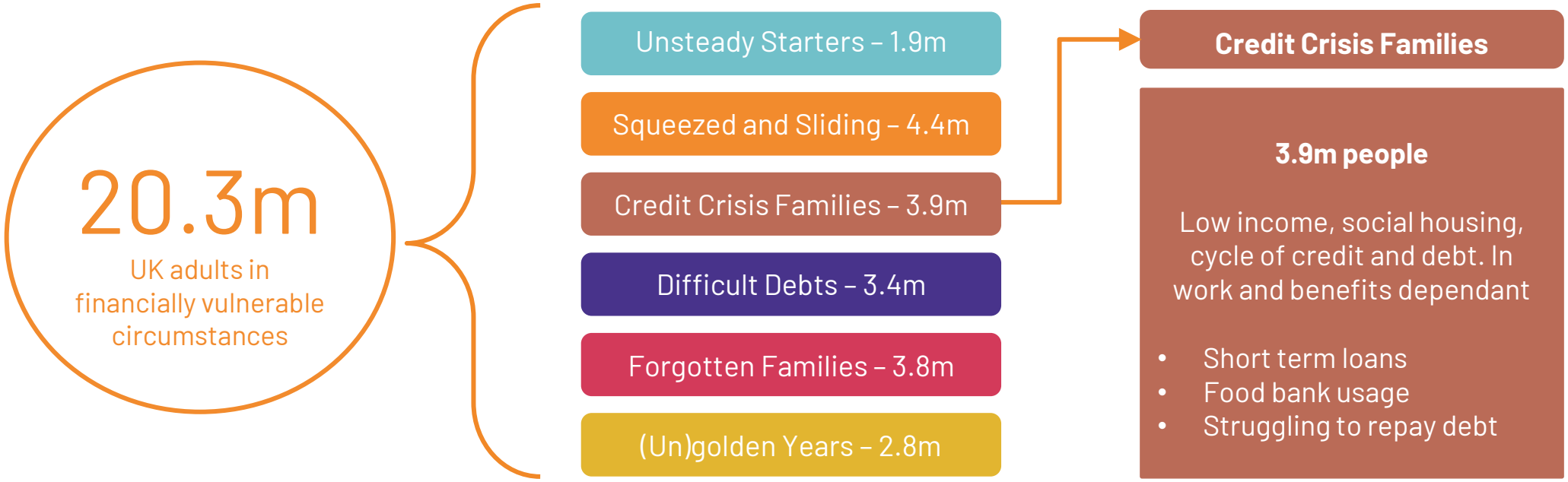
to support the design and development of more effective financial products and services that improve resilience for people in financially vulnerable circumstances

Segments by age and vulnerability

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



This segment deep dive



Total audience | **6 segments** | **This segment deep dive**

A note on data

- We surveyed 3,101 people in financially vulnerable circumstances online in early December 2023
- Where we look at one segment vs other segments this is labelled as 'FVC' to denote all people in financially vulnerable circumstances. This allows us to understand how a specific segment differs to all people across our segments
- Where we have a 'All UK Adults' this is taken from a different survey that was conducted at the same time (December 2023), and is helpful when comparing the segments to the overall population
- There have been 3 waves of our survey – March 2022, December 2022 and December 2023. Where it's appropriate to track changes over time, this has been included

Credit Crisis Families

Overview

Credit Crisis Families are in a cycle of **juggling and struggling** with everyday bills and debts. Using **any available credit** in all forms, generally have **no savings**, or very little that gets eaten up quickly

3.9m people

Credit Crisis Families at a glance

19%
of the Financially Vulnerable Population

Age range
25-34

HH income
<£30k

Family
60% have children at home
42% are single parent families
64% are female

Housing
Live in a housing association, or private rent

Type of work
Full-time
Part-time

Debt
High debt levels

Savings
39% = none
36 = £1-£1,000

Insurance
40% = none at all

Aisha, 26, Southampton

This is a fictional persona, but based on findings from the Nest Real Accounts participants

3.9m **19.1%**

Financially Vulnerable Population

- **A single mother of young children and a social renter**
- **Income relies on mainly benefits**
- **Universal Credit transition led her to fall into utility and rent arrears**
- **Uses her overdraft often and uses informal loans**

Meet Aisha

Aisha, a single mother of young children, faces significant financial challenges. She receives little and irregular support from her children's father and relies heavily on various benefits such as weekly income support, child benefit, and child tax credit. Attempting to supplement her income, Aisha tried working as a teaching assistant, but managing her children's schedules made it impossible to find suitable hours.

Her income support benefit was stopped when her youngest child started school, so she had to switch to Universal Credit. Even with help from a local charity, the transition took several months, and her case was opened and closed repeatedly. This delay and gap between payments left Aisha **£800 behind on her rent and utility bills, and she had to take out loans to cover these expenses, regularly relying on her friends and family to help her financially**. She worries about what might happen to her relationships if she overuses the support or can't pay the money back.

The switch to monthly Universal Credit payments also disrupted her usual weekly budgeting, exacerbating her financial strain, and she has been left with debt from the interest accrued during the process.

Even before transitioning to Universal Credit, Aisha frequently relied on credit to make ends meet, and she still does. She had to move house and needed to buy furniture for her home including a bunk bed for her children, and is now around £4,000 worth of debt. Her ex-partner had promised to pay her back, but this hasn't happened. It isn't the first time he has let her down for the money he owes her.

Due to her poor credit score and past debt, Aisha has limited credit options. She still needs to buy food, clothes for her children, and cover other expenses like school trips. She uses her £500 overdraft as her main day-to-day buffer but also turns to store cards and a Buy Now Pay Later account to spread out payments. As a last resort, she uses a credit card, though she tries to avoid it due to previous experiences of falling deeply into debt.

fair4all finance

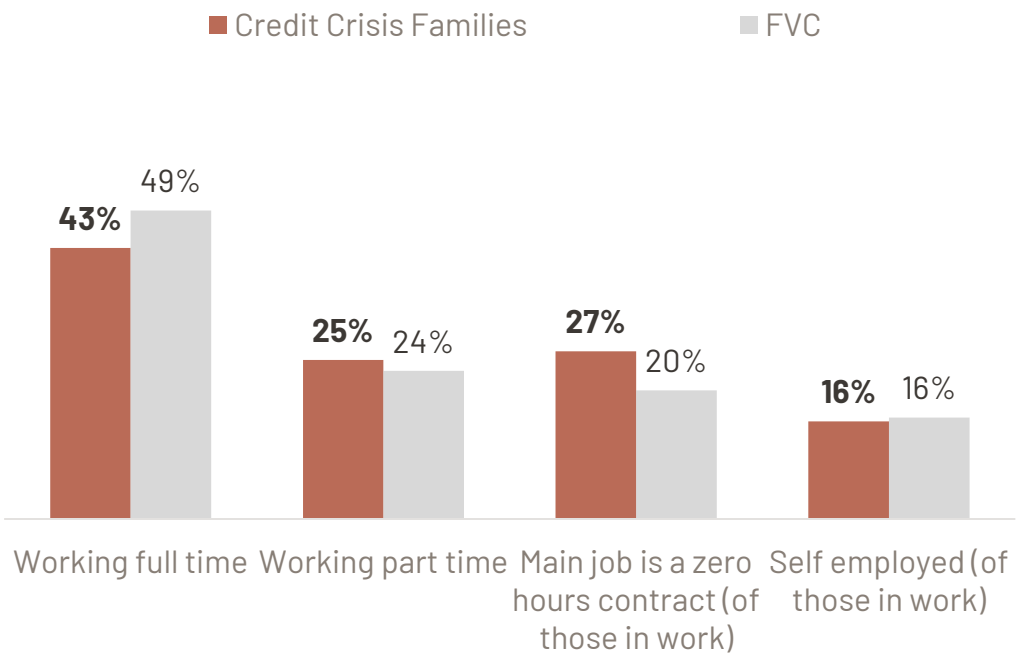
Summary: Credit Crisis Families

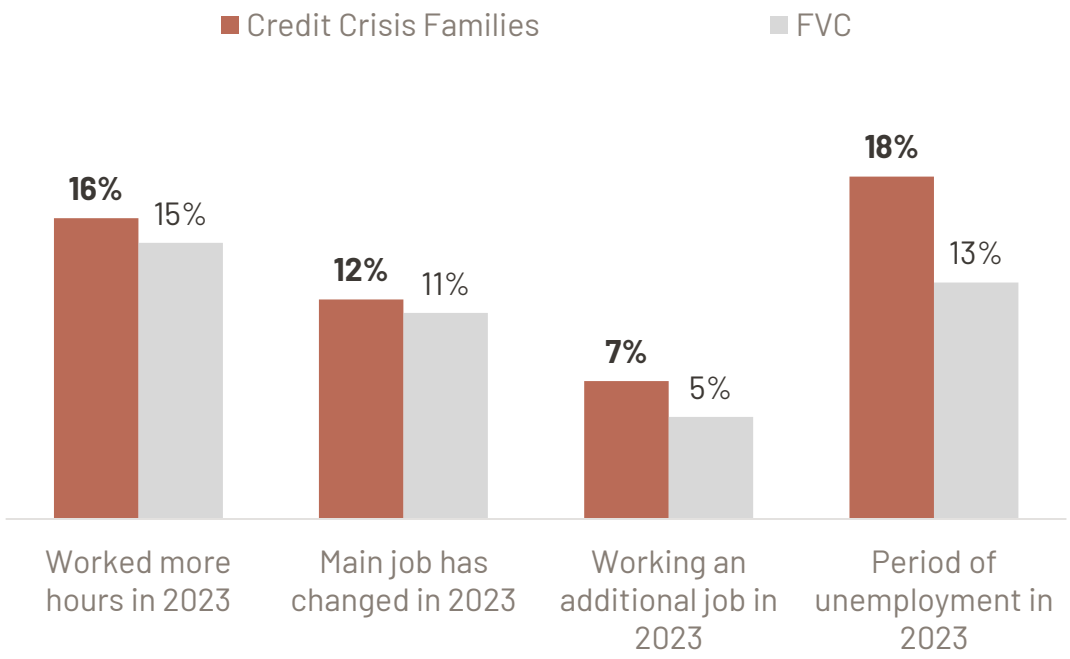
	Where were they in 2022?	Where are they now?	The future?
Lifestyle	Over 1 in 3 are single parent households A large proportion are in work, and benefits is an important source of income	Using food banks at higher rates than most other segments Almost half are **very** worried about not being able to keep up with expenses	This group are struggling to be positive about the future. 71% say they've had to put plans on hold, 72% say they're struggling to think too far ahead
Credit and debt	A regular cycle of credit usage, likely sub-prime and also informal sources Unlikely to make ends meet without credit	Increasingly missing repayments on credit cards & personal loans Debt levels are high, often turning to friends and family for lending Frequently using BNPL for big-ticket purchases and everyday costs like bills and groceries	BNPL usage for these purchases is likely to increase, adding another potential source of debt for this group
Savings and insurance	Savings are very low, as well as insurance product ownership	1.5m have no savings at all and the median total is only £187 Insurance ownership is very low – with 39% holding any product	A lack of saving and insurance is worrying for any emergency expenses, and likely to continue driving credit needs

Credit Crisis Families

Work and Lives

Credit Crisis Families experience more volatility in their employment than other segments

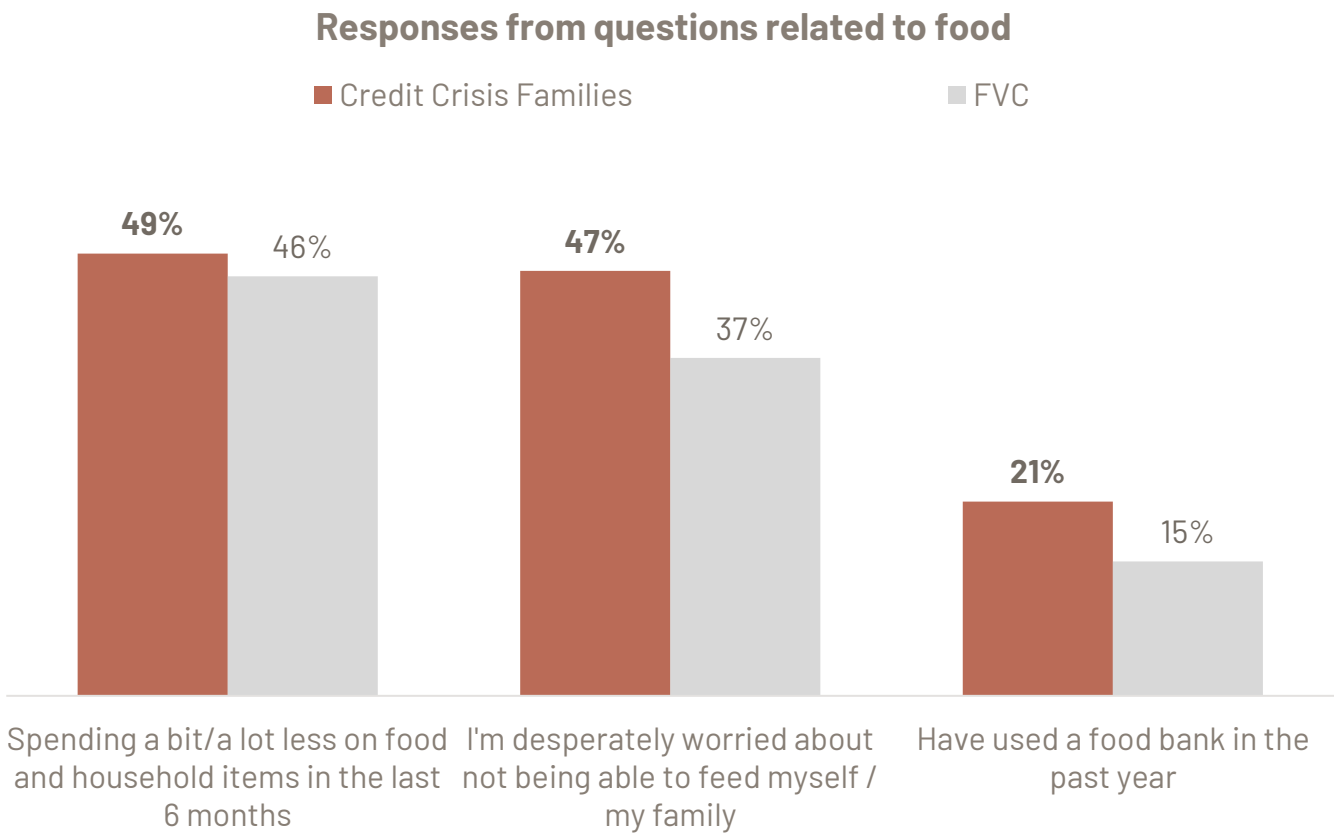




27% of working Credit Crisis Families are on a **zero-hours contract.** They are less likely to have full-time jobs, leading to more instability.

In 2023, 18% of this group experienced **unemployment**. They are more likely to work extra jobs or hours, leading to income volatility.

Almost half of this segment are desperately worried about paying for food



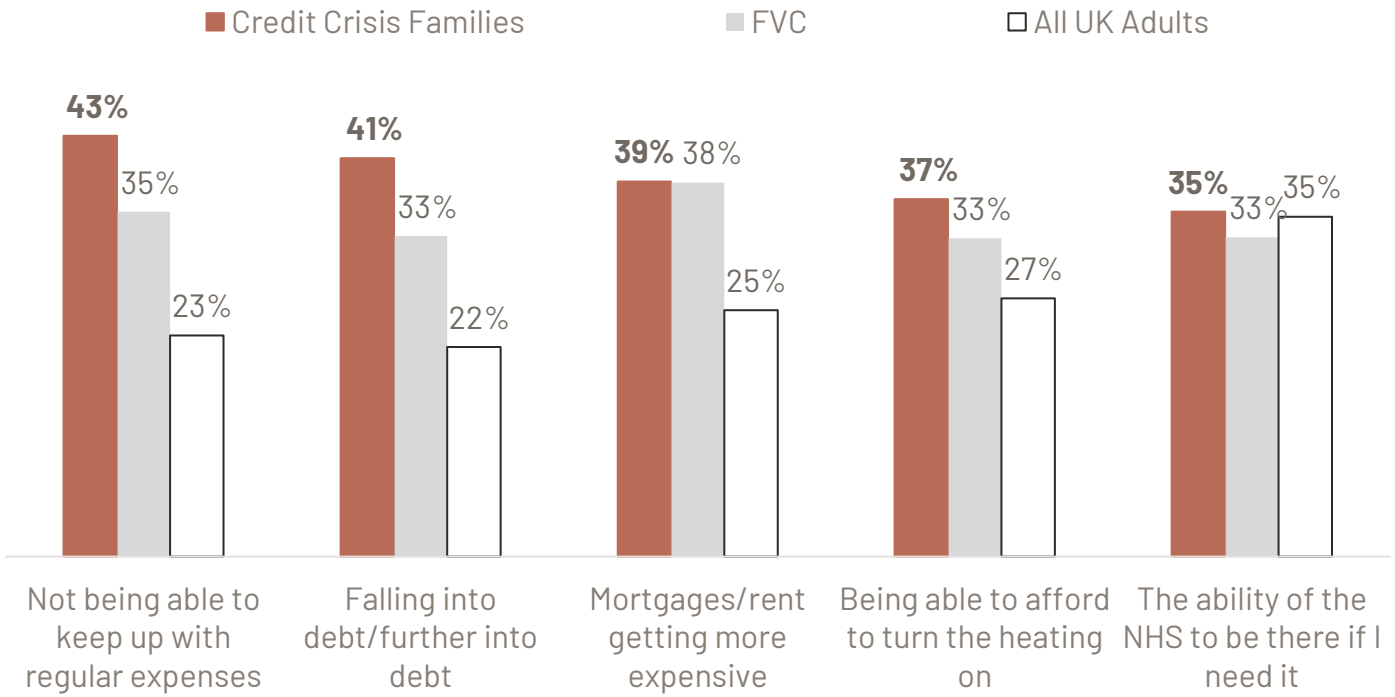
In December 2023, 47% said they were desperately worried about paying for food, higher than most other areas of spending.

Much of this concern is likely driven by their current or previous experiences from the cost-of-living crisis. They are more likely than the average FVC to skip meals (34% vs 28%) or eat less healthy foods (46% vs 42%) due to rising costs.

Although many are cutting back on what they're spending, high numbers are using foodbanks too. One in five Credit Crisis Families used a food bank in 2023, 6% higher than average.

Credit Crisis Families are very worried about the cost of living – especially regular expenses and falling into debt

Below are a list of concerns relating to the cost-of-living crisis. Please state how worried you are about them when thinking about the next few months (all saying they are 'very' worried) – Top Five

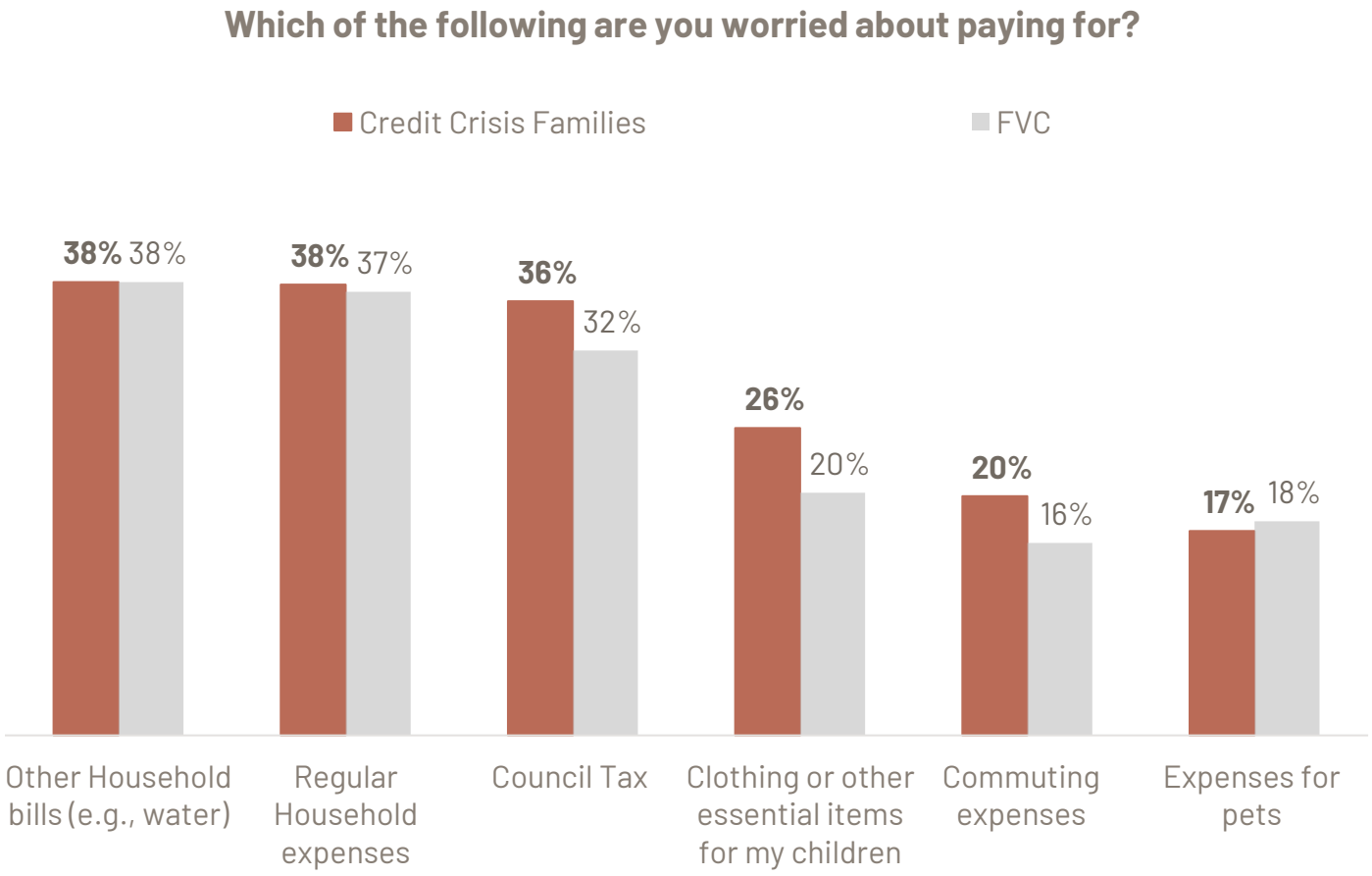


Credit Crisis Families are noticeably more worried about falling into further debt and keeping up with regular expenses.

They are especially vulnerable to inflation, feeling more worried than the average financially vulnerable consumer.

They worry more about the cost of living in every aspect, indicating high stress and a heavy psychological burden.

The main cost-of-living worries are household bills and essential items for their children

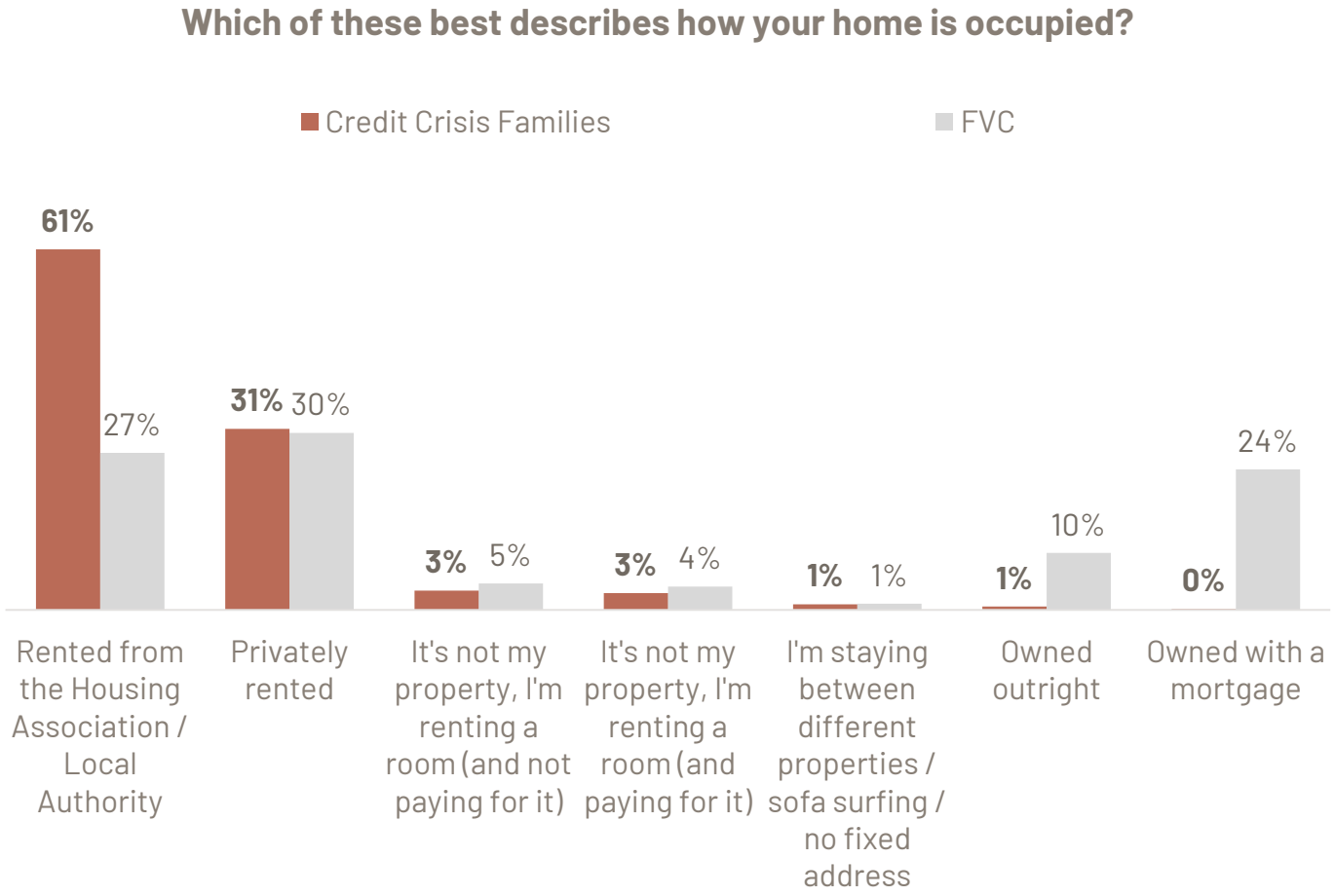


Credit Crisis Families are especially worried about fixed, mandatory costs like bills and council tax.

This segment worry more about bills and family-related costs, especially in single-parent households, where paying for children's clothing and essentials is a major concern.

Credit Crisis Families also have higher-than-average debt from non-financial products, such as household bills. They over-index in arrears from rent (9% vs 5%), utility bills (18% vs 12%) and council tax (12% vs 8%).

Higher rates of social and council housing make them slightly less impacted by rising housing costs



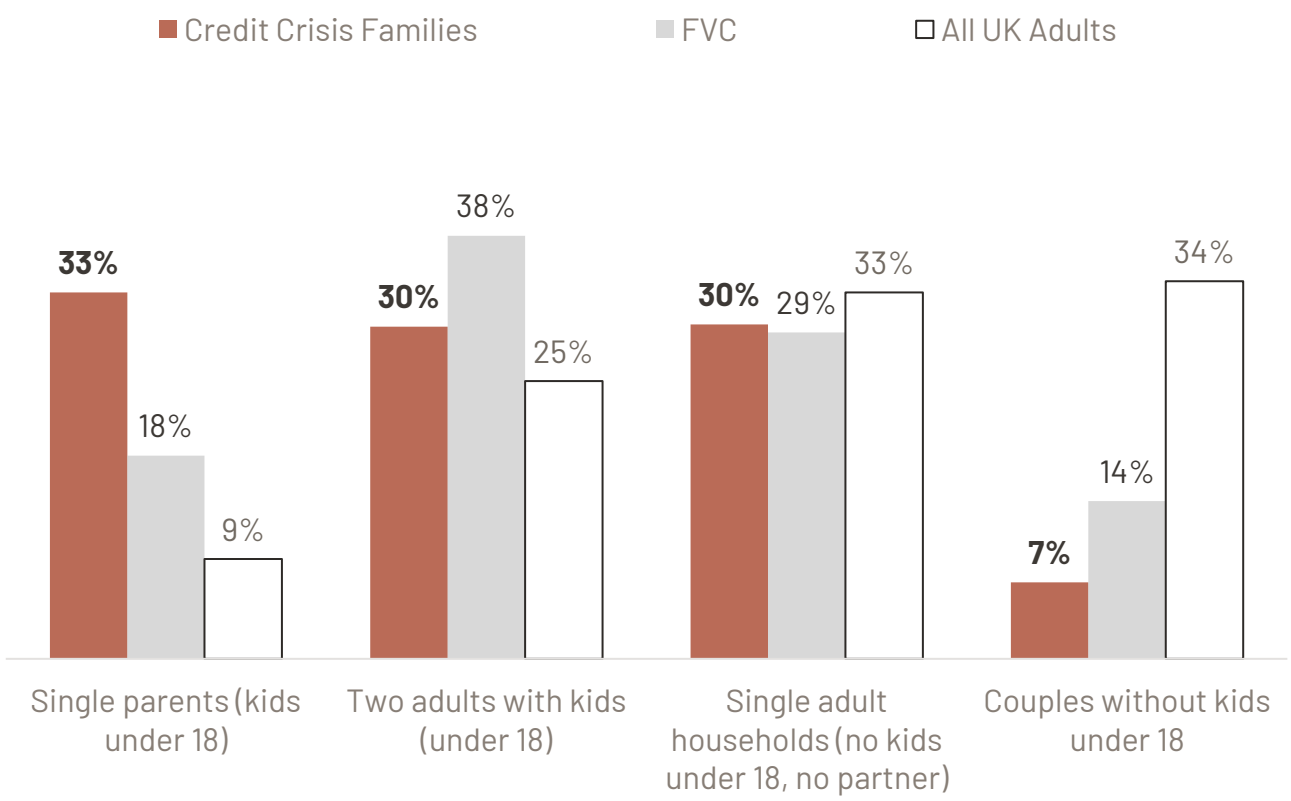
Rising mortgage costs will only affect a very small proportion of Credit Crisis Families.

In this segment, 61% of people largely rent from a housing association. Renting from a housing association or local authority protects tenants from the steep and unregulated increases in the private rent market. However, 31% of this segment are private renters, for whom rising rents are a significant worry.

While tenants from housing associations or local authorities can still expect smaller annual increases, they are legally informed of this well in advance. These increases are capped at a maximum of CPI plus 1%.

In 2023, an exceptional year, the cap was set at 7%, whereas in previous years, it was capped at 3.1%

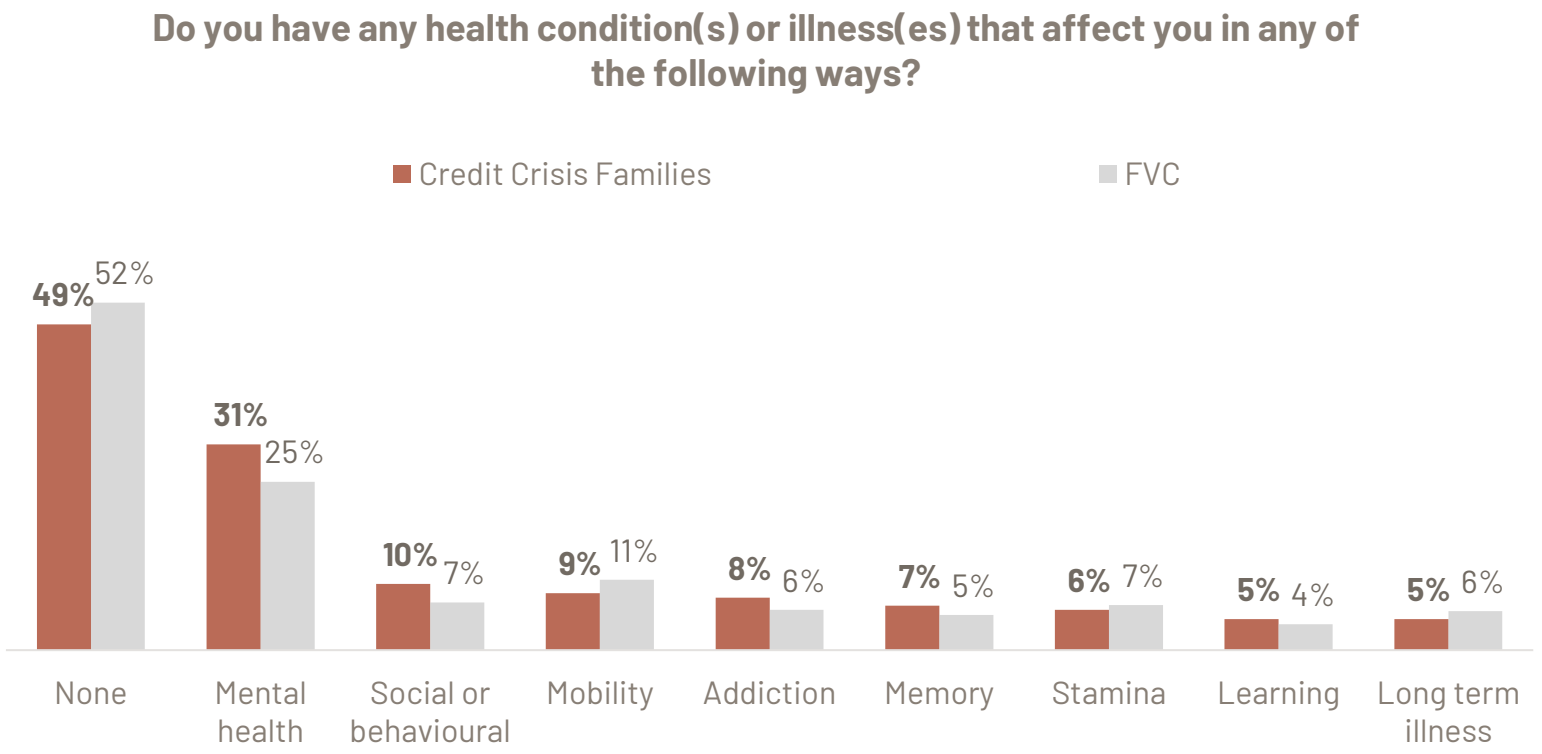
Credit Crisis Families significantly over-index in single parent households



There are more single mums in the Credit Crisis Families segment than any other segment (30%, compared to 17% of FVC).

One in three households in this segment are a single parent with children at home – adding a substantial degree of financial vulnerability to this group. Gingerbread has found that single parents disproportionately experience problem debt, with a combination of income insecurity, 'lumpy' and irregular expenses can cause over-indebtedness and debt spirals.

Credit Crisis Families have a higher prevalence of mental health issues compared to the people in FVC

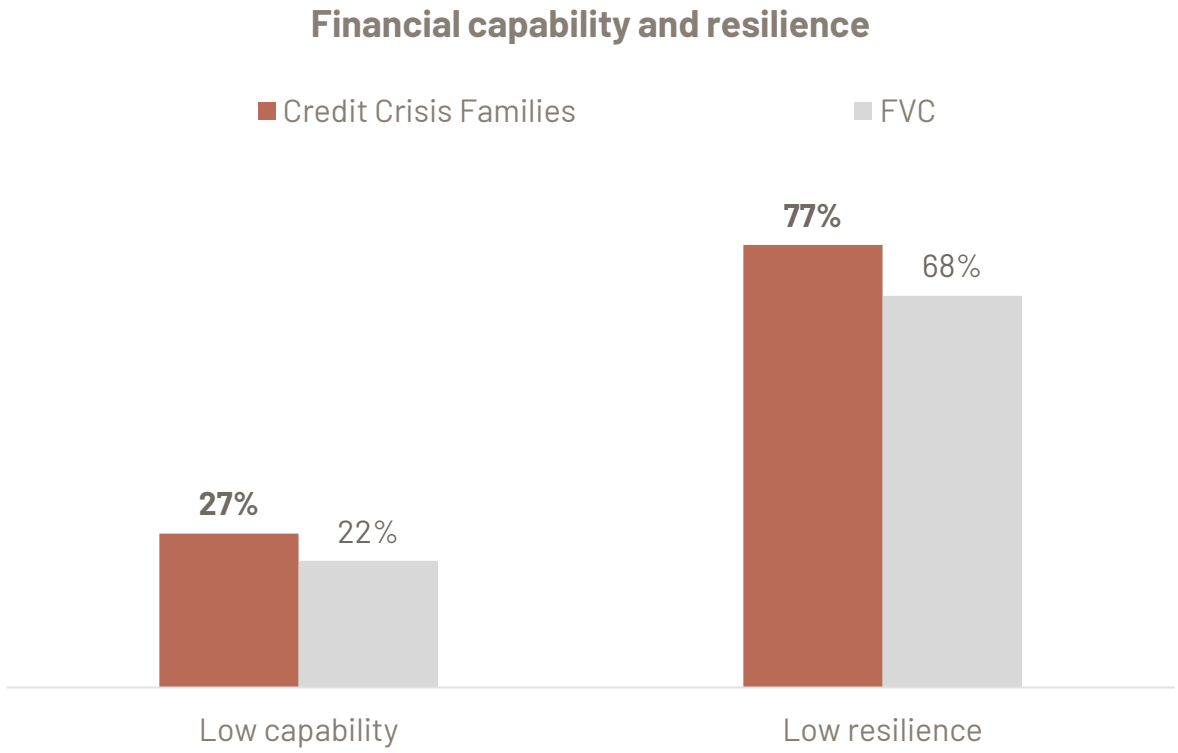


Around half of Credit Crisis Families have at least one health condition that affects them.

This is most likely to be a mental health condition (31%) or related to social or behavioural issues (10%).

But they are also notably over-index for addiction issues – 8%, compared to 6% for the FVC average.

Credit Crisis Families have very low levels of financial resilience



A significant proportion of this segment report either low financial capability (confidence managing money and understanding finances) or low financial resilience (struggling with unexpected expenses or increased costs).

Credit Crisis Families are particularly affected, with more than 1 in 4 having low financial capability and three times as many having low resilience.

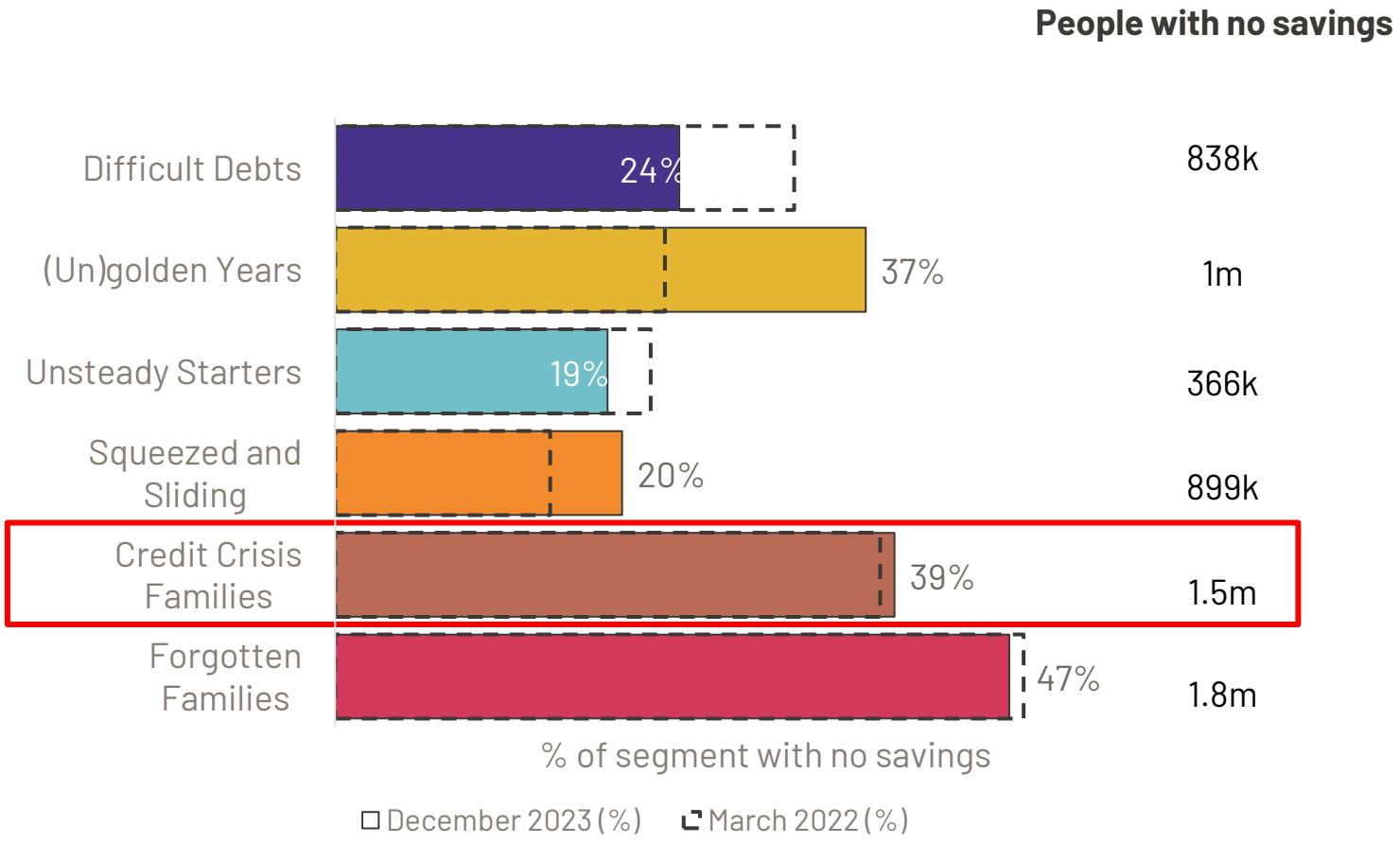
Credit Crisis Families

Savings

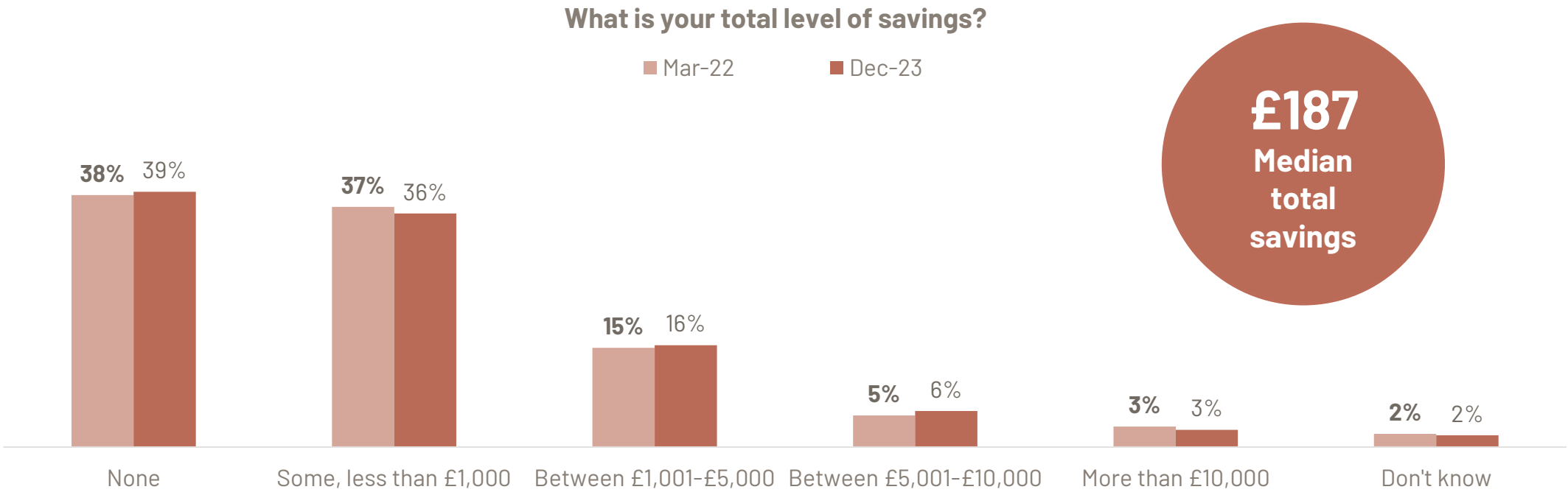
2 in 5 of Credit Crisis Families have no savings

39% of this segment had no savings at all in December 2023. This is essentially no change from March 2022, and means there's 1.5m people in this segment with no savings.

Ongoing work is needed to increase short and long-term savings buffers for this segment.



Those with savings have low amounts



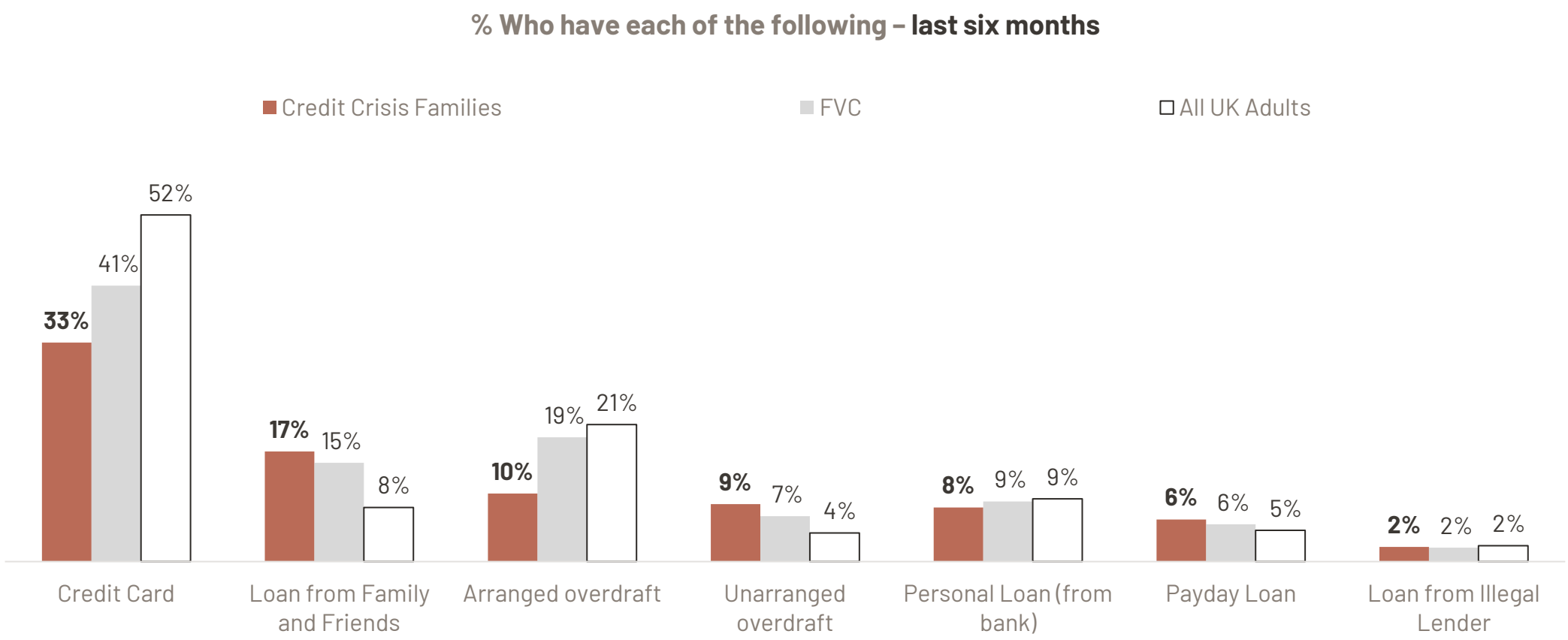
Savings behaviour exists, with most saving either weekly or monthly. However, a combination of low savings amounts, volatile incomes and uncertain expenses means savings are used up quickly.

Over the last six months, **1 in 3 are saving money less than they used to** – a worrying sign for financial resilience.

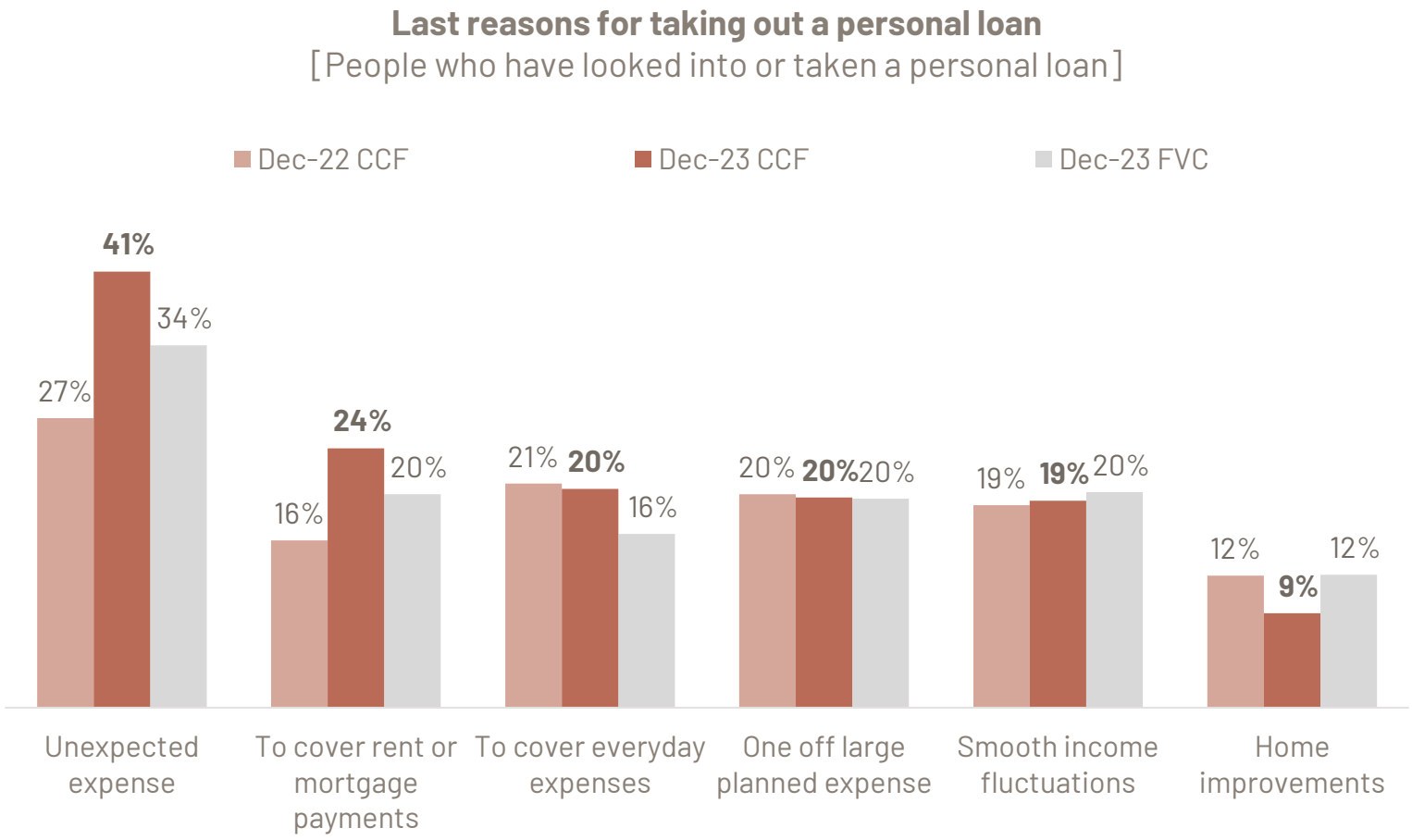
Credit Crisis Families

Credit

Credit Crisis Families lack access to traditional forms of credit like credit cards and arranged overdrafts



Significant increase “unexpected expense” as reason for loan

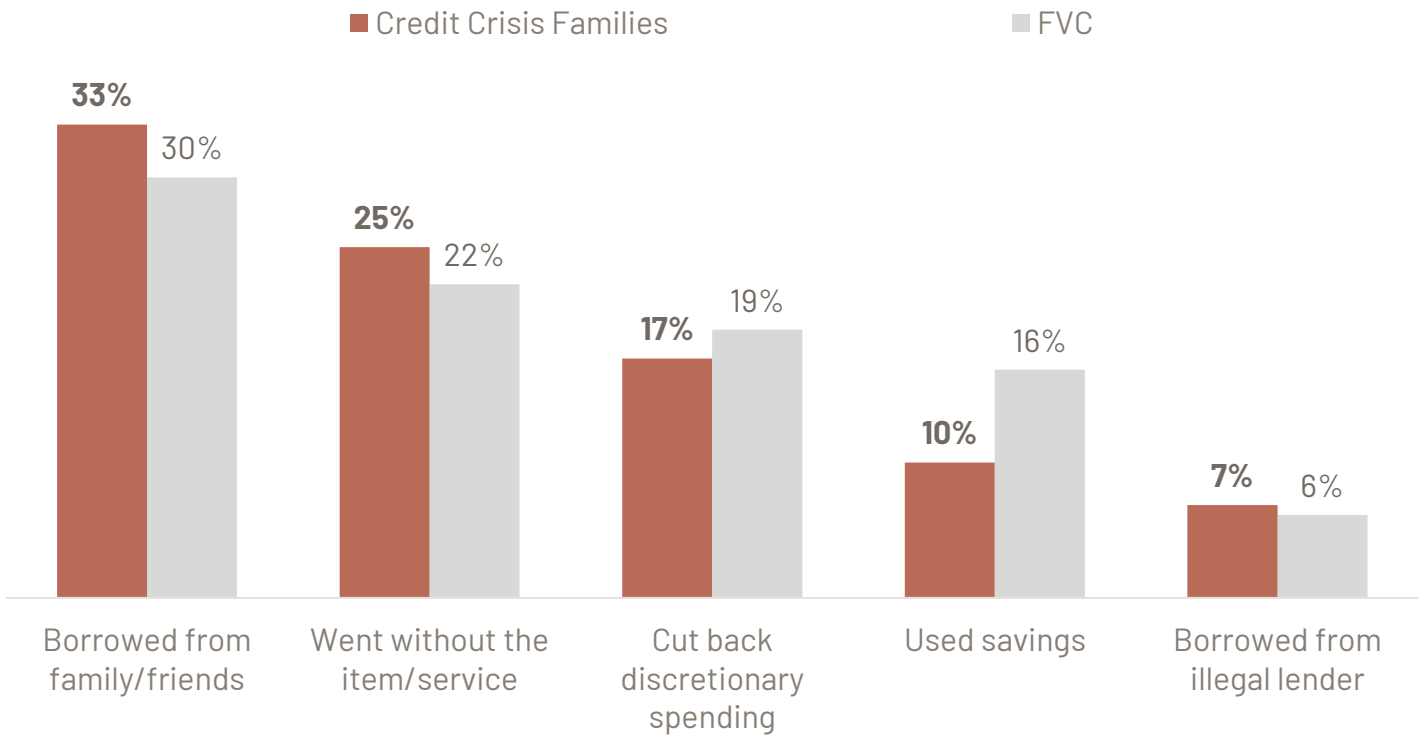


Credit Crisis Families are most likely to have been looking for a personal loan to cover an unexpected expense – a 14% increase compared to December 2022. This is likely due to the lack of any kind of buffer, and rising costs in “expected” areas.

We also see a **considerable increase in the proportion of this segment looking for or taking out a personal loan to cover housing costs –** up from 16% to 24%.

Credit Crisis Families are much more likely to be turned down for credit

Alternatives when turned down for credit
[Only people who had been declined, or put off applying, in last 12 months]



32%
Have been turned down for credit (vs 22% of FVC)

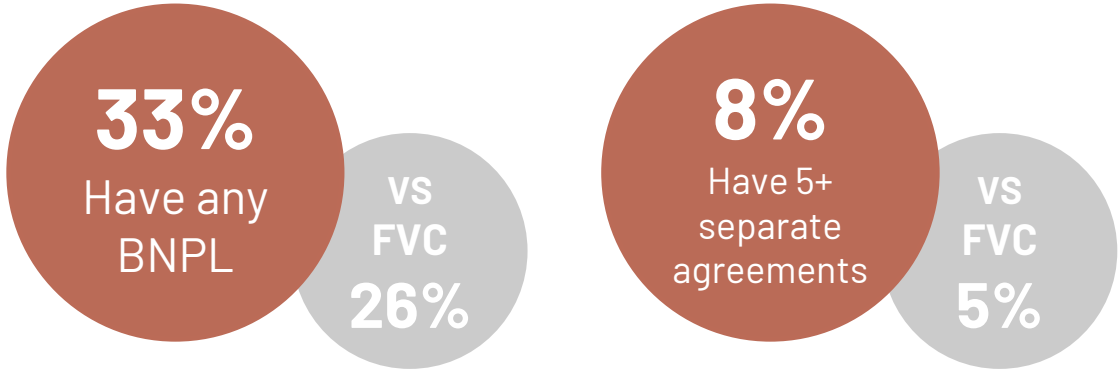
When rejected for credit, the most common responses were borrowing from family or friends or going without the item/service. This can have a big impact when the loan is for essential needs.

Due to a lack of savings, the segment is less likely to use savings as an alternative when turned down for credit.

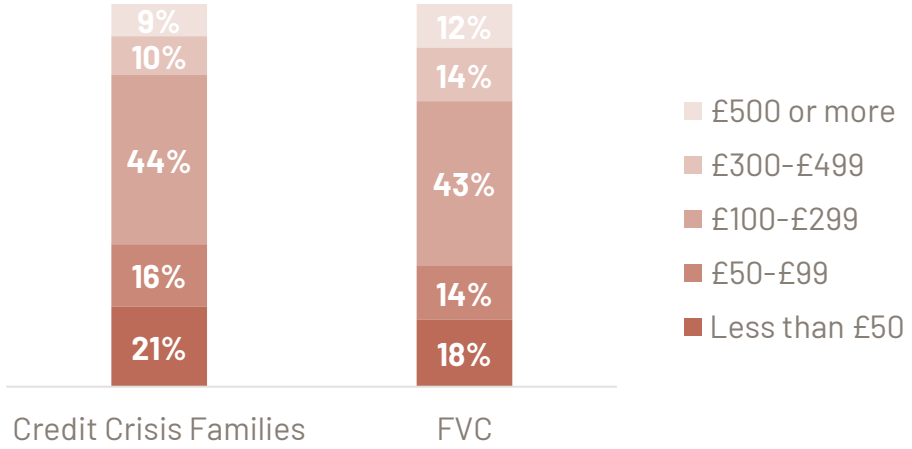
Credit Crisis Families frequently use Buy Now Pay Later products

Credit Crisis Families are heavy users of BNPL compared to other segments. However, the amount owed is slightly lower than average, with 37% owing less than £100, compared to 32% of people in financially vulnerable circumstances.

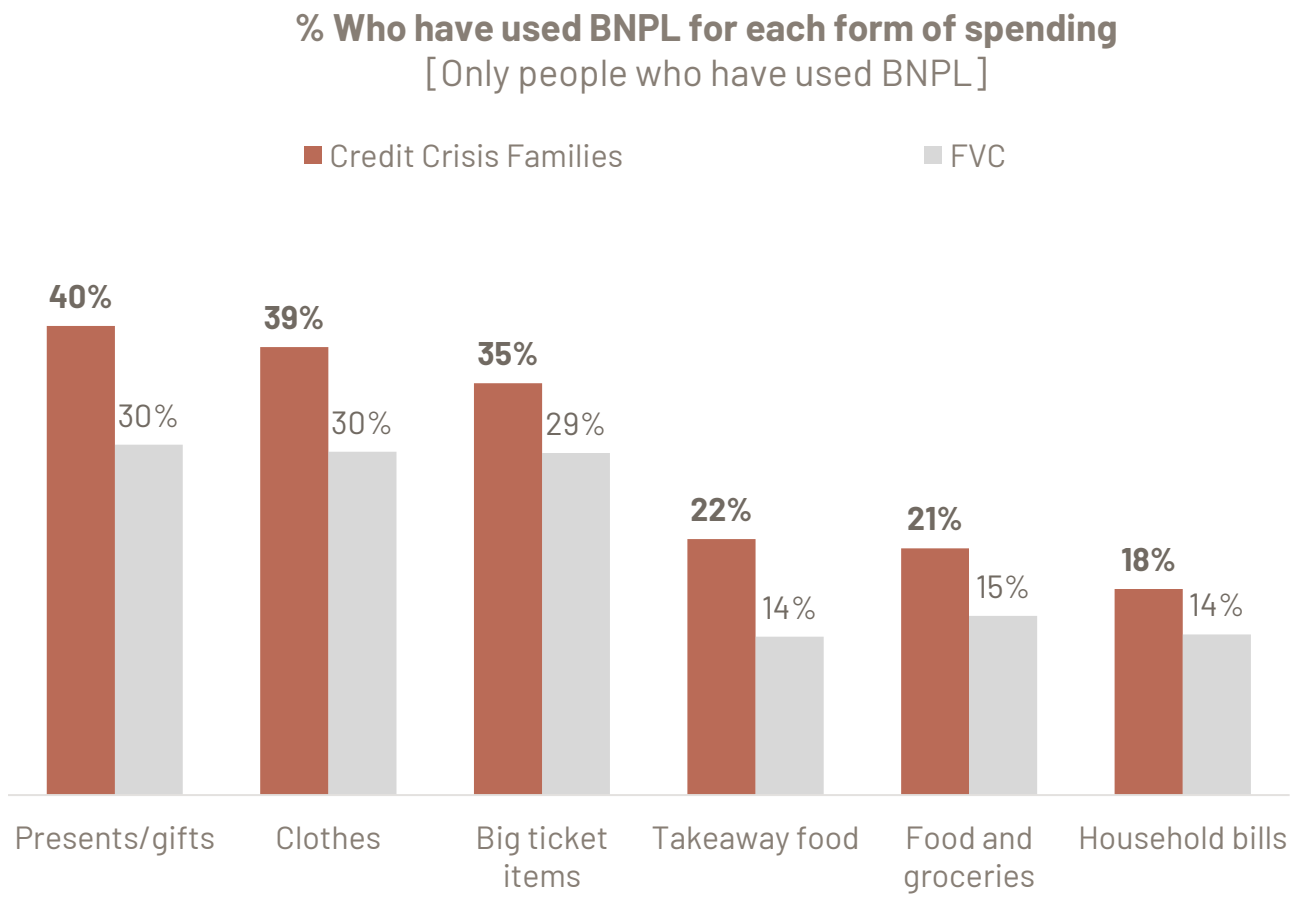
They are significantly more likely to have incurred interest or a late payment fee on one of their BNPL agreements (47% vs 36% across segments), which reflects their similar difficulties in repaying personal loans, with 51% missing a repayment in December 2023.



Amount owed on BNPL products (£)
[Only people who have used BNPL]



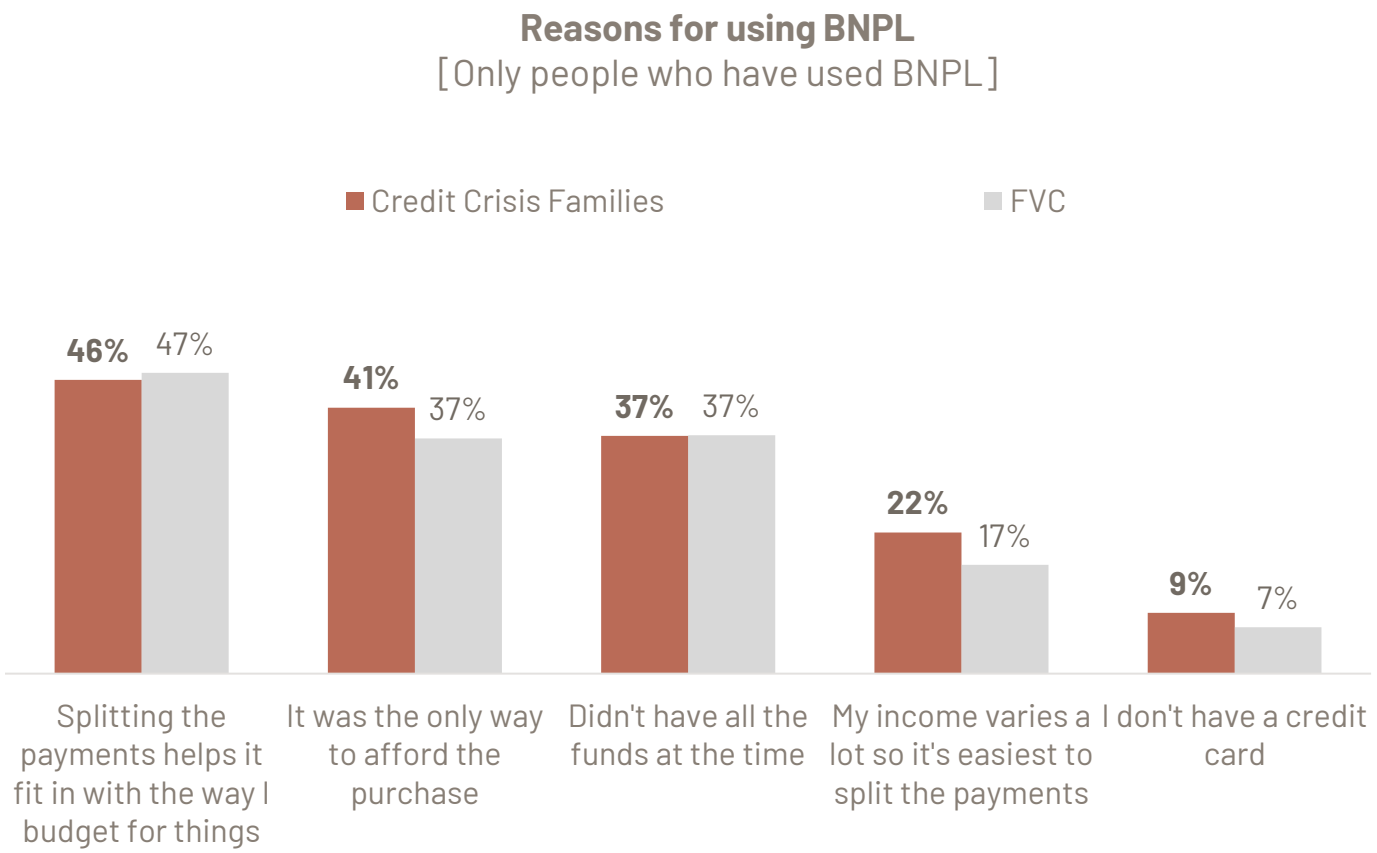
Credit Crisis Families are likely to use BNPL for a range of spending areas



This segment over-index in BNPL usage for a range of spending, including both bigger ticket items, as well as for everyday spending on bills and groceries.

Those who use BNPL payments also over-index in credit card ownership, suggesting there is some overlap in the usage of BNPL and credit cards as forms of splitting payments.

Reasons for BNPL usage are similar across the segments



Credit Crisis Families often use BNPL because splitting the payments helps with how they budget, which may be a result of their varied incomes. This is a slightly more common reason than not being able to afford it.

This segment are the most likely to have incurred late payment fees on their BNPL usage. Almost half of those (47%) who used BNPL in Credit Crisis Families say they have incurred additional fees – 11% higher than the FVC average.

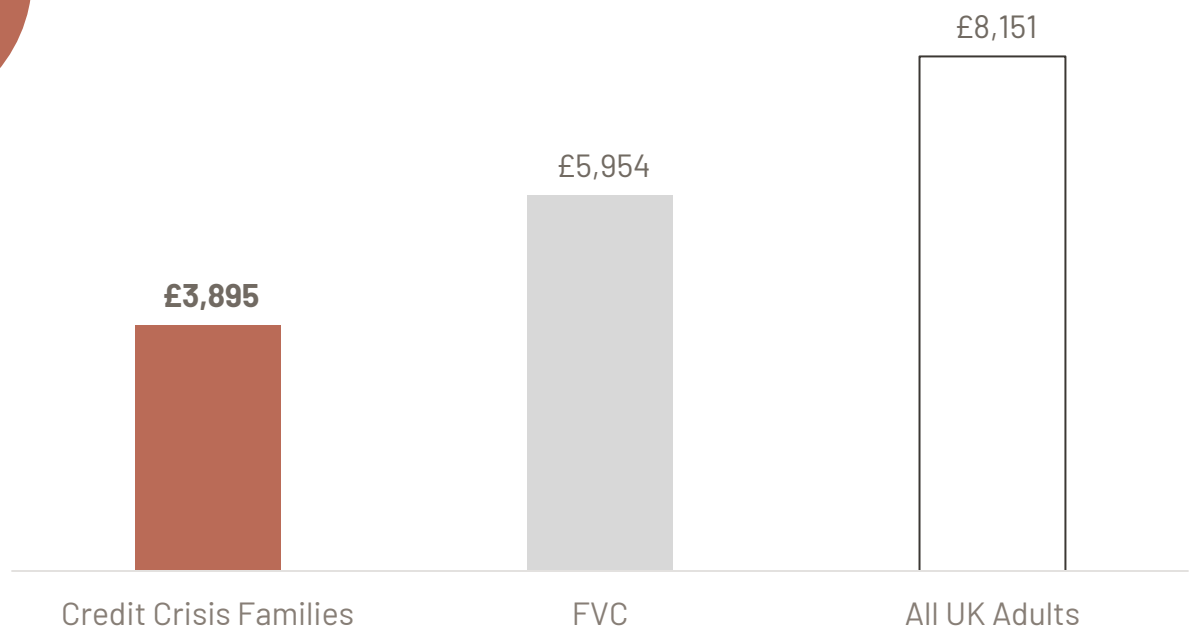
Credit Crisis Families

Debt

Average levels of debt are much lower compared to the average across the segments

£1,470
Median total debt

Average debt levels for Credit Crisis Families, total FVC and nationally representative sample (all those with debt)



While the amount is lower, Credit Crisis Families are equally likely to have debt than the average FVC (73% vs 72%).

Much of this debt is on the lower end of the scale, however, with average levels more than **£2k lower than the financially vulnerable average.**

It is worth noting that the average debt level is significantly lower than the UK average.

Mean total debt has reduced since for this segment, but this may not reflect need

The total debt mean debt level has fallen from £4,925 in March 2022, to £3,895 in December 2023.

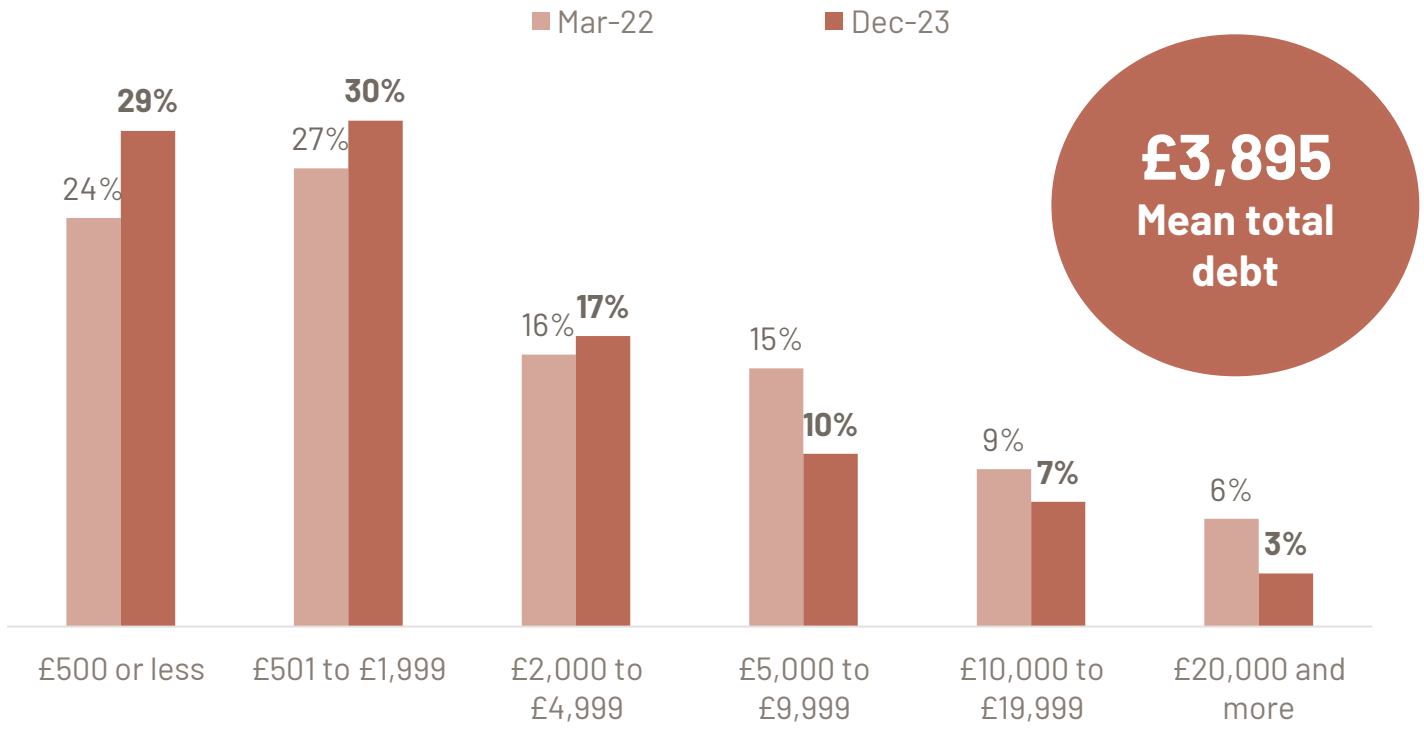
Although the proportion of the segment in debt has stayed similar.

Given the low savings position and they type of debt (see next slide), this may be more indicative of tightening of lending criteria by providers than a reduction in demand.

With 10% of this segment having more than 5+ active credit commitments, there is a role for consolidation loans to find opportunity of savings in very tight budgets.

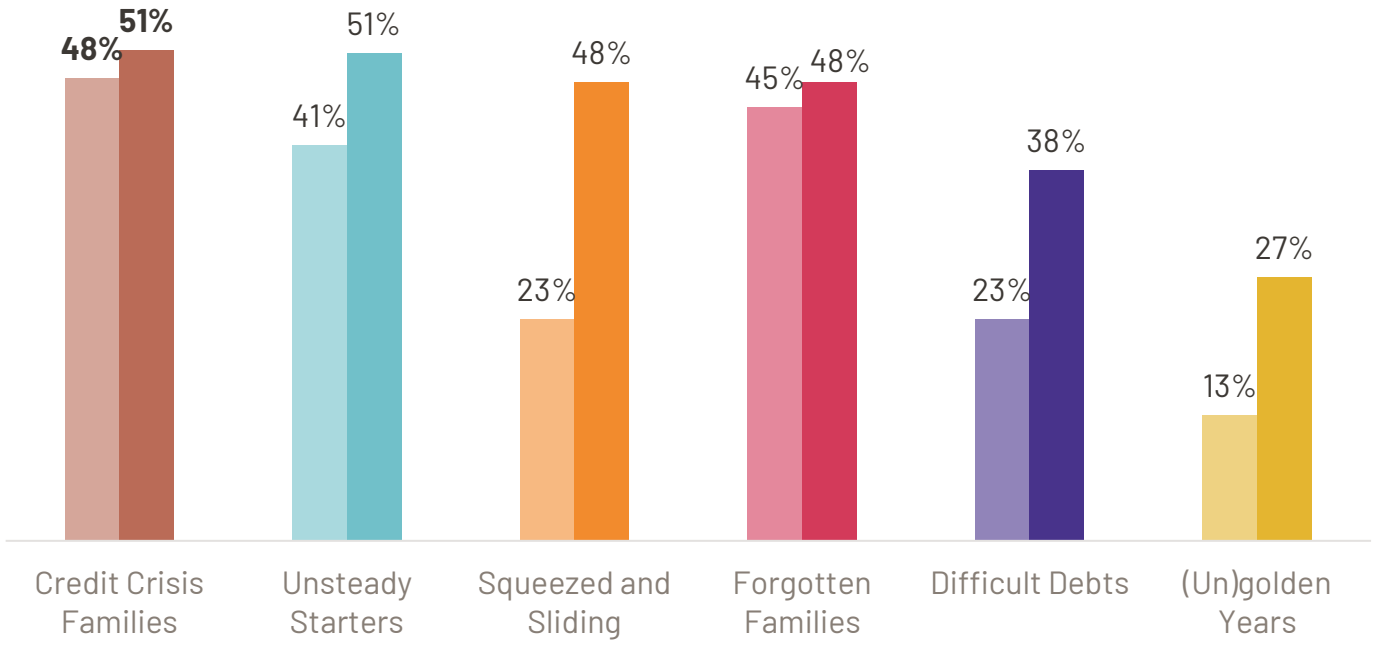
What is your total level of debt (excluding any mortgage debt or student loans)?

[Only people who previously said they had debt]



Credit Crisis Families struggle to make repayments on their debts, a problem that continues to increase

% Who have missed or not made a full repayment on a personal loan
Mar-22 vs Dec-23
[Only people who have said they have a personal loan]



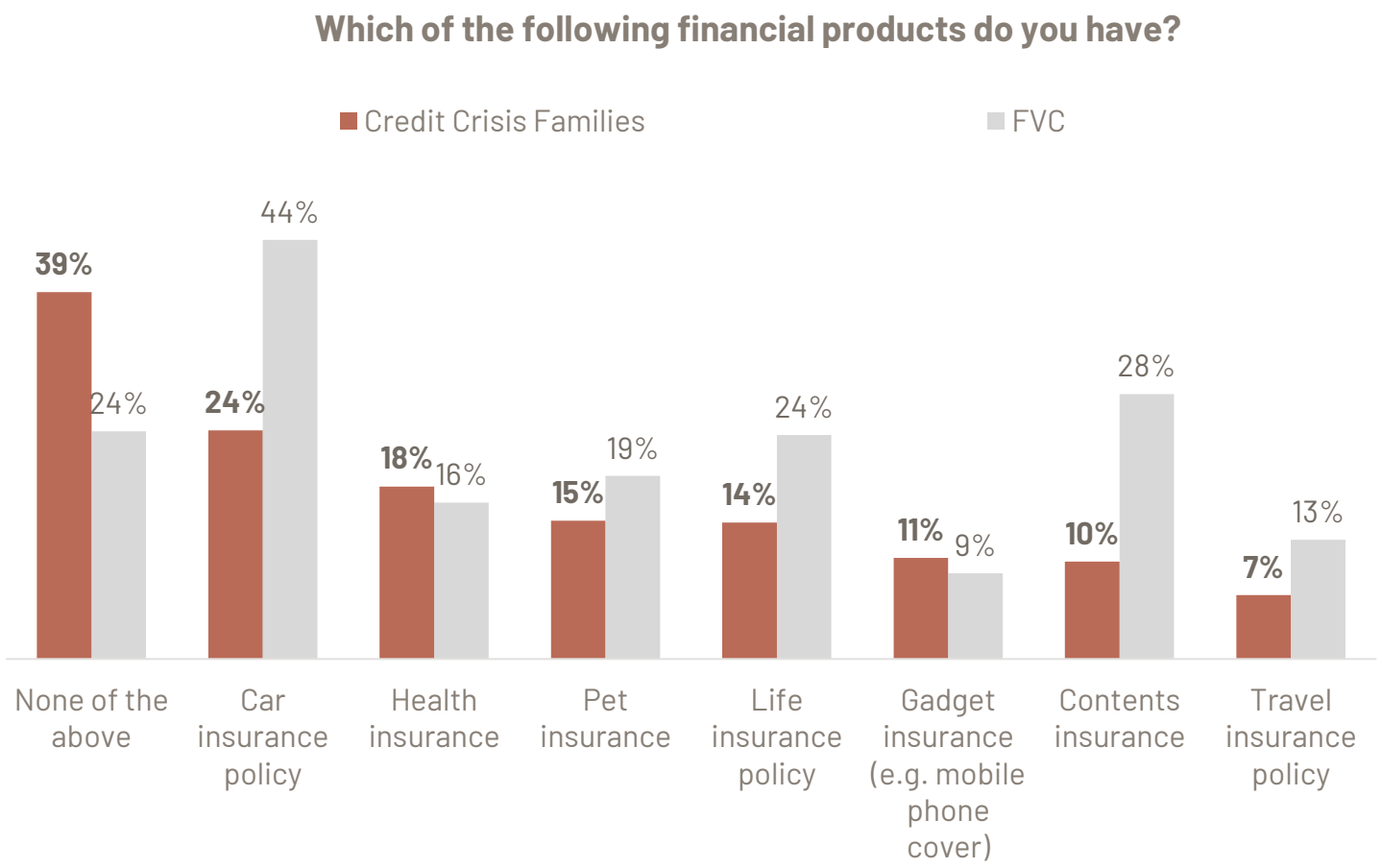
This segment are the most likely to have missed repayments on their personal loan in 2023 – around half.

More than half (51%) say this was the case, marking a minor rise compared to Q1 2022. Whilst other segment have seen a greater rise in missed payments, this issue is still prominent for Credit Crisis Families.

Credit Crisis Families

Insurance

Credit Crisis Families have a much lower prevalence of insurance product ownership



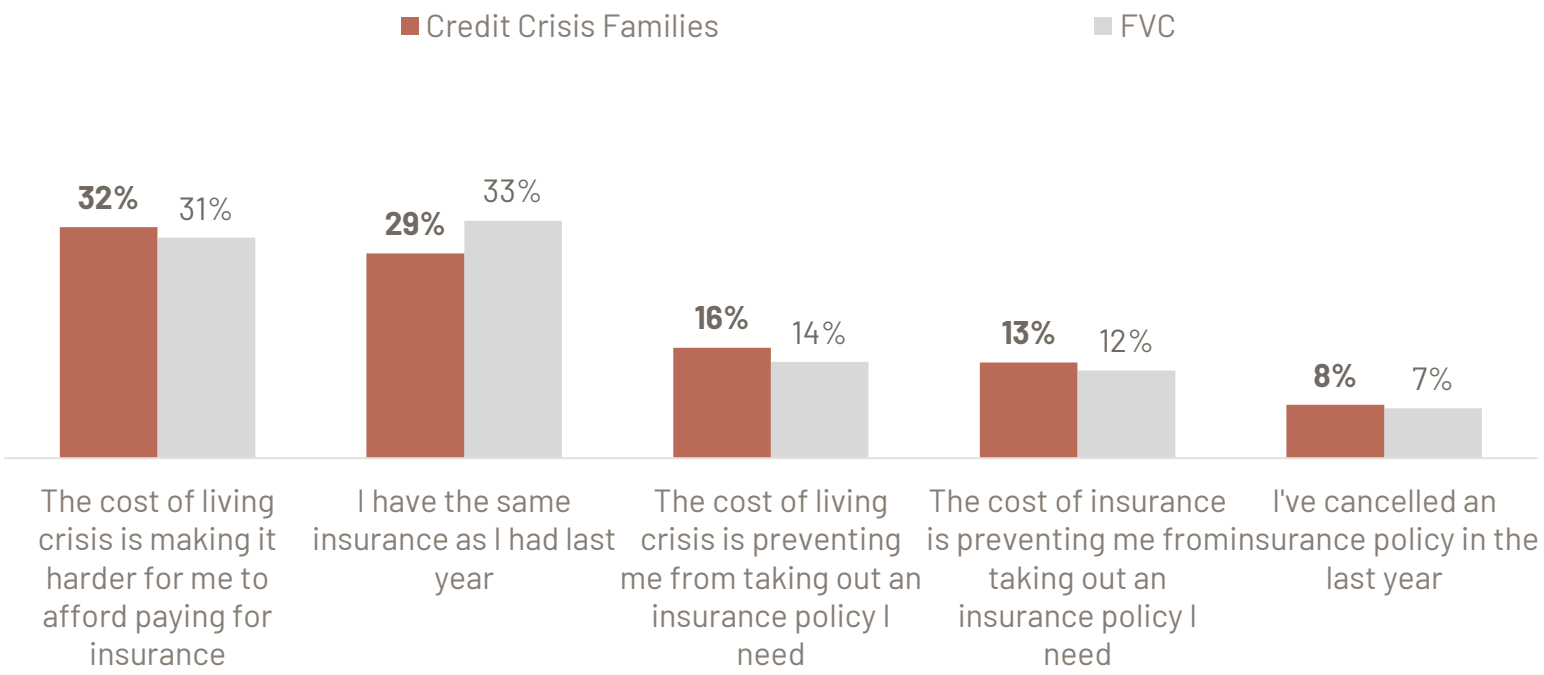
In almost every area, Credit Crisis Families are notably less likely to have insurance than the average.

Home contents insurance is very low, meaning if essential household essentials become damaged, people within this segment may be unable to replace them.

Gadget insurance is slightly higher, and organisations could explore how to cover the most important items and "everything else" for customer value.

Credit Crisis Families slightly more likely to have changed their insurance policy in the last year

Which, if any, of the following statements apply to you with regard to insurance policies?



29% say they have the same policy as last year, which is 4% lower than the FVC total sample.

One in three feel that the cost-of-living crisis is making it harder to afford insurance, similar to the average for all segments.

Credit Crisis Families

What next?

From insights to action

Building a more inclusive financial services system

The segments exist to help organisations deliver tailored propositions to people in financially vulnerable circumstances.

We encourage all providers to use the segments as a starting point for service and proposition design. You may wish to consider:

- Which of these segments are you already serving? And what could you do differently to build their resilience?
- Which segments could you serve with your existing products, or with iterations to these, who you're not serving today?
- Where can you collaborate with organisations who have relationships with these segments to get more insight and deliver new solutions?
- How can you use your own data to understand the unmet needs of these segments?

Want to know more?

- You can access information about all six segments at fair4allfinance.org.uk/segmentation
- The Financial Inclusion Action Plan is a sector-wide framework with focus areas for all stakeholders
- For those new to inclusive design, this framework from Fair By Design and Money Advice Trust is a helpful starting point