Credit: Product ownership and decision insights

Insights for customers in financially vulnerable circumstances

October 2022

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Executive summary

This report forms part of our broader work on segmentation and understanding the needs of people in financially vulnerable circumstances.

There are at least 17.5 million people in the UK who are currently experiencing financially vulnerable circumstances. The segments show a spectrum of financial vulnerability, with differing needs for different groups. They allow us to identify some additional distinct characteristics, challenges, attitudes, perceptions, and actions of each group.

By developing a greater understanding of the differences of each group in how they live their financial lives now and want to live their financial lives in the future, we can design and tailor products, services and journeys that work for them. It also helps us to consider other opportunities to expand the portfolio of customers currently served, supporting sustainable and diverse growth.

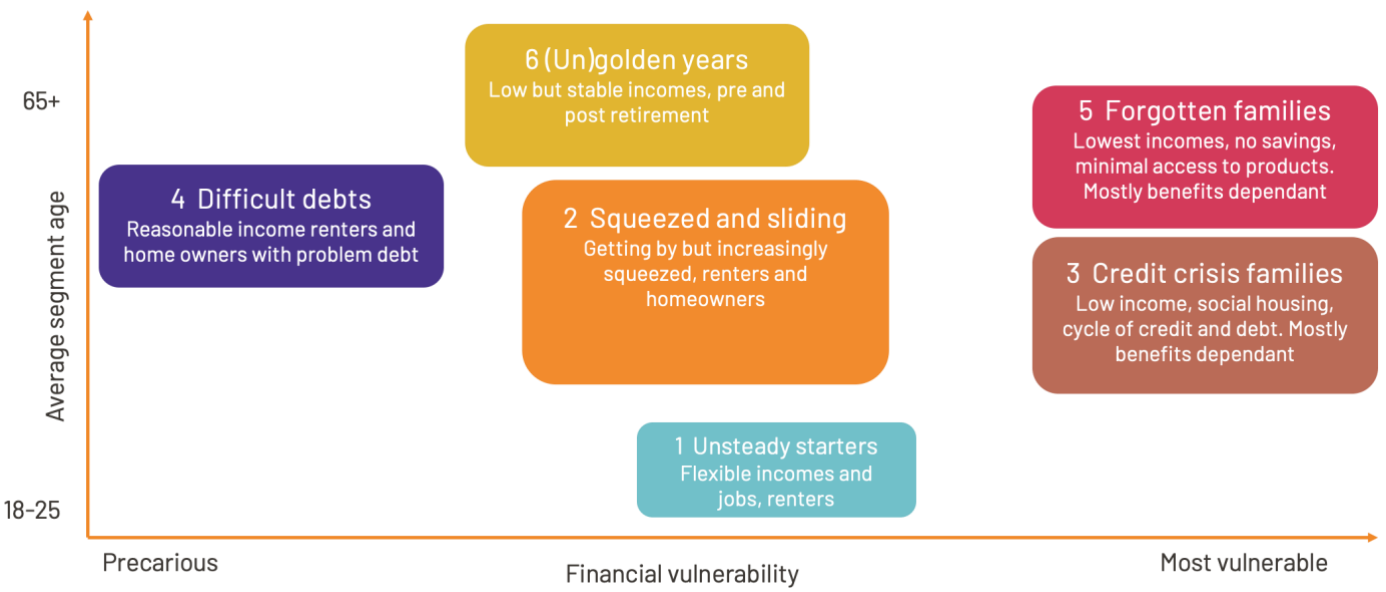


Figure 1: Six segments for those in financially vulnerable circumstances, positioned by age and by level of vulnerability. The size of the bubble represents the size of the segment

Key findings

Segment behaviour

- Organisations should consider the lifetime value of different customer segments. For example, higher earning customers in **Unsteady starters (segment 1)** will have changing needs, moving smaller loans to higher values for larger one-off purchases. In the shorter term, revolving type credit products would be a good product offering for this customer
- Customers in **Squeezed and sliding (segment 2)** are more likely to be homeowners and private renters with higher household incomes, and are more likely to engage with savings products, although this has depleted during the Covid-19 pandemic and due to rising inflation. They will be squeezed further, and potentially have reduced access to mainstream sources of credit where they may be looking for alternatives to spread the cost of things they need, especially with low to no savings buffers
- **Difficult debts (segment 4)** are also more likely to have higher household incomes but are struggling with debt across a range of sources. Consolidating and lowering their current interest rates could help to free up funds to improve their ability to manage increasing bills and commitments. Both **Squeezed and sliding** and **Difficult debts** are more likely to want to maintain and improve their credit scores for continuing access, and maintaining repayments will be a priority
- **Credit crisis families (segment 3)** and **Forgotten families (segment 5)** are the groups struggling most with making ends meet and prioritising household bills over their current credit commitments. They are the hardest to serve groups. For these customers, access to low or no interest products could provide a financial lifeline in some circumstances. Simple and easy access to services that can help maximise their income and get appropriate advice to manage debts will also be vital
- **(Un)golden years (Segment 6)** customers are least likely to be managing lots of credit commitments but may require access to credit as costs increase. They are however significant credit card users

Product ownership

- Credit cards are the most used form of credit across all segments, although the number of cards varies. Other products, such as personal loans, are less common overall but most likely to be held by segments 1-4. Personal loan ownership for financially vulnerable segments was not significantly different to the overall UK population
- Buy Now Pay Later (BNPL) is common and not always seen as a form of credit, even by people who know and understand the product. Here, it is sometimes simply seen as another way of paying

Attitudes to credit and debt

- Motivations for borrowing are surprisingly consistent. For segments 1-5, it is highly reactive (unexpected expenses) and many are taking loans to pay off another debt, or consolidate multiple debts
- Conversely, the main motivations for applying for a credit card are flexibility and to improve your credit score. Credit scores are particularly important for segments 1,3 and 5
- For some people, there is a very strong emotional and sometimes moral reaction to words like 'credit', 'debt' and 'loan'. This is likely to lead to some people not accessing credit when it could be a lifeline for them
- Where they have a loan, segments 1, 3 and 5 are notably less likely to have made the last repayment in full, showing the need for flexible options for people in the most vulnerable circumstances

Research and applying for loans and credit cards

- When considering loans, online sources of information are key for most segments. But while younger segments (especially 1-3) are likely to ask people they know for information, the older **(Un)golden years** are likely to go it alone, not talking to anyone
- Price comparison sites feature heavily for the higher wealth segments who are likely to be seeking larger loan amounts. This is a good route to market for those looking to diversify into different segments, if the operational models to deliver this are designed and functioning effectively
- Among those that do apply, rejection rates for both loans and credit are high. People in **Unsteady starters**, **Credit crisis families** and **Forgotten families** are more likely to be rejected than accepted, and **Difficult debts** are just as likely to be rejected as accepted.
  In other research, we have seen some people applying for loans multiple times in a short time period in order to try and access credit[1]
- The important features of a loan are similar for most segments. Speed and convenience, followed by reputation of the provider and then price and cost
- Trust plays a strong role in credit providers. This is always either the top or second most important factor in choice, and a good reason to use customer testimonials and third party review sites in customer journeys and marketing materials

[1] Impact of the cost-of-living crisis on the UK affordable credit sector, Community Finance Solutions funded by Fair4All Finance, September 2022 https://hub.salford.ac.uk/cfs/wp-content/uploads/sites/107/2022/09/COL-research-report-3.pdf

Introduction to the segments

There are at least 17.5m people in financially vulnerable circumstances in the UK.

People who experience financially vulnerable circumstances have a diverse set of needs and perspectives. There is no single cause of vulnerability and no common set of characteristics, preferences or behaviours in relation to how they engage with financial services.

To help understand this audience in more detail, six segment groups have been identified, combining current customer insights and external data sets available including:

1 A quantitative survey focusing on low income and financially excluded people (3,165 responses in March 2022)

2 Short, face to face interviews in hall tests with low income or financially excluded people (total 483 people from the segments across nine UK locations May – June 2022)

3 In-depth interviews for deeper qualitative insights (14 people June – July 2022)

4 External data from CACI, FCA Financial Lives Survey 2020 and Money and Pensions Service segmentation

Our segments have been developed using customer behaviour and financial circumstances as driving variables, rather than demographic information. Below is a summary of the six segments. More in-depth information about each one can be found in our pen portraits and segment personas.

Segment number and name	Brief description of the segment	People in the UK
1 Unsteady starters	Younger people with flexible incomes establishing their home, work and financial lives. They often use shorter term credit in smaller amounts.	1.3m
2 Squeezed and sliding	People with less certainty around their finances and becoming squeezed. Most are just about managing their debts but some are using savings or borrowing more to make ends meet.	3.9m
3 Credit crisis families	Families who are in a cycle of juggling and struggling with everyday bills and debts; finding as much credit as they can in all forms.	3.5m
4 Difficult debts	Reasonable income, renting families. They are burdened with repayments on higher, longer term debt levels from multiple sources.	2.2m
5 Forgotten families	People with very low income and low savings, with many living in poverty. They have lower levels of debt potentially explained by fewer options to access credit, or attitudes to credit.	3.6m
6 (Un)golden years	Older people, many with health issues. They have better financial circumstances than other groups but having limited ability to earn means they are worried about the future.	3.1m

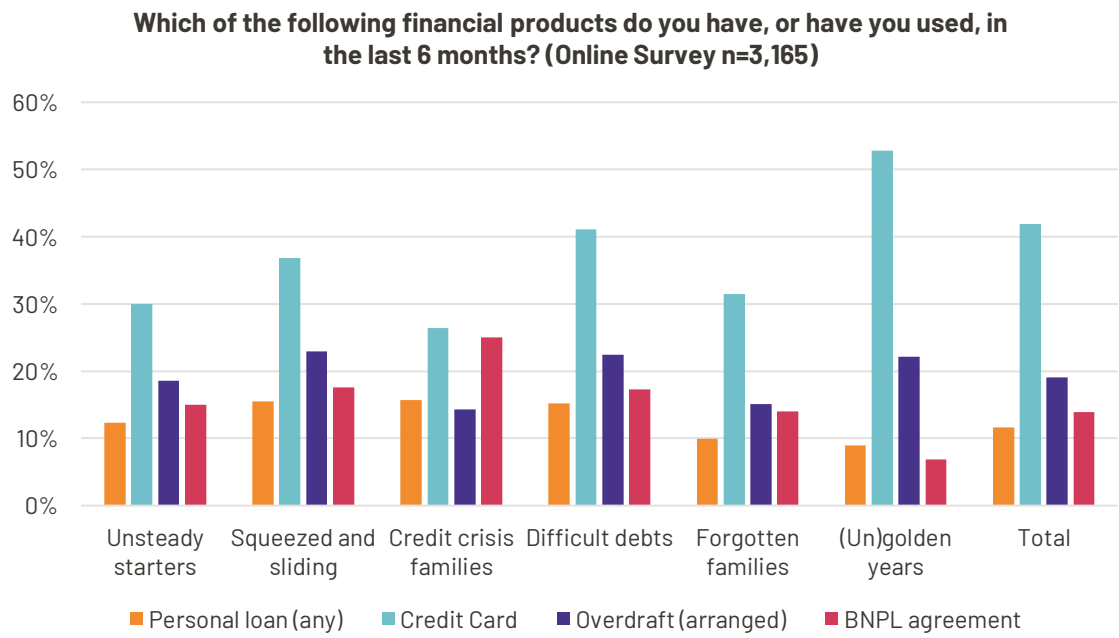
Credit ownership and usage

Here we will look at which credit and loan products the segments use, and what's important to them when choosing products.

Credit and loans overview

What products are currently held?

Current use of different loans and credit products – encompassing personal loans, credit cards, BNPL and overdrafts – vary widely, both by type of product and by segment.



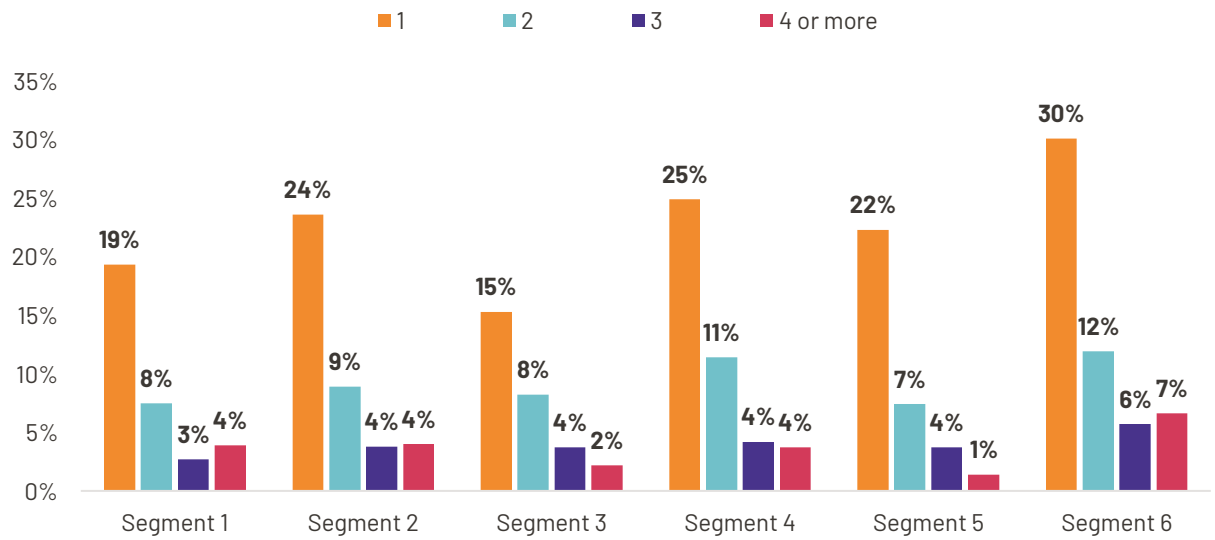
Credit cards are the most commonly held of these products in each segment. This is as expected given the common usage of credit cards in the UK and their flexibility. However, credit card ownership ranges from 53% of **(Un)golden years** to only 26% of **Credit crisis families**, perhaps reflecting a lack of access for the most excluded segments.

Additionally, a third of **Credit crisis families** and **Forgotten families** are never paying their monthly balance, leading to increased costs (see more on repayment behaviours below).

Some segments are much more likely to have multiple credit cards – especially segments 4 and 6. Nearly one in five of **Difficult debts** (19%) have multiple credit cards, compared to 25% of **(Un)golden years** and just 14% of **Credit crisis families**.

Recommendation: It will be useful to understand borrower's product preferences in more detail to understand the extent to which the available credit card products meet their needs, and viable alternatives, including consolidation lending and balance transfer credit cards. We will be assessing the need for this and other additional research to continue customer focused proposition development.

Number of Credit Cards – (Online Survey, n=3,165) (Q27b)



Recommendation: Credit cards are the most commonly held and used product by all segment groups, and therefore likely to appeal to a wide group of target customers or members. This would be a good area for product development where there would be a benefit to choosing the new credit card over existing, well trusted offerings (for example, with strong member relationships or to build credit scores).

There is less variation with other products, although in some cases higher incidence is a defining feature of the segment. For example, at least 25% of **Credit crisis families** have a BNPL agreement – almost as many as have a credit card.

Overall, BNPL usage is slightly lower than we might expect, given that other data suggests at least 16m people in the UK have used it. It's possible that the term 'buy now pay later' is not as widely understood as the most commonly used providers. For example, 17% of the sample say they've used BNPL, but 22% say they've used Klarna, the leading provider.

Personal loans are generally lower - 16% of segments 2 and 3, and 15% of **Difficult debts** have a personal loan of some kind (above the average of 12% for the financially vulnerable population as a whole). This is similar to the national average, as 16% of the UK population had a personal loan in February 2020.[2]

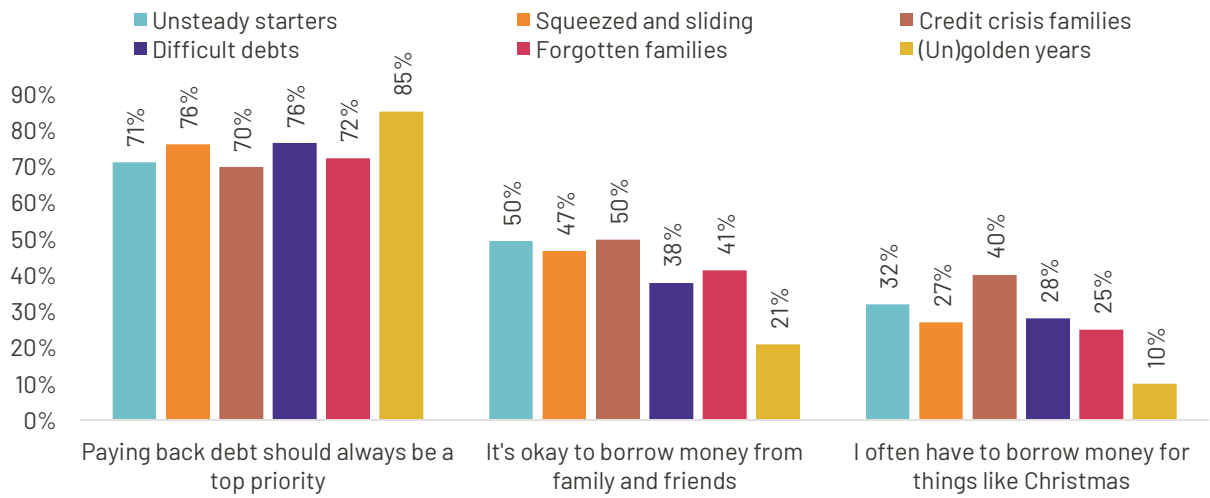
[2] FCA Financial Lives Study Appendix A, Product Holdings, February 2020

Attitudes to credit

The online survey data reveals some significant differences in attitudes to debt. A majority of people agree that 'paying back debt should always be a top priority' but this varies between segments 1-5 and **(Un)golden years**, where it is a more strongly held view.

Segments 1-3 are also notably more relaxed about borrowing from family and friends and are also more likely to borrow seasonally (especially **Credit crisis families**). In the hall tests, both Christmas and September 'back to school' costs were identified as particular seasonal pressures. This reflects the seasonal, annual cycles of borrowing that many community finance providers see, and demand is already increasing with cost of living pressures.

Below is a list of statements. For each, please say the extent that you agree or disagree - % Total Agreement (Online Survey n=3,165)



Difficult debts have high levels of debt but are less likely to feel comfortable borrowing from family and friends. They are slightly less likely to talk to family and friends about money (so this could be about perception within their social networks) and have better access to other forms of credit (so may simply have lower need for informal borrowing).

Their independence, and unwillingness to talk with others about finances, will be a challenge for many who would benefit from debt advice.

'I don't usually get paid until Christmas Eve so a loan would be useful for buying presents earlier'
(Hall test, **Forgotten families**)

The hall tests provided a complementary picture of both use of these products and attitudes to debt. For some in this audience, 'debt' and connotations of it, like 'credit' and 'loan' are profoundly negative, indicating trouble and financial pain in the future.

In the hall tests, around 17% of the people we spoke to explicitly referenced negative attitudes to these products and related language. Sometimes this is due to personal experience and other times it is due to a family member or friend having an experience with problem debt.

These perspectives strongly influence the type of products people have or are open to and their attitudes to debt and finances more generally.

'I would rather starve than get a loan.'
(Hall test, **Credit crisis families**)

'If I want something I save for it, I cannot afford to be in debt because of the interest, I just do without.'
(Hall test, **Forgotten families**)

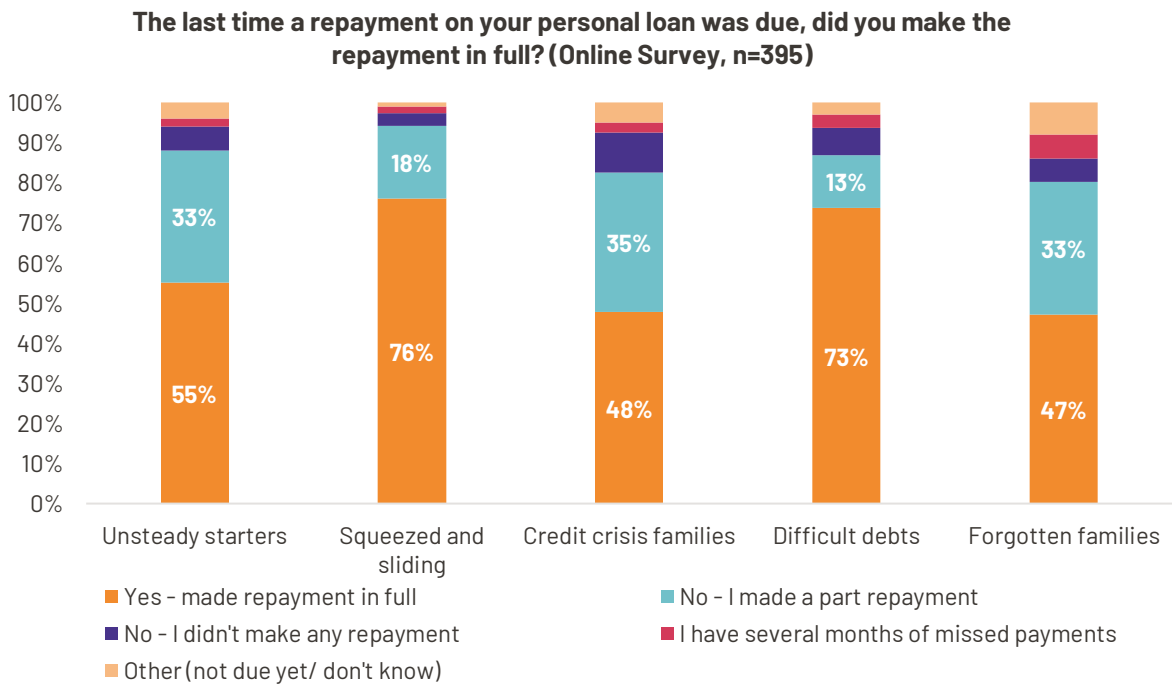
However, despite these deep rooted attitudes, not all credit products are recognised as credit. BNPL is one such example. In the hall tests we encountered people who were strongly rejecting of loans but who did not see BNPL as a loan. Instead, it was viewed by these individuals as a different way of paying for a product. To a lesser extent, this also applied to overdrafts.

'I use Klarna a lot. I'm not a loan person. It is sort of a loan, but I'm paying it back within a month.'
(Hall test, **Unsteady starters**)

'Klarna – love Klarna, think it's great [that you can] pay it off in three months, one of the best things in the last five years, interest free and spread the cost.'
(Depth interview, **Squeezed and sliding**, Male aged 34)"

Repayment behaviours

In each of the first five segments, at least 10% of that group currently have a personal loan of some kind. Repayment behaviour varies, reflecting the financial vulnerability of different segments.



Squeezed and sliding and **Difficult debts** are similar here – both are quite likely to have made the repayment in full (although a significant proportion made either a part payment or no payment).

Unsteady starters, **Credit crisis families** and **Forgotten families** on the other hand, are quite different. Here, only half made the repayment in full, with a third making a part payment and a small number (10% of **Credit crisis families**) not making any payment at all.

This reflects the volatility of their financial lives, and the benefits of flexibility offered by community finance providers, especially where they can accept part payments in order to support customers while keeping the loan active.

This additional flexibility adds to the cost of delivery for providers but can also add costs for the customers as it extends the term of the loan. It may also be reflected in the credit scores of these segments, making them hard to serve.

Recommendation: Where repayment flexibility can be built into the product design, without having a negative impact on the borrower and without materially impacting the cost of a lender's operations, it can be highly impactful for those in the most vulnerable circumstances. Providers should consider the impact on credit scores as part of this.

Credit cards are much more commonly used, but again there is a wide range of behaviours in terms of paying the balance. **(Un)golden years** are the most likely to own a credit card and also the most likely to pay the full balance each month, reflecting their relative financial stability.

In all other segments, around a third or fewer say they pay the full balance each month with a high proportion (36% of **Credit crisis families** and 33% of **Forgotten families**) saying they never pay the full balance. These segments could be paying high interest rates on outstanding balances, especially as these groups over index for credit cards from sub-prime lenders.

For **Squeezed and Sliding** and **Difficult debts**, around one in ten people say they use their credit card for balance transfer, moving debts around. In some instances, a low interest consolidation loan may be a good option for those who are constantly transferring without being able to reduce the balance.

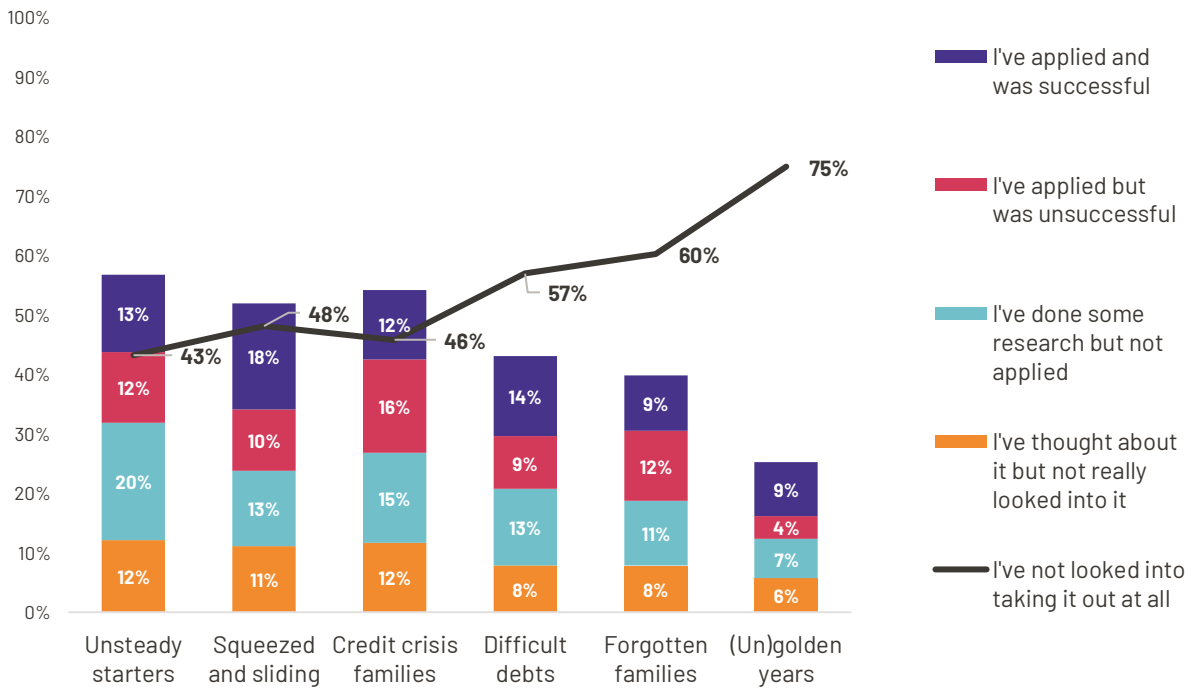
Recommendation: For those offering credit cards, clear messaging around the impacts of different repayment amounts over time should be offered. For some borrowers who are consistently struggling to repay more than the minimum, a proactive move to a different product, or even to a low interest consolidation loan, should be considered.

Purchase decisions and customer journeys

Loans: Information sources, triggers and needs

Different segments approach researching and applying for loans in different ways. Firstly, not all have the same needs. Around half of Segments 1-3 have thought about taking out a loan, done some research, or actually applied, in the last two years. In contrast, 75% of (Un)golden years say they haven't thought about or looked into taking out a personal loan at all in the last few years.

Which, if any, of the following financial products have you taken out or looked into in the last two years? – A personal loan of any kind (Online Survey, n=3,165)



The proportion of considerers who never reach application stage is quite high – 32% of **Unsteady starters** have thought about it but not applied (this number falls slightly to 27% for **Credit crisis families** and 24% for **Squeezed and sliding**).

The consideration stage is therefore clearly an important one - and a barrier to application as around half of people who feel they might want or need a loan do not progress from it.

For some this will be because the cost of the loan outweighs their need and they seek another option (or go without), while for others this may be due to complexity or the feeling that they are likely to be rejected.

Squeezed and sliding and **Difficult** debts are the most likely to be accepted after application, while **Credit crisis families** are the most likely to be declined.

Recommendation: Lenders may want to include an optional user survey on their website which captures information about reason for exiting a journey early. This could be wide ranging, from the borrower changing their mind through to finding the journey hard to navigate, or that the individual is in the shopping around stage. This will then inform customer experience changes to the website.

Information gathering

The next step is often finding out more information. For some, this is very short step, with many in segments 3 and 5 not talking to anyone before looking into credit, perhaps reflecting the urgency of their need or, for some, the regularity of which they are seeking credit.

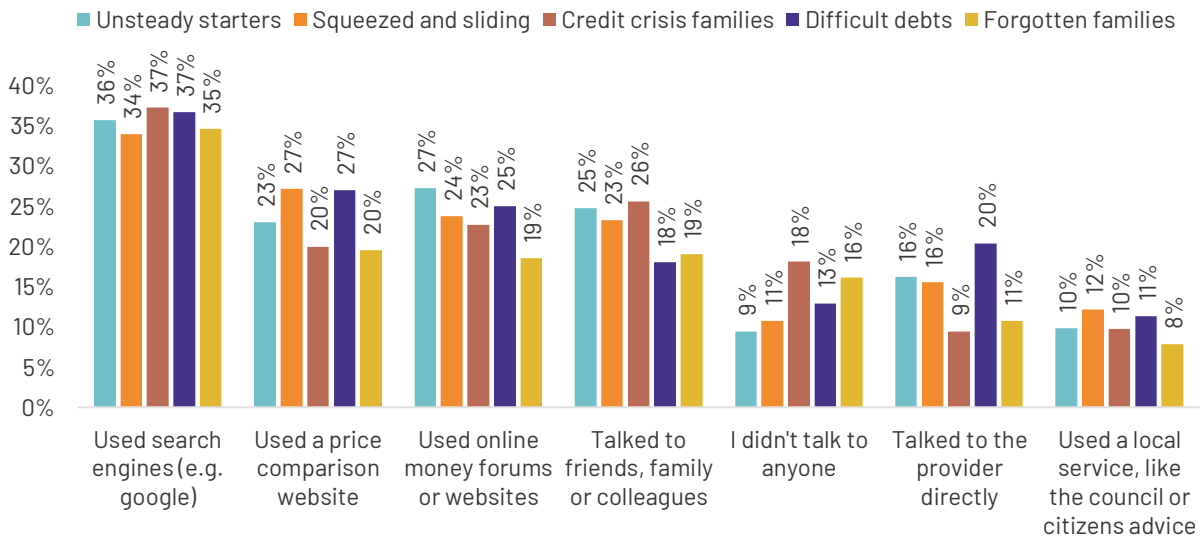
For all segments searching online is the most common step. Segments 2 and 4 (who have higher incomes than the other segments) are most likely to use price comparison sites, reflecting their ability to access more mainstream options, which may change in the coming years.

Recommendation: Community finance providers will be able to reach higher wealth, and potentially lower risk, segments through existing price comparison sites. Providers will need a good understanding of what is required to do this well, including risk scorecards that can be adapted in an agile way. Fair4All Finance is also open to supporting organsiations who are looking to do this.

Other information sources over index among specific groups – segments 1, 2 and 3 for example are the ones most likely to rely on family or friendship networks for information. Refer a friend schemes have been a successful source of new business for many providers for this reason.

Recommendation: Refer a friend schemes can be a good source of new business when you want to attract more of the same type of people, as people usually have relationships with those who are like them.

When you first started looking at a personal loan of any kind, which of the following, if any, did you use to find out more information? (Online Survey, n=1,386)



Reason for loan

The top three reasons for getting a loan were the same for each of segments 1-5. Unexpected expenses were top, followed by a one-off planned expense and repaying a debt.

Unexpected expenses are often urgent ones, giving the individual less time to research, evaluate and choose what to do. This also reflects the low financial resilience of these segments, and the need for access appropriate and affordable credit.

The next most common reason starts to vary across the segments. For **Credit crisis families** and **Forgotten families**, the next most common reason was to pay debts. Borrowing to repay debts, either a one-off debt or to consolidate debts – is a dominant reason for all segments. This is particularly the case for **Credit crisis families**, where 29% of those who considered taking out a loan did so to pay off a debt, with 22% doing so to consolidate debts.[3]

[3] More information on relending and multiple loan use is available here: https://www.fca.org.uk/publication/research/relending-high-cost-credit-market-narrative-report.pdf

Table: Main reasons for looking into taking out a personal loan, by segment:

	Unsteady starters (n=235)	Squeezed and sliding (n=413)	Credit crisis families (n=277)	Difficult debts (n=256)	Forgotten families (n=205)
1	Unexpected expense to repair/replace something necessary				
2	One off, large planned expense		To pay off a debt	One off, large planned expense	To pay off a debt
3	To pay off a debt		Consolidation of debts	To pay off a debt	Consolidation of debts
4	To smooth out fluctuations in my income	Consolidation of debts	One off, large planned expense	Consolidation of debts	Cover everyday expenses
5	Consolidation of debts	To smooth out fluctuations in my income			

'I might need a loan. Would [a credit union] be possible for a loan? I've just got to catch myself and pay these debts.' (Hall test, **Forgotten families**)

'I am thinking about applying [for a loan] soon. Might be a way to consolidate debts across the credit card and overdraft.' (Hall test, **Forgotten families**)

For **Unsteady starters**, **Squeezed and sliding** and **Difficult debts**, the second most common reason is a planned expense of some kind, such as a car or wedding. In the hall tests we found this a fairly common reason for taking out a loan – for example, including people who took out a loan to fund a holiday, a trip overseas to watch football, and more 'everyday' planned expenditure, such as a night out.

In some cases, there can be a significant difference in the extent of the planning involved – some of those in the hall tests who successfully applied for a loan did so relatively last minute (make speed of approval an important consideration).

'[Getting a loan] Was banking with Santander anyway, but looked online and saw they were offering the best rate. Applied online, approval was instant.' (Hall test, **Difficult debts**)

Recommendation: Many Credit Unions have branded their standard loan products as for certain reasons, for example a car loan or holiday loan. This may be a way to attract different segments with larger loan amounts.

For future development, it would be good to expand these propositions through partnerships with other providers. For example, a specific loan type could be offered with an appropriate insurance product delivered by partners.

With appropriate processes for referrals and joint sales initiatives this could help lenders offer borrowers greater protections in a way that mitigates their commercial risk in offering such products themselves. Combinations that may warrant more exploration could be car loans with car insurance, travel loans with travel insurance etc.

The depth interviews also revealed more about the motivations for taking out loans. The impact of Covid loomed large here, with several people explaining that either the loss of income during the pandemic or fears about income security were the triggers for loan consideration.

Smoothing out volatile incomes is another significant reason, especially for **Unsteady starters** (23%), due to their instable working patterns and incomes, and somewhat surprisingly for **Difficult debts** (22%).

Finally, **Forgotten families** – the lowest-income segment – are likely to look into loans as a way of covering everyday expenses like food, bills or transport, noting that this research was conducted in March 2022 before significant cost of living increases.

What influences a decision to choose a loan provider?

For segments 1-4 the most important factors in choosing a loan are remarkably consistent – although the magnitude of importance does vary.

For each, speed and convenience is the first priority, followed by the loan provider's reputation, the price of the loan (ie the interest or APR applied) the cost of repayments and then the recommendation of a price comparison site.

This varies only slightly for **Forgotten families**, where price comes just ahead of the loan provider's reputation.

Table: Important features / factors taking out a personal loan, by segment

	Unsteady starters (n=235)	Squeezed and sliding (n=413)	Credit crisis families (n=277)	Difficult debts (n=256)	Forgotten families (n=205)
1	Speed and convenience of getting the money				
2	Reputation of loan provider				Price – lowest APR or interest rate
3	Price – lowest APR or interest rate				Reputation of loan provider
4	Cost – weekly or monthly repayment amount				
5	Recommendation from price comparison site			Personal experience – I'd used provider before	Recommendation from price comparison site

The importance of speed and convenience is borne out in existing research on borrower behaviour[4] and is a persistent criterion for borrowers, with implications for the pace of delivery of loan products to meet borrower expectations.

The importance of speed and convenience is unsurprising given the reasons for the loan in the first place for these segments – most commonly an unexpected expense or disruption to income.

Recommendation: Speed and convenience is important to all. All organsiations should be looking for ways to simplify their processes while maintaining their ability to lend responsibly. Messaging on speed and convenience should be prominent and accurate (misrepresenting speed of loan decisioning and disbursement will lead to customer dissatisfaction)

Among loan applicants we spoke to in the hall tests, speed (along with getting the amount they needed) was often the top priority. However, among this group of loan applicants, the cost of the loan was generally more important than the price.

More people knew exactly how much their monthly repayments were, but not the interest applied to the loan. It's possible that for some, as the loan is paid back, affording the monthly payments becomes the central priority, and the link between

[4] 'Evidence from a UK narrative review and quantitative research carried out in Canada shows that speed, convenience and easy access attract borrowers to use high-cost credit such as payday loans, particularly in the context of limited other credit choices (69, Canada; 65, UK) and pervasive marketing. Where non profit lenders can offer online loans with these features, there is evidence from one small quantitative study that they are valued by borrowers who also prefer the confidentiality of online lending to taking out a loan at the lenders' premises (50 UK).' From: Davies, Finney, Collard & Trend: BORROWING BEHAVIOUR A SYSTEMATIC REVIEW FOR THE STANDARD LIFE FOUNDATION
Citing: Financial Consumer Agency of Canada (2016) Payday loans: market trends and FCA (2015) Consumer credit: proposals in response to the CMA's recommendations on high cost short term credit

price and cost (which may have been more salient when the loan was initially taken out) weakens.

'I got a benefit loan for £200, it was easy to apply for and is being paid back at £45 per month, it was for basic expenses, toiletries and food, it was the only place I could lend money.'
(Hall test, **(Un)golden years**)

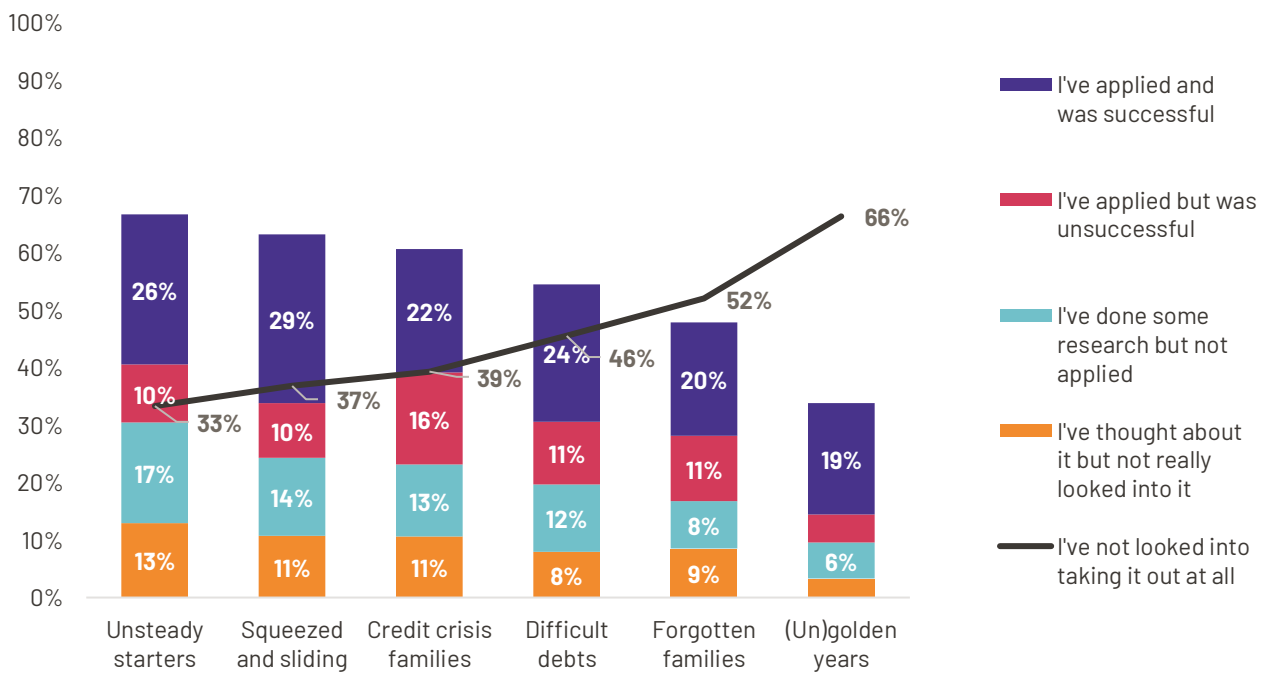
'Loan was for a trip to Seville. Went in. Got it straight away, pay it back over a year. Didn't notice the interest rate.'
(Hall test, **Squeezed and sliding**)

Credit Cards: Information sources, triggers and needs

Credit cards are a more commonly held product than loans and a more commonly applied for product as well. In segments 1, 2 and 3 more than 60% have investigated taking one out in the past two years.

As with loans, a sizeable proportion do not get past the research or consideration stage (30% of **Unsteady starters** and 25% of **Squeezed and sliding**). However, those that do apply are generally more likely to be successful (unlike loans, where **Credit crisis families** and **Forgotten families** were more likely to be rejected than accepted).

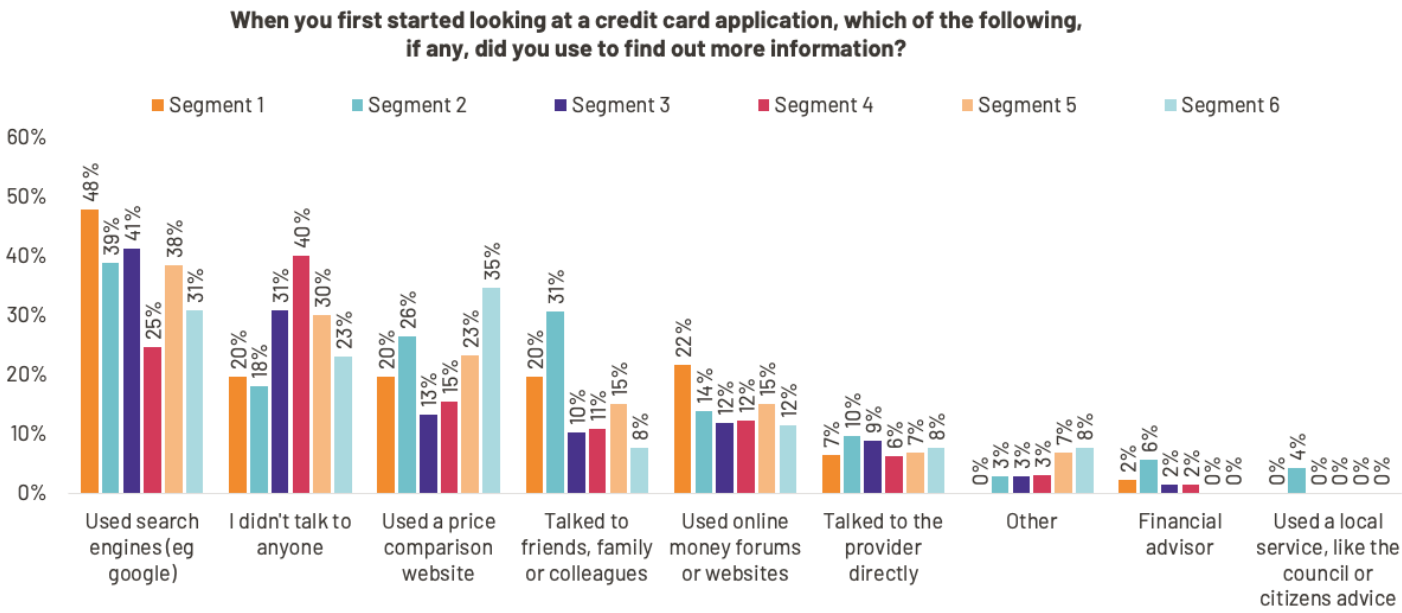
Which, if any, of the following financial products have you taken out or looked into in the last two years? – Credit Card (Online Survey n=3,165)



There is also more variation in sources of information for those considering a credit card. More groups are more likely to go it alone perhaps reflecting their more common usage and perceived level of risk.

40% of **Difficult debts** are not talking to anyone. For other segments, the most common option is to search online, while **(Un)golden years** are distinctive in their use of price comparison websites.

Other research options are also interestingly varied – **Unsteady starters** and **Squeezed and sliding** are more likely to speak to people they know (especially **Squeezed and sliding** where 31% say this).



Unsteady starters also stand out in their use of online money forums (22% did this). For other segments, the standout features of a credit card are flexibility and to capacity to improve their credit rating (although as the quote below shows, this isn't always successful).

'Wanted to build my credit score so took out a credit card. Capital One had the lowest rate. For the first two months I paid it off in full... then I spent too much and couldn't keep up.'
(Hall test, **Unsteady starters**)

Recommendation: Credit builder cards are an attractive option for some segments and can also help to build long term financial resilience. However, there must be protections in place for consumers, with support on how to improve their credit score and prevent their situation worsening. For some, this may need to go hand in hand with financial education support.

Another option may be a 'pay down only' credit card, for those where building credit score is the priority – this needs further exploration.

There is a degree of consistency across the segments when it comes the important features of credit products. Top of the list for each segment are two factors, the reputation of the provider and the presence of a 0% interest offer (although the order of these and the magnitude of agreement varies).

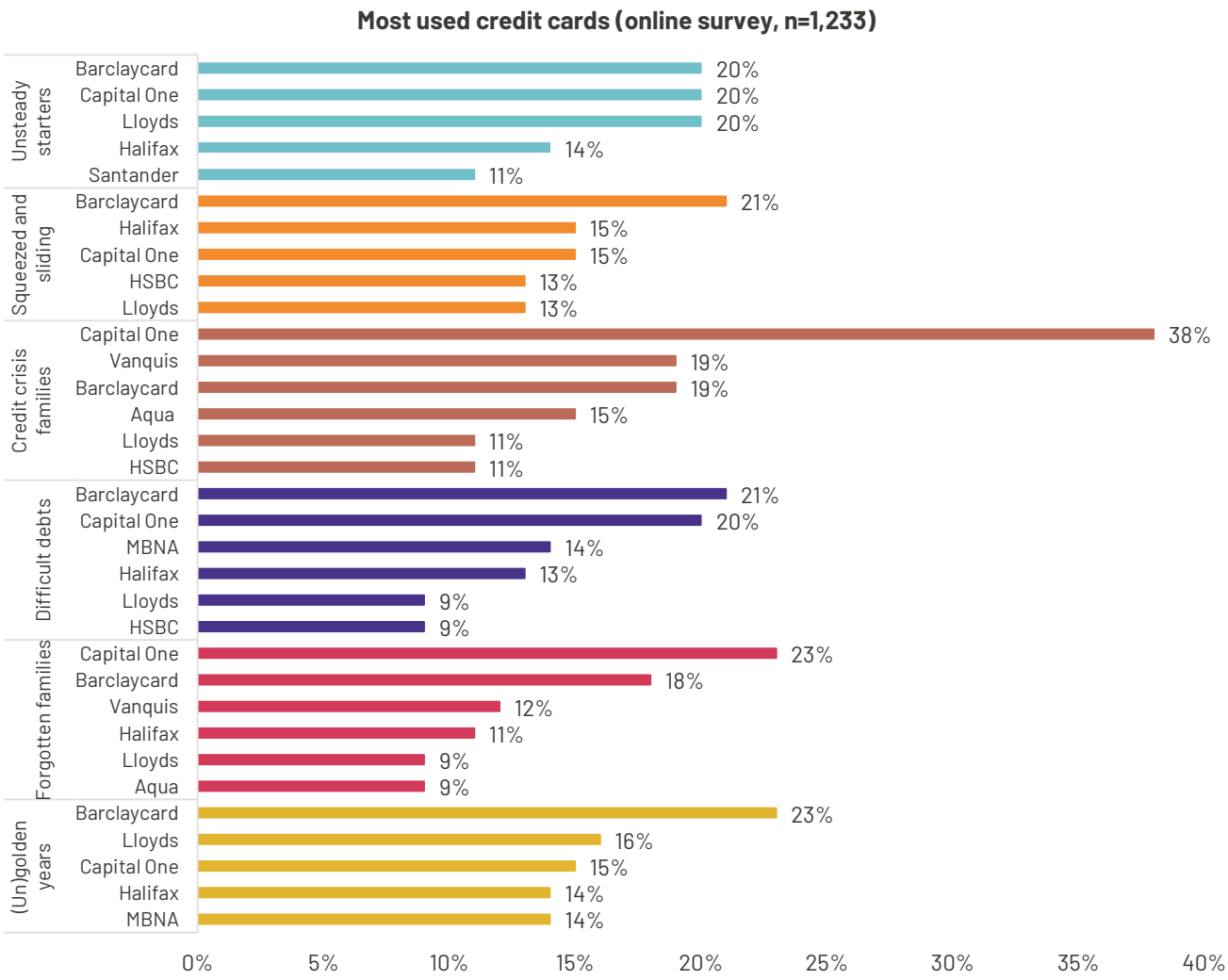
The position of these factors shouldn't come as a surprise. In the hall tests we encountered widespread cynicism and distrust about financial services providers, so the importance of a trusted brand – or even a reputable, accountable brand – is often central to people's needs.

The prominence of 0% interest and balance transfer offers suggests how frequently people within the segments are using credit cards to manage their own debts, especially segments 2 and 4.

Table: Important features / factors taking out a credit card by segment

	Unsteady starters	Squeezed and sliding	Credit crisis families	Difficult debts	Forgotten families	(Un)golden years
1	The reputation of the provider	0% interest introductory offer	The reputation of the provider	0% interest introductory offer	The reputation of the provider	
2	0% interest introductory offer	The reputation of the provider	0% interest introductory offer	The reputation of the provider	0% interest introductory offer	
3	Recommendation from a price comparison website or similar		Balance transfer offer		Recommend from a price comparison website or similar	Features of the product – eg credit limits
4	Recommend from family, friend or colleague	Balance transfer offer	Features of the product – eg credit limits	Recommend from a price comparison website or similar	Balance transfer offer	
5	Features of the product – eg credit limits		Recommend from family, friend or colleague	Features of the product – eg credit limits		Personal experience – used that one before

Given that reputation of the provider is so important, the most widely used cards by segment reveals both mainstream banks (eg Barclaycard and Halifax) are as prominent as providers like Capital One and MBNA. Vanquis also features for **Credit crisis families** and **Forgotten families**.



Additionally, we found that even amongst people that lacked some financial knowledge an understanding of 'interest' was widespread. Often this came with deeply negative connotations and a sense that this is where trouble can start. The salience of interest as a feature is therefore high, and the presence of 0% interest offer likely to be both noticed and attractive.

'Have two credit cards to help do up the new house and pay for the kitchen. [I] transfer debt onto new cards when the no interest rates runs out. But we are not worried about that.'

(Depth interview, **Squeezed and sliding**, Male aged 26)

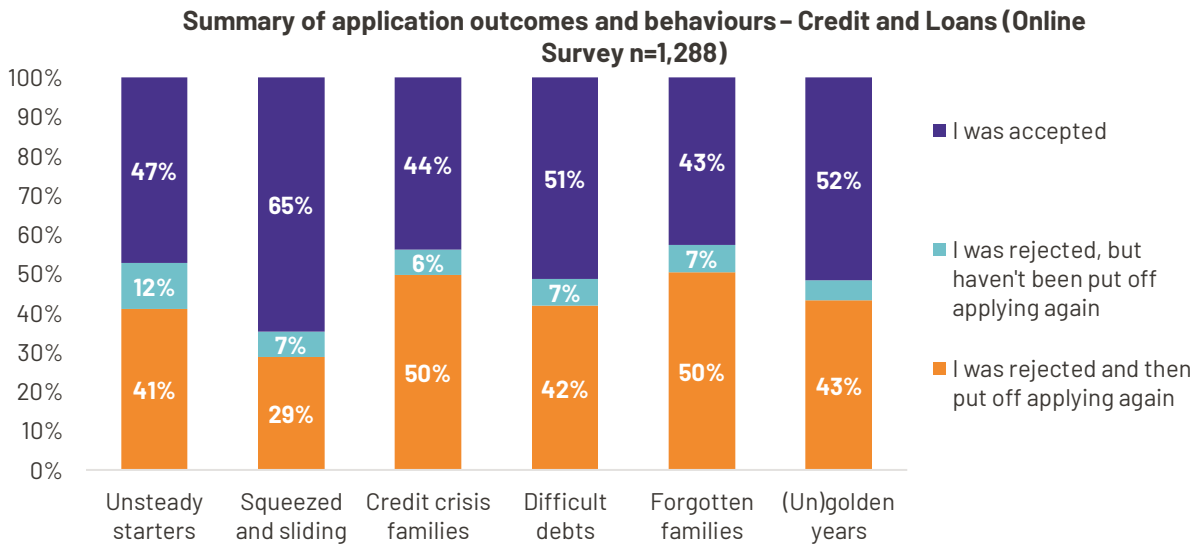
Beyond these two priorities there is more variance. Recommendations – primarily from comparison sites but also from people you know – are an important factor for segments 1-5, especially **Unsteady starters**. A balance transfer offer also features highly – between a fifth and quarter of most segments cite this as an important feature.

Personal experience is much less likely to be an important feature for most segments but is present for **(Un)golden years**. Finally, although neither factor dominates decision making, speed of approval and guaranteed approval are important features, especially for segments 4 and 5.

The role of rejection

So far, we have explored the application and decision making process when people look into taking out either a loan or credit card. But the outcome of one application can have an influence on subsequent behaviour.

The proportion of people who apply at all varies widely – from half of segments the first three segments to around a fifth of **(Un)golden years**. There is also a great deal of variation in acceptance rates and the proportion of rejected people who are subsequently put off applying in the future.



For example, **Unsteady starters** are as likely to apply as **Credit crisis families**. They are also around as likely to be accepted (48% of **Unsteady starters** applicants are successful compared to 44% of **Credit crisis families**).

But when **Credit crisis families** are rejected, they are much more likely to be dissuaded from applying again in the future. 90% of **Credit crisis families** who were rejected once say they were put off making an application subsequently. That falls to 79% for **Unsteady starters**.

In addition, just under a third of our sample (32%) say they were put off applying for a loan. Of these, the most common reason is being turned down previously and expecting to be turned down again (36% of those put off applying). **Forgotten families** were most likely to say this. The next most common reason, selected by 33% of those put off applying, was because they worried the loan would damage their credit rating.

Recommendation: With high proportions of people in financially vulnerable circumstances being declined, all providers should consider what messaging and support is provided at this stage of the journey. For some who are the most challenging to serve, this might mean integrated benefits and grants calculators. For others who were close to being served, and who may be served in the future, tailored guidance around the reason for decline and any actions to be taken could help the borrower improve their chances of accessing credit in future.

Recommendations

Recommendations based on key findings

By developing a greater understanding of the differences of each group in how they live their financial lives now and want to live their financial lives in the future, we can design and tailor experiences that work for them. It also helps us to consider other opportunities to expand the portfolio of customers currently served.

Below are some recommendations based on the key findings – these are also included throughout the report above.

1 **Portfolio Diversification –** Each customer segment in addition to the varied characteristics and preferences have equally varied levels of financially vulnerable circumstances which reflects in the profile of income and risk across a portfolio of customers. The segmentation creates the opportunity for some diversification of lenders loan books to balance the spread of risk and increase margins of income to improve sustainability and deliver wider impact across the market. The information above, alongside additional information on the segments, can be used to design and develop propositions and services for different groups

2 **Customer lifetime value –** when designing propositions and making other strategic decisions, organisations should consider the lifetime value of different groups. For example, higher earning customers in **Unsteady starters** will have changing needs over time, moving from smaller loans to higher values for larger one off purchases

3 Internal **product development** or partnering with other providers to match the combination of products that each chosen target segment uses could open up new opportunities with other segments, improve conversion, and/or generate additional revenue from existing customer groups served. The development process doesn't have to focus on creating a new product it can also be used to innovate the features and benefits of existing products again to improve engagement and conversion rates of both new and existing customer segments

4 **Credit cards** are the most commonly held and used product by all segment groups, and therefore likely to appeal to a wide group of target customers or members. This would be a good area of product development for those who do not offer cards today, and where there would be a benefit to choosing the new credit card over existing, well trusted offerings. There are also opportunities for credit builder cards for segments where this is a priority, and it can build longer term financial resilience

5 For those offering credit cards, clear messaging around the impacts of **different repayment amounts** over time should be offered. For some borrowers who are consistently struggling to repay more than the minimum, a proactive move to a different product, or even to a low interest consolidation loan, could be a good option

6 **Overcoming perceptions of credit** is important and is not limited to people within a particular segment. Not everyone will have a need for credit, but for those who do, including messaging such as external review ratings and user testimonials can help to build confidence

7 Where **repayment flexibility** can be built into the product design without having a negative impact on the borrower, and without impacting the cost of the lender's operations, it can be highly impactful for those in the most vulnerable circumstances

8 **Squeezed and sliding** and **Difficult debts** are more likely to use **existing price comparison sites**, which means they're a good source of customer acquisition. Providers will need a good understanding of what is required to do this well, including risk scorecards that can be adapted in an agile way. Fair4All Finance is also open to supporting organsiations who are looking to do this

9 **Customer journeys** and creating an experience that matches and/or exceeds expectations can be key to improving conversion and retention of customers. The segments can be used to evaluate each stage of the customer journey acquisition, application, acceptance, decline, completion, and in-life to tailor the optimum journey that delivers both a great customer experience and a duty of care from the organisation to provide an appropriate outcome for the customer's individual circumstances.
This might include providing messaging linked to customer needs of speed and convenience and including reviews and testimonials to build trust.
Online loan calculators must be easy to use, and show both interest rate and cost of repayment, to help customers who are comparing options. This should include the full cost of the loan (for example, if there are product arrangement fees)

10 With high proportions of people in financially vulnerable circumstances being **declined for loans**, all providers should consider what messaging and support is provided at this stage of the journey. For some who are the most challenging to serve, this might mean integrated benefits and grants calculators. For others who were close to being served, and who may be served in the future, tailored guidance around the reason for decline and any actions to be taken could help the borrower improve their chances of accessing credit in future

11 There are a number of services available to help customers with **Income maximisation** including **budget and benefit calculators** that are provided on-line eg Turn2 Us, Policy in Practice, Age UK, Citizens Advice, Money Saving Expert where links can be made available for customers to access. Some providers such as InBest can embed access to benefits entitlement checking within the customer journeys of the lender, at an appropriate point, so that the borrower can engage with the service as part of their application process. This could be particularly impactful for the lower household income segments (3/5/6) to be more readily signposted to practical help at the right moment, and for the process to realise the actual benefits owed to be a simplified as possible. Providing this service more seamlessly in the customer journey also helps to amplify the positioning of the credit union or CDFI as a trusted source of assistance beyond savings and credit

12 **Debt consolidation/management** could improve outcomes for a number of the segments. For **Unsteady starters** consolidation of smaller multiple high-cost loans could improve their short-term financial position. Many of **Squeezed and sliding** are just about managing their debt but may need consolidation solutions to free up income to pay increasing household bills. **Credit crisis families** could benefit as long as consolidation isn't just unlocking affordability for more lending and improves overall financial wellbeing. **Difficult debts** have reasonable incomes so consolidation could help, although a variety of propositions would be required to meet varying circumstances and need. **Forgotten families** are most likely to benefit from debt advice services to negotiate more affordable payment plans on any accumulated debt or arrears with bills such as rent and council tax.

Appendix – Methodology

This report was created following a comprehensive programme of research and analysis into the experiences of people in financially vulnerable circumstances in the UK.

This research included:

- A quantitative survey focusing on low income and financially excluded people (3,165 responses in March 2022)
- Short, face to face interviews in hall tests with low income or financially excluded people (total 483 people from the segments across 9 UK locations May – June 2022)
- In-depth interviews for deeper insights (14 people June – July 2022)
- External data from CACI, FCA Financial Lives and MAPS segmentation.

The quantitative survey data was used by CACI, alongside other external datasets, to identify six distinct segment groups.