Fair4All Finance Segmentation Model

Difficult Debts: Deep Dive

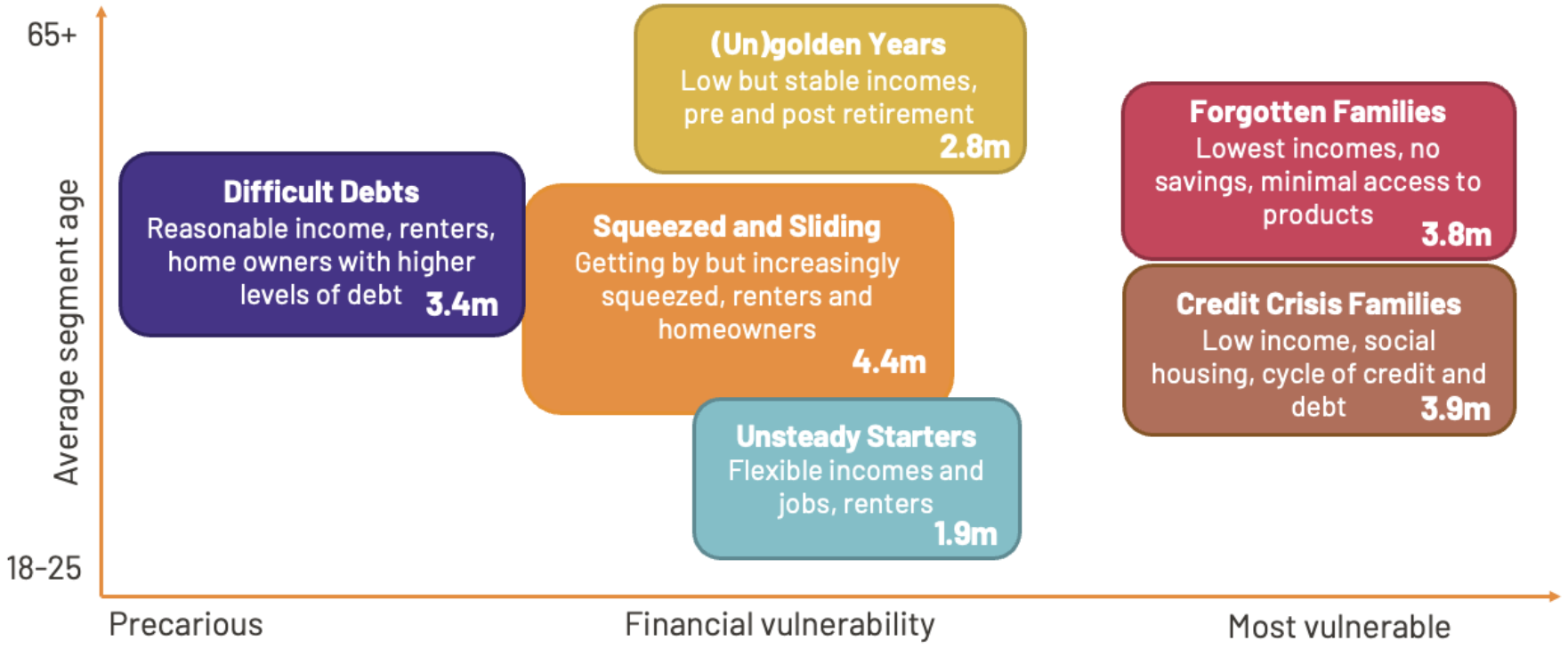
July 2024

Our purpose for segmentation

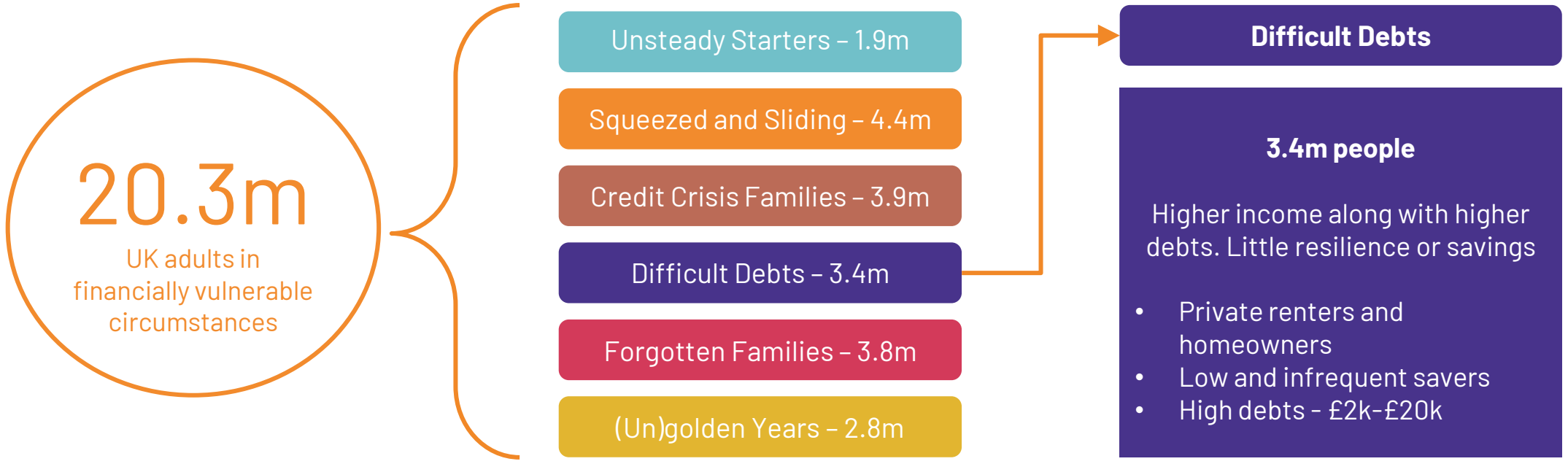
to support the design and development of more effective financial products and services that improve resilience for people in financially vulnerable circumstances

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

Difficult Debts

Overview

Difficult Debts are higher income households with high debt levels. They're struggling to repay their debts, with some missing payments. Increases to mortgage rates has put new pressure on them, but they are starting to build savings

3.4m people

Difficult Debts at a glance

17% of the Financially Vulnerable Population

Age range **35-44**

HH income **£25k-£50k**

Family
57% have financially dependent children
14% are single parent families
60% female

Housing
Private renters and homeowners

Type of work
Full time
Part time

Debt
Very high debt levels, multiple lenders and some missing payments

Savings
24% = none
26% = £1-£1,000

Insurance
15% = none at all, lower than other segments

This segment experienced the biggest growth between 2022 and 2023, from 2.1m to 3.4m people

George, 37, Bristol

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

3.4m 17%

Financially Vulnerable Population

- **Lives with his partner in privately rented house**
- **Self-employed with part time job, household income is c£40k**
- **£20k+ in debt in total, some recent, some much older**
- **Is under a debt management plan, paying down debt and using BNPL to structure payments for larger items**

Meet George

George is a self-employed graphic designer whose monthly income varies as his job depends on clients. This leads to **financial stress when his income falls short**. He adjusts his budget when this happens and tries to make up for it in future months, but sometimes clients are late with payments, or his income doesn't cover expenses, especially with the cost-of-living crisis.

George took several large loans out in his early 20s, and he arranged a debt management plan when he struggled to afford the repayments and became overwhelmed. **He found the structure of one monthly payment and the reduced interest helpful, but the plan has negatively impacted his credit rating**. George now has limited access to credit because of his worsened credit rating. He builds his savings as much as possible to cope with unexpected outgoings or if his income isn't enough for certain months of his debt management plan. For emergencies, he also has a personal credit card.

Shocked by rapid rent increases, he and his partner are trying to save extra money for a deposit on a flat. **George saves any additional money he can, but it gets depleted when his monthly income isn't as high as expected**. Whilst his student debt deductions are quite low and straight from his income, he is annoyed they are interfering with his ability to save, or the money could be used for pension payments, something he can't afford to pay into right now.

George will opt for Buy Now Pay Later payments to break down big payments and manage them more easily. He also has a shared credit card with his partner for emergencies. Still, he'll always pay his partner back on time, as his previous relationship ended partly because he struggled to keep up with household bills.

George's big plans rely on more financial stability, and **he tries to remain positive**. However, it's difficult to do so when money is always on his mind and his budget is always in flux.

fair4all finance

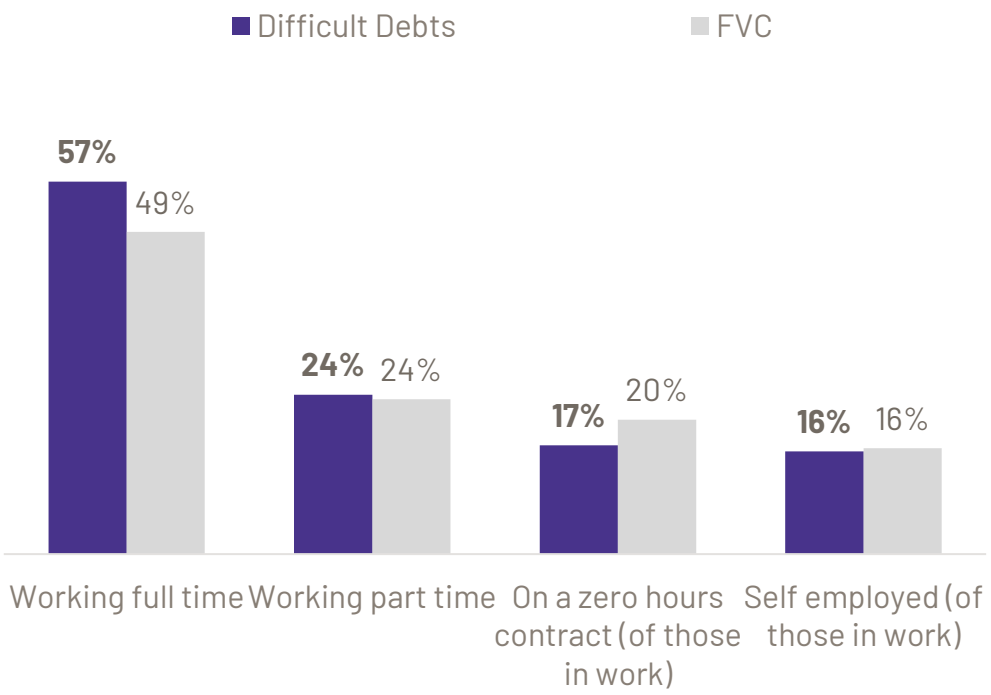
Summary: Difficult Debts

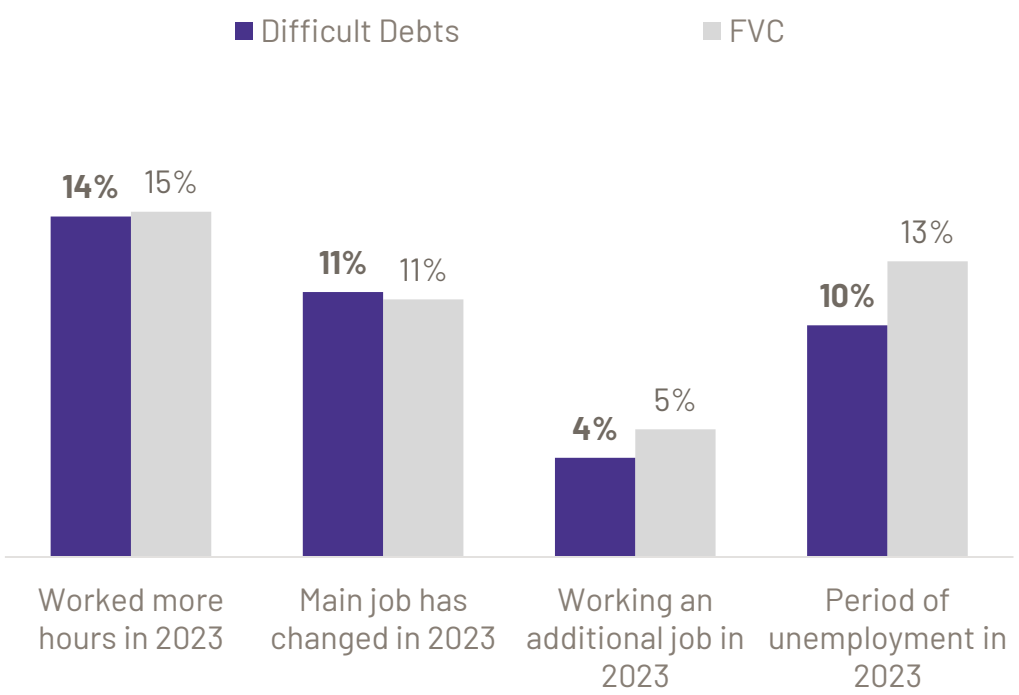
	Where were they in 2022?	Where are they now?	The future?
Lifestyle	Rising mortgage rates meant this group were exposed to increasing housing costs as a result of sharp increases in the Bank of England's base interest rate	Loans are more often being used to fund home improvements or simply mortgage repayments. Using personal loans for these bigger ticket expenses is causing more difficulty for this group in repaying the debts	Continued housing cost increases will place pressure on Difficult Debts in 2024. Increases to their mortgage or rent could see them miss more payments or start to eat into the savings they've built up
Credit and debt	In 2022 this group were defined by high levels of debt they struggled to repay	We are seeing two emerging sub-groups here, one with high debt levels who are struggling to repay them, and one that is paying down the debt Overall, this group have weathered the cost-of-living crisis without too much added difficulty	The majority (57%) say they're actively working towards their financial goals. With solutions to manage debts, and opportunities to build short and long term resilience, many Difficult Debts may return to financial stability
Savings and insurance	Notable proportion of this group had no access to savings despite higher income levels	Whilst savings are increasing, the risks associated with their debts are also growing, with a notable rise in the proportion of people missing loan repayments Compared to other segments, they hold the highest number of insurance products	With two potential groups, it's likely that one will return to financial stability while the other remains at risk, depending on how debt is managed and how inflation impacts ongoing costs

Difficult Debts

Work and Lives

Difficult Debts have relative stability at work

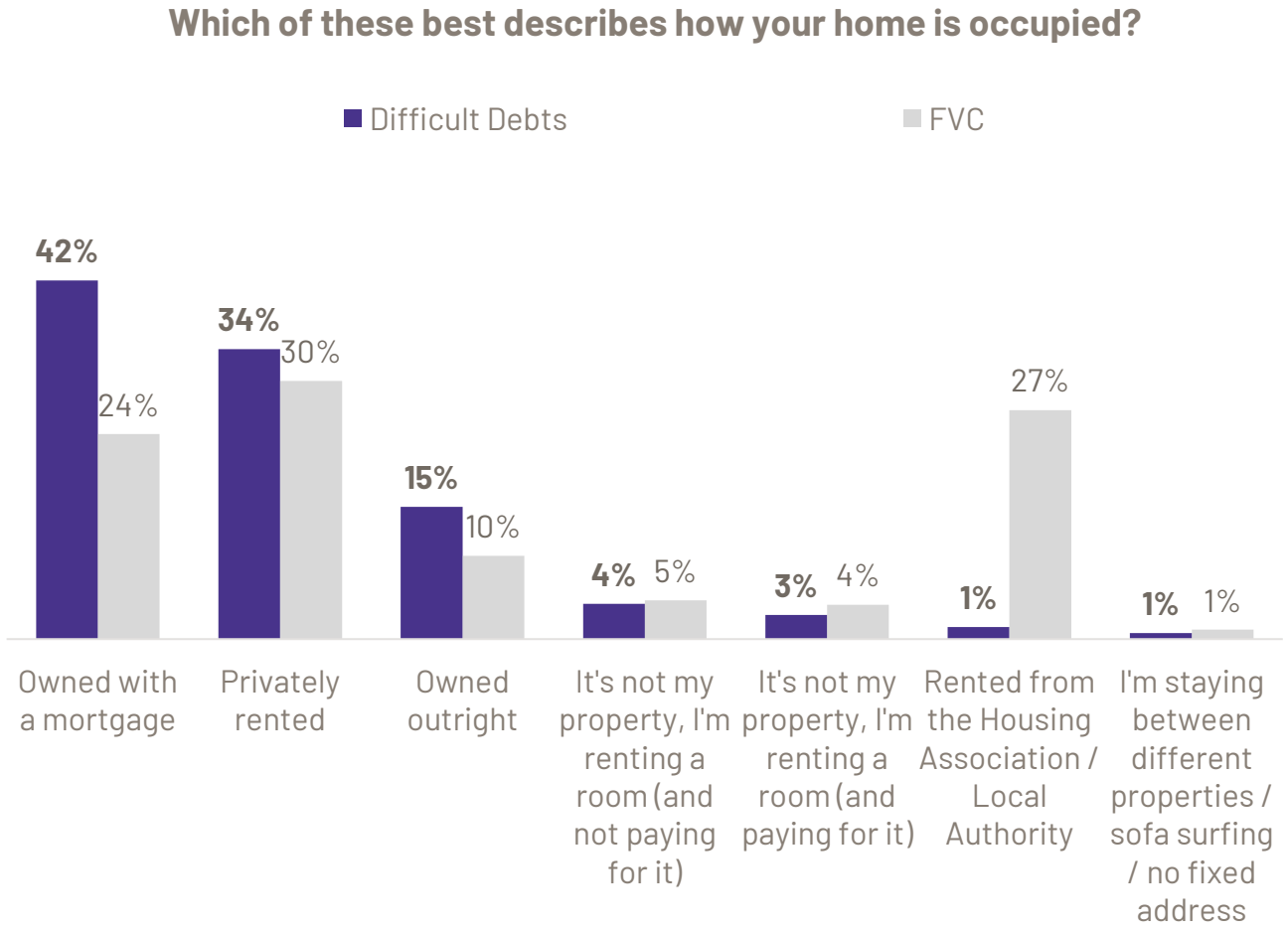




81% work either full time or part time. Compared to other segments, their working lives are reasonably stable and consistent. They are less likely to have zero hours contracts or have seen volatility in their work lately.

They're also unlikely to be looking to work more hours/changing jobs to deal with increases to the cost of living.

Most are mortgaged or privately renting and are impacted by increases in housing costs



This group are considerably more likely than the average FVC to own their property with a mortgage.

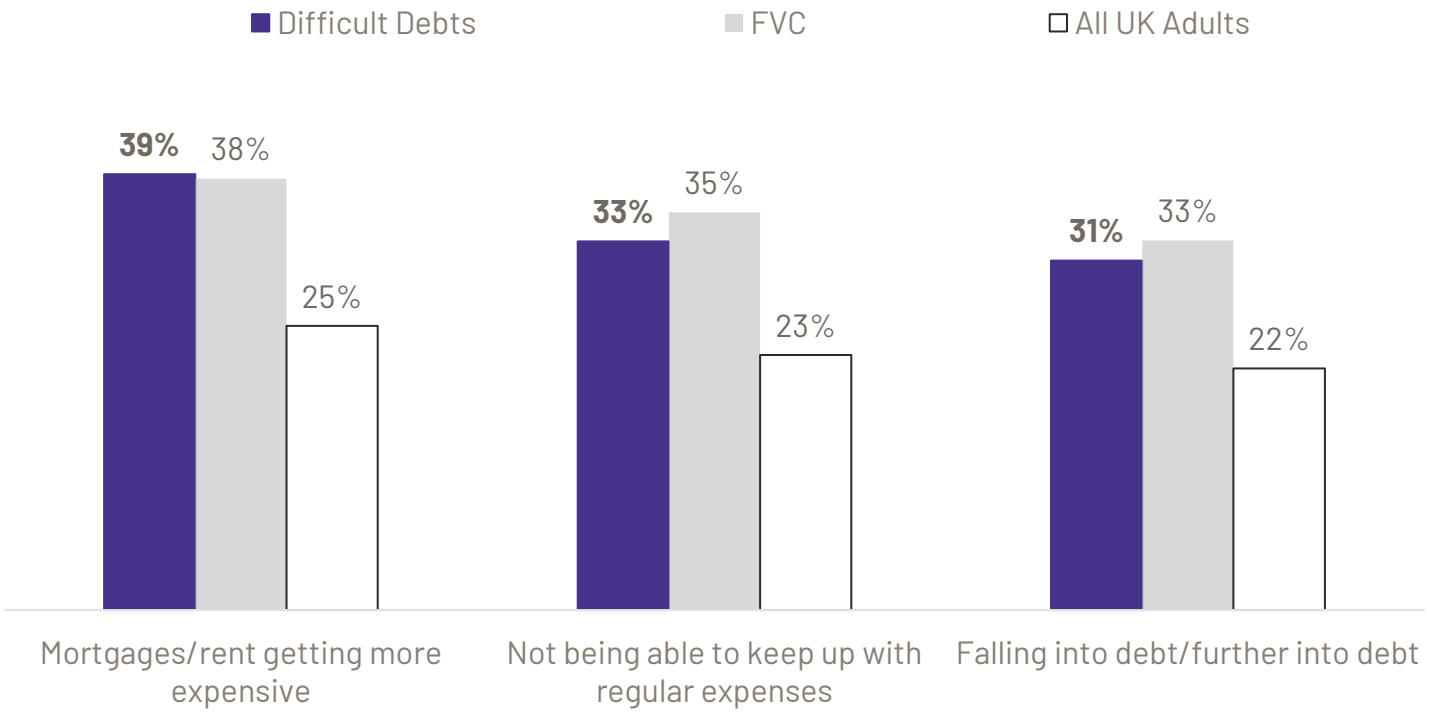
As a result, they are more vulnerable to rising interest rates. In Dec 2023, around 2 in 5 were already on a tracker deal, or their fixed rate was going to expire in the next six months.

Unsurprisingly, 76% of Difficult Debts say they are either very or a bit worried about mortgages/rent getting more expensive.

This segment show a notable degree of resilience with their mortgage payments, with almost half being able to afford spending £100 or more each month on their repayments before struggling.

Which means housing costs are their biggest concern

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 three

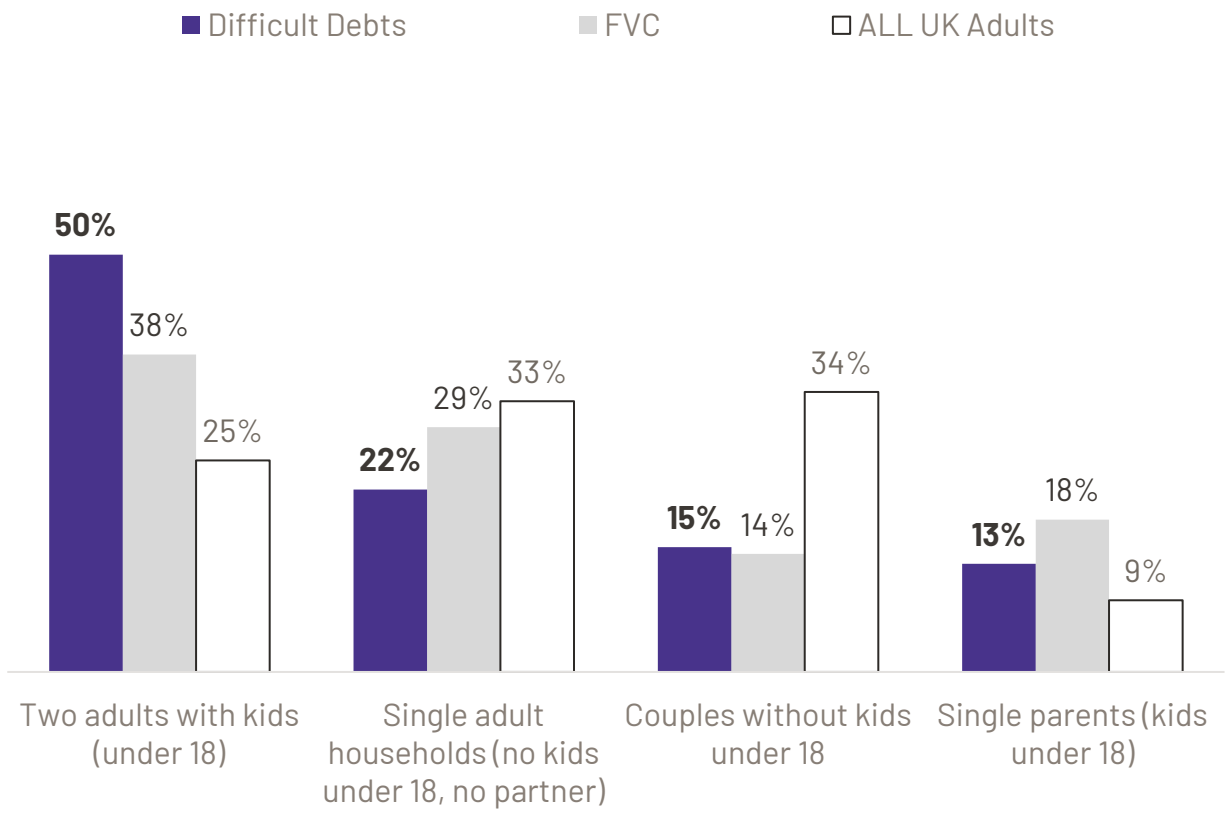


Difficult Debts are unlikely to be worried about job insecurity or benefit cuts – but have significant concerns regarding housing costs.

This segment are slightly more likely to use credit more than usual (20% vs 18%), but less likely skip meals compared to other vulnerable segments (22% vs 25%).

Despite Difficult Debts being the "least vulnerable" segment, they are still significantly more worried than UK adults in general.

Difficult Debts are more likely to be a two-parent household with children

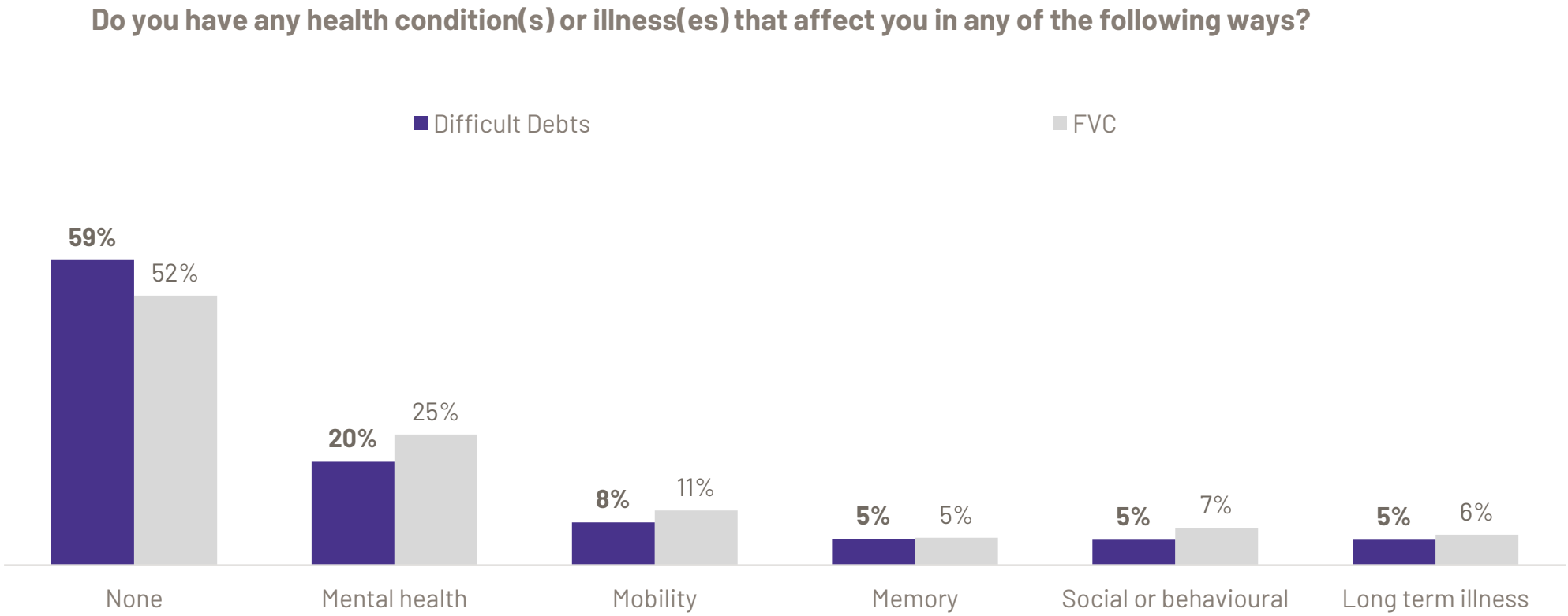


There are few single parent households within this segment. 50% of this group are two-adult households with children.

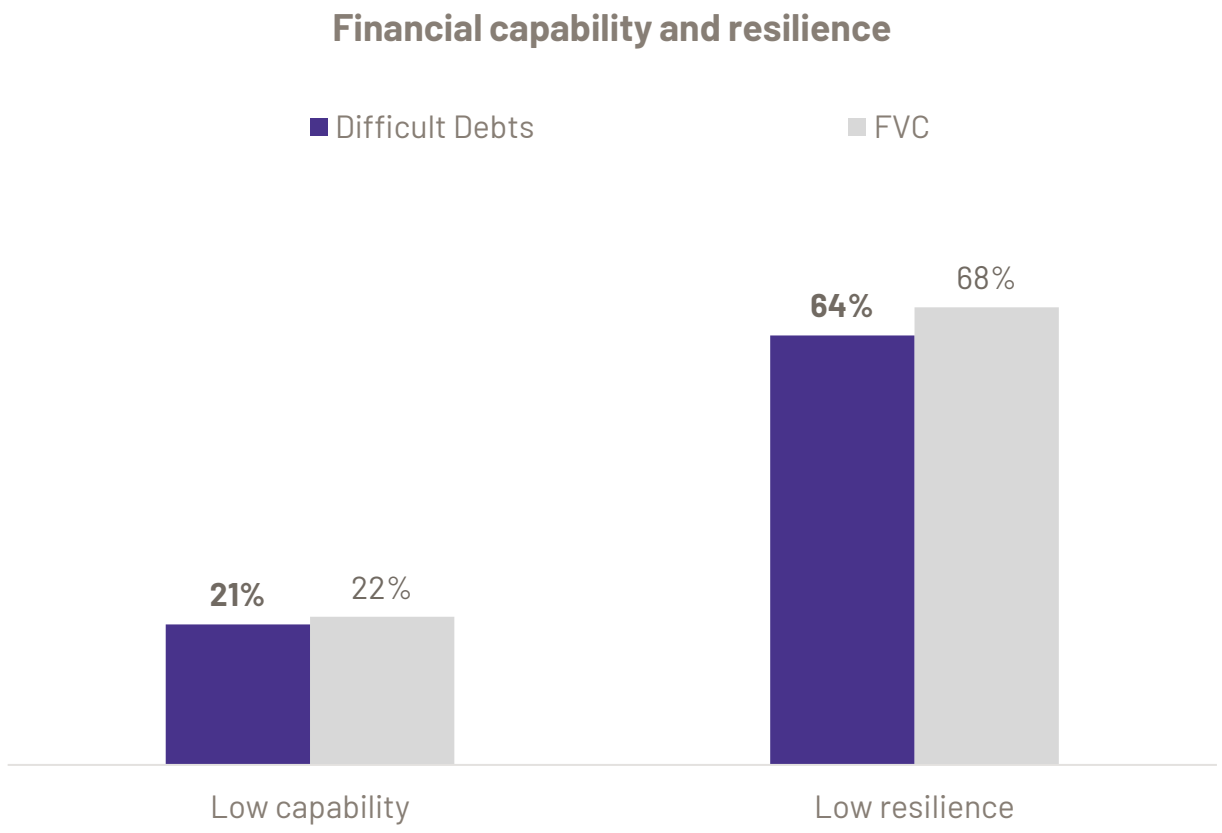
With an above average proportion of two parent households, this segment over-index in child benefit payments (22% vs 18%).

Despite this, concerns with paying for clothing and essentials for children are in line with the FVC average for this group (20%).

Difficult Debts are less likely than other segments to have a health condition or illness



Difficult Debts have slightly better financial capability and resilience than the total FVC



1 in 5 of this segment report low levels of financial capability (confidence managing money, knowledge of financial matters), compared to 3 in 5 with low levels of financial resilience (would struggle to afford increases to outgoings or an unexpected bill).

This is in line with the average across the segments.

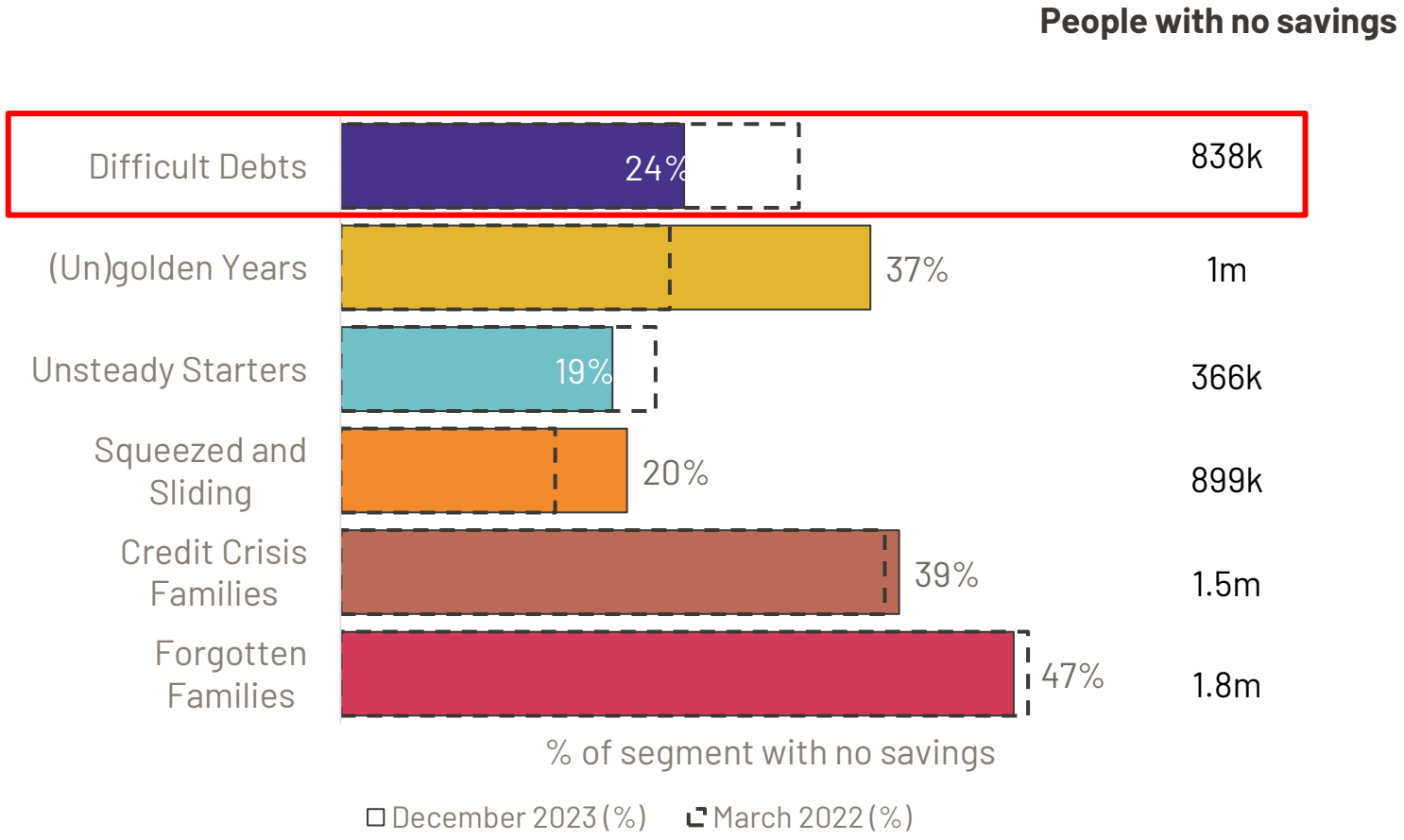
Difficult Debts

Savings

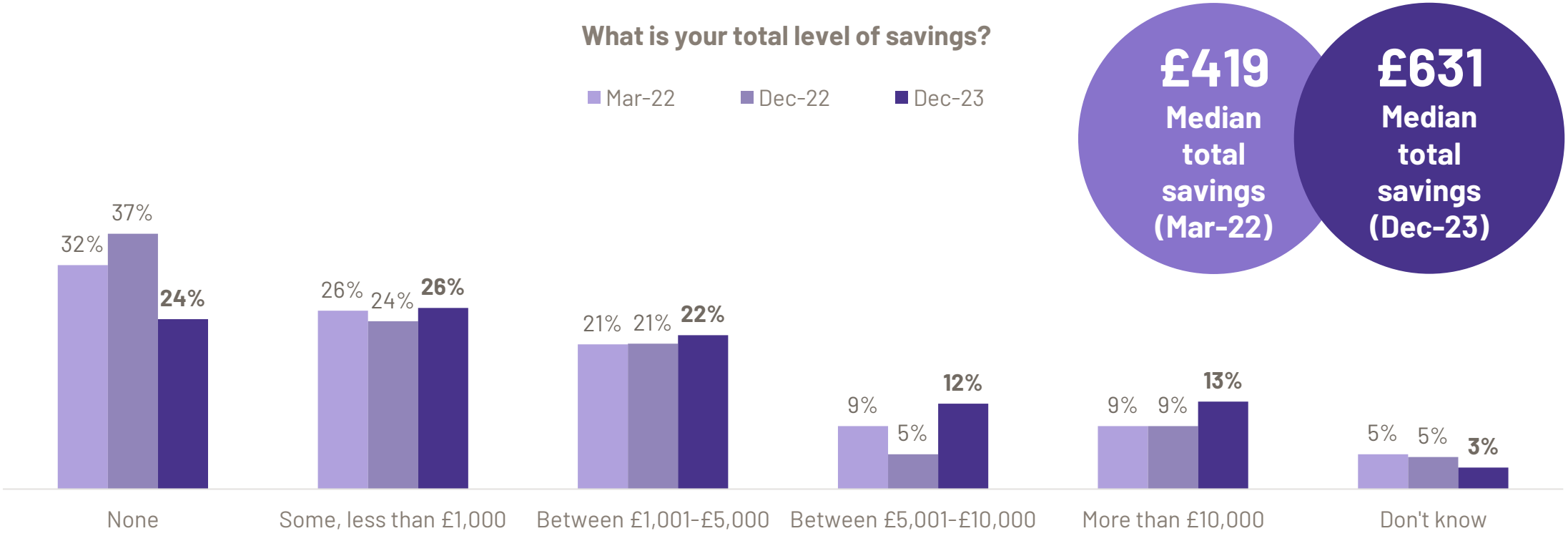
1 in 4 of Difficult Debts have no savings

This is over 800k people with no savings. Considering their relatively high household income, this is a surprising gap in resilience.

However, there are less people with no savings compared to 2022. Some will have taken advantage of higher interest rates on savings, and there are many who are saving more while still paying down debt.
Some may also be saving to protect against future higher mortgage rates in advance of refinancing.



Savings levels suggest two emerging sub-groups

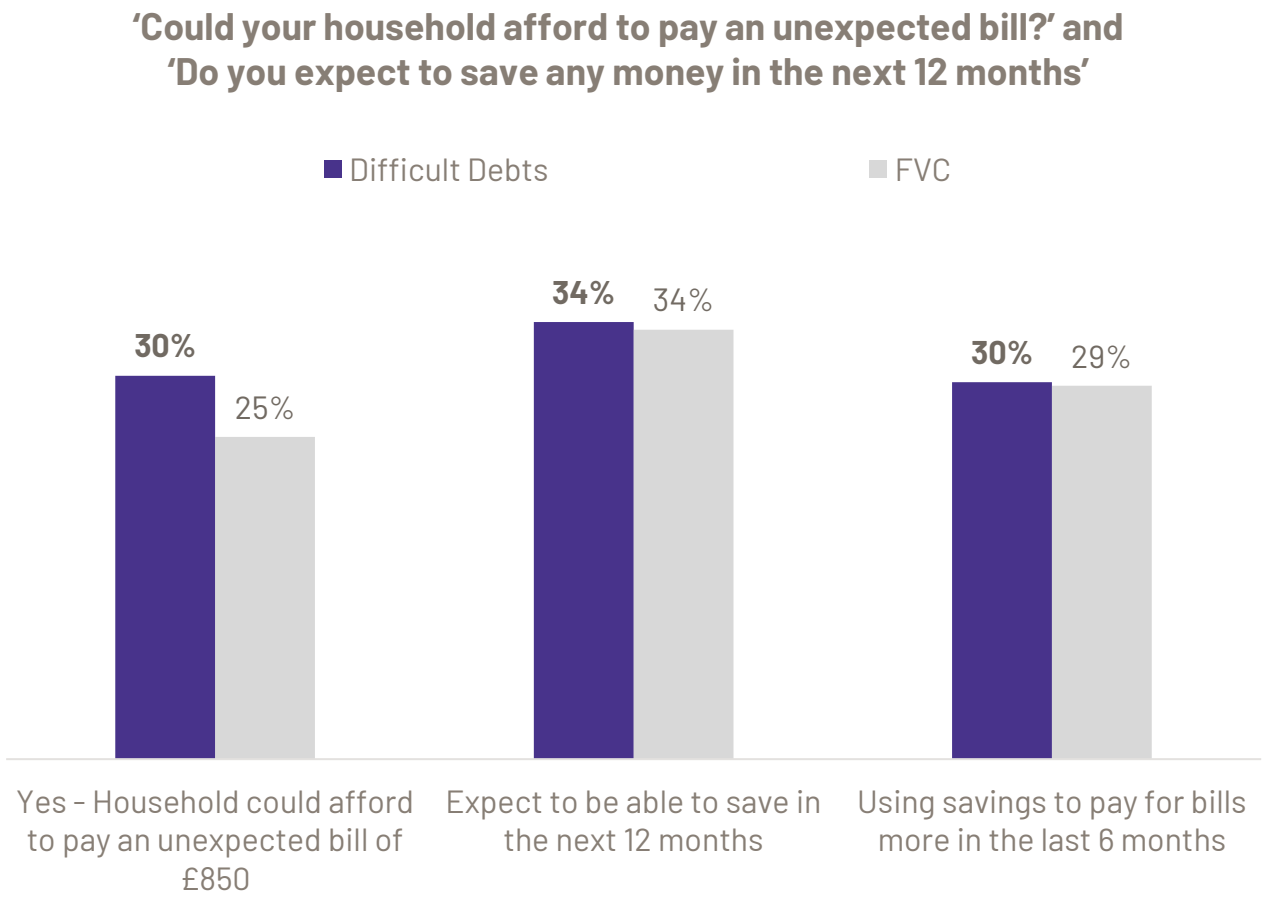


We are seeing half with under £1k in savings, and a quarter with over £5k, so there is a mixture of savings levels (and also debt levels as we see later on). This means there are some in Difficult Debts with very low resilience as well as high debt levels.

This segment has more access to a savings account (43% vs 35%), or ISAs (19% vs 15%) compared to the FVC total.

Although more people in this segment have decreased their savings compared to the FVC average (45% vs 40%), there has been a 4% increase in those saving more since December 2022 (14% vs 18%).

Resilience and savings expectations are low – but in line with other segments



Many Difficult Debts have little resilience or safety net.

They are already reasonably likely to be using savings to pay for bills, whilst only one in three expect to save in the next 12 months.

There is an interesting nuance here. Only three in ten say they would be able to afford an unexpected £850 bill. And, half have more than £1k in savings. This may be due to a gap in perception, or about accessibility of savings.

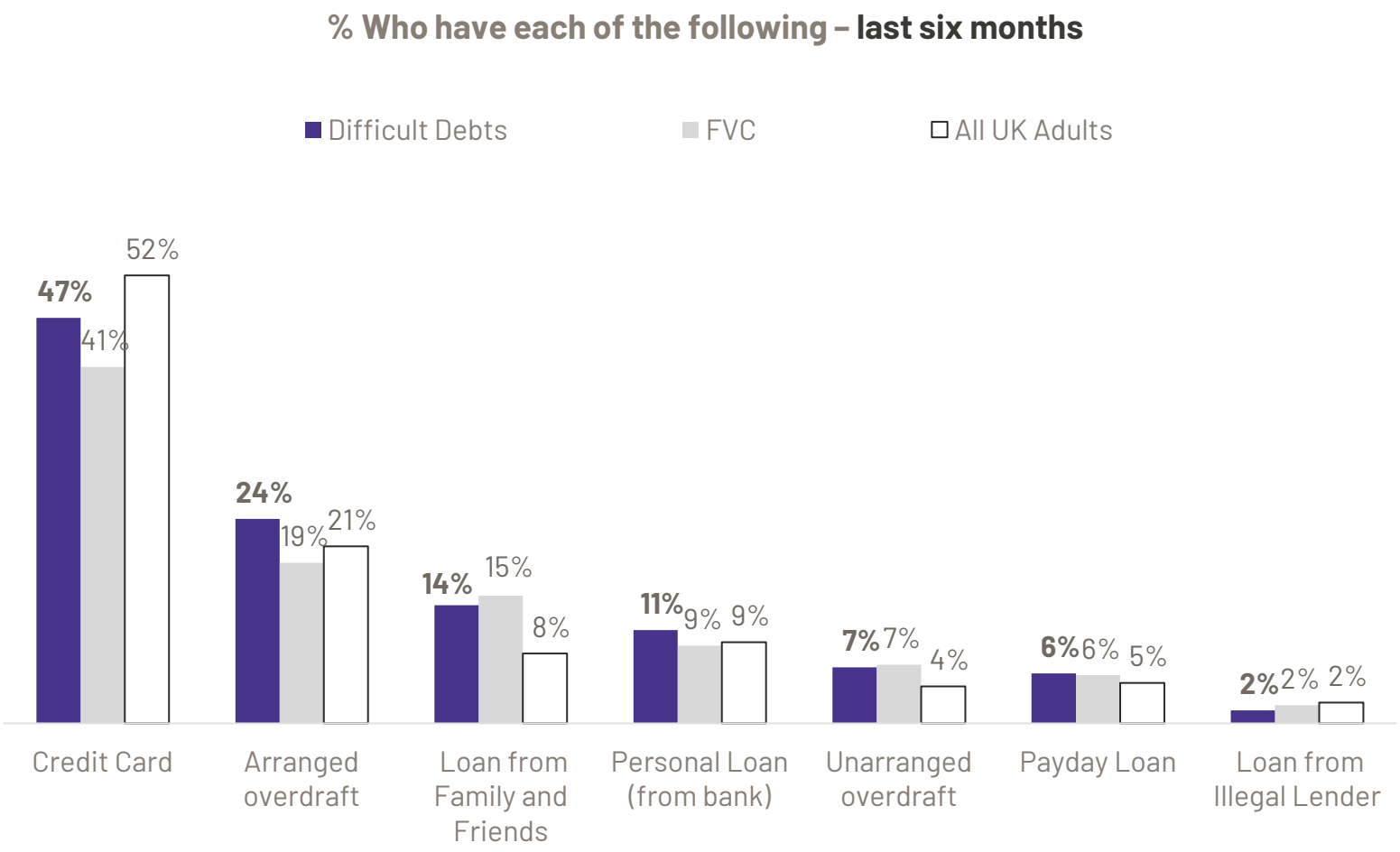
Whilst this is low, it is 5% higher than the FVC average – perhaps driven by their higher levels of savings.

This is a particular concern as this group are vulnerable to rising housing costs, especially mortgage rate rises due to having far higher than average home ownership (42% vs 24%).

Difficult Debts

Credit

Difficult Debts are using a wide range of credit

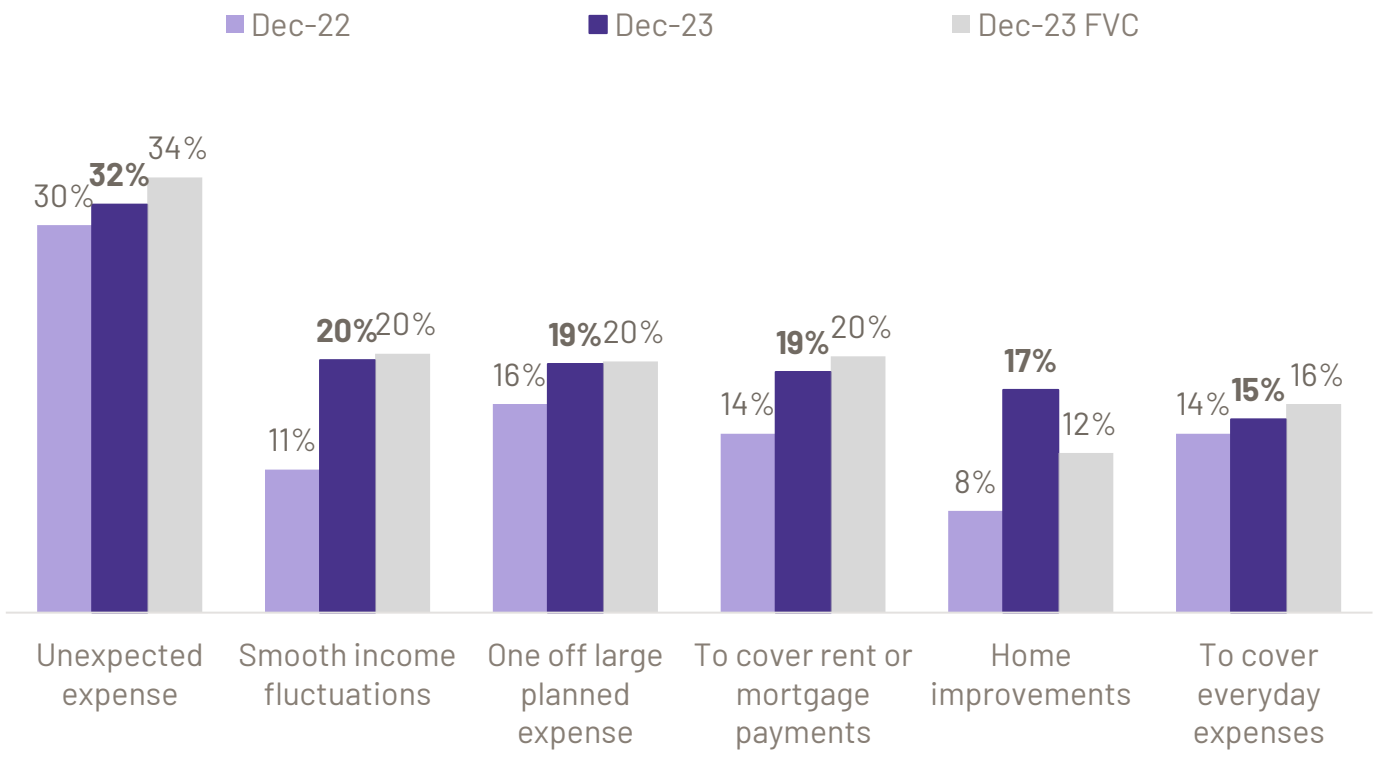


Difficult Debts use credit cards and their arranged overdraft more often than other segments. That, along with mortgage debt often leaves them struggling to keep on top of their finances.

This segment also saw a significant rise from March 2022 to December 2023, in the proportion with 2+ personal loans, though this increase was only slightly higher than the increase amongst the total FVC sample.

Growing proportion of Difficult Debts taking out a loan to cover home improvements or housing payments

Reasons for taking out a personal loan
[People who have looked into or taken a personal loan]

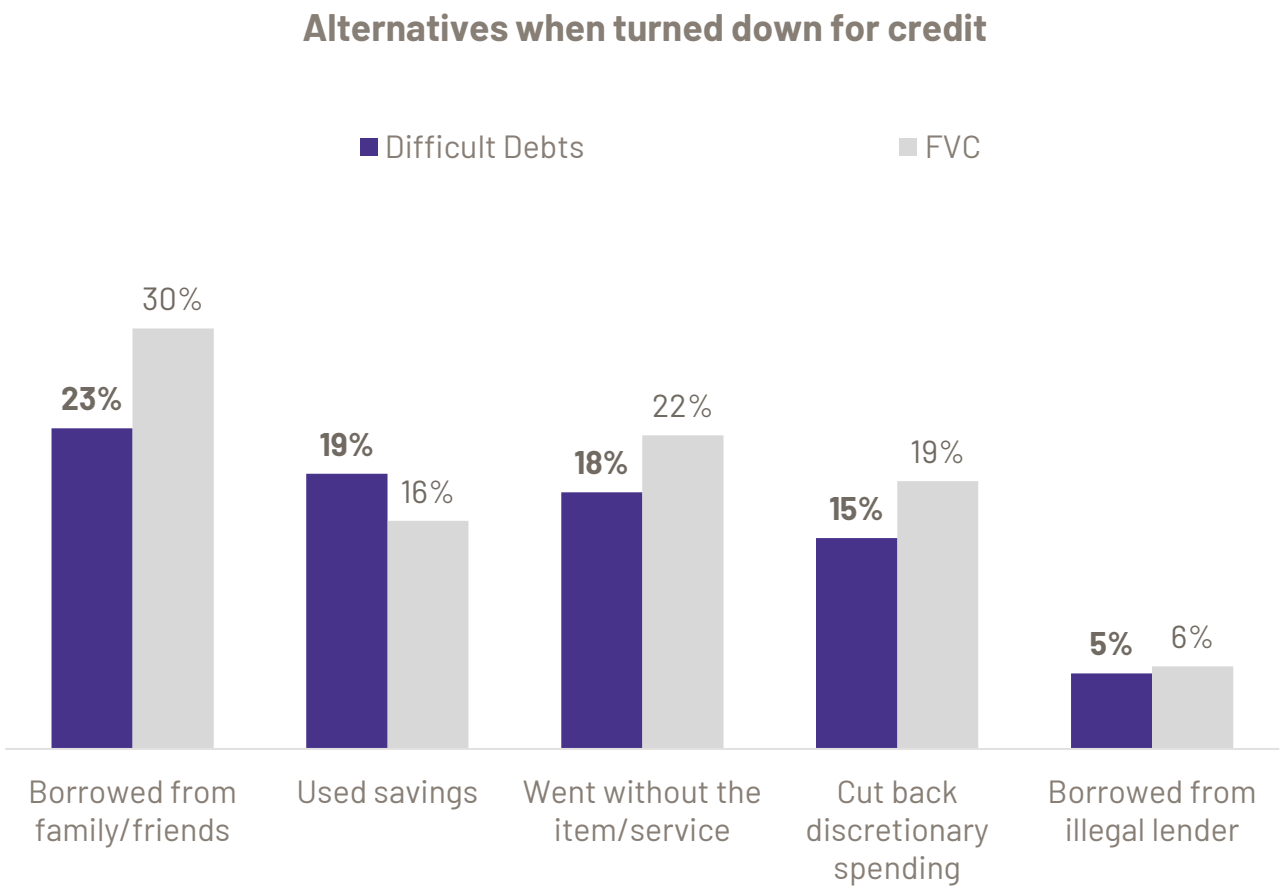


Difficult Debts have seen increases across all areas in reasons for taking out personal loans – with a significant increases to smooth income fluctuations.

There has also been an increase in those using a personal loan for home improvements, perhaps where people can no longer afford to move house.

This group are also seeing an increasing use of personal loans to cover rent or mortgage payments, up from 14% to 19%.

Savings more often used as an alternative when turned down for credit



20%
Of Difficult Debts have been turned down for credit (vs 22% for FVC)

19% of this group say they used savings when they were turned down for a credit application – 3% more than the FVC total and almost double the most vulnerable segments.

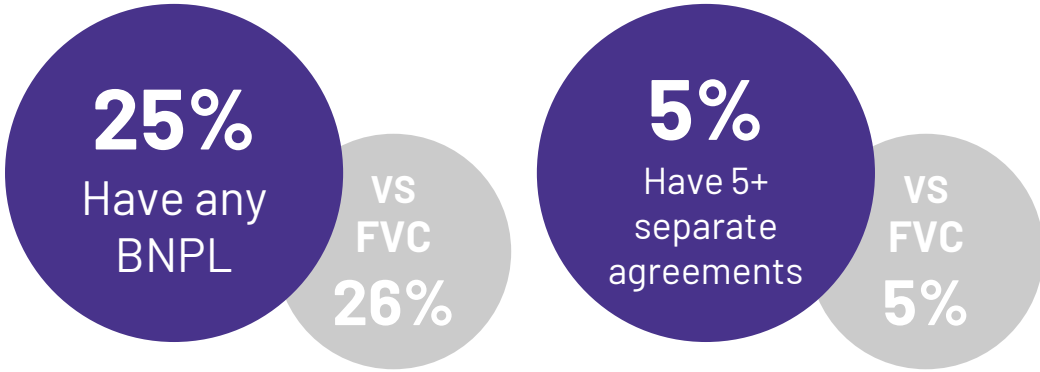
This group are less likely to have borrowed from family or friends, to have cut back on spending or to have gone without the item or service.

Difficult Debts are average users of Buy Now Pay Later products

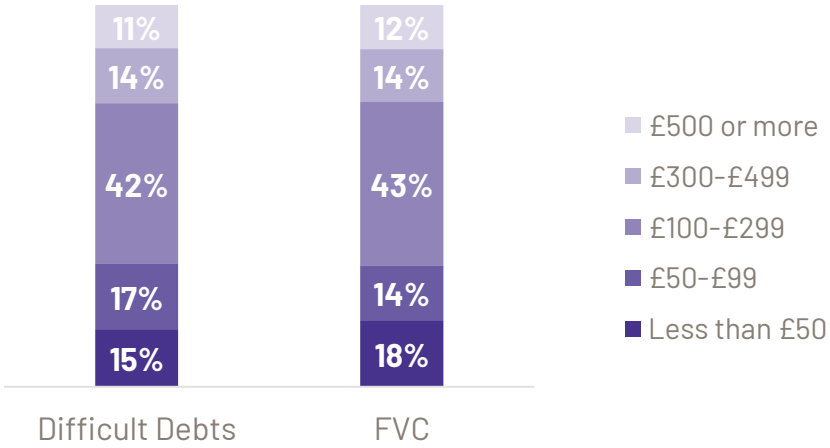
Around one in four in Difficult Debts are using Buy Now Pay Later. They are in line with the average for the segments.

One area where they differ is on late fees. Difficult Debts are slightly less likely to have incurred fees, one in three compared to 36% of the FVC total. This is still higher than expected for a higher income segment.

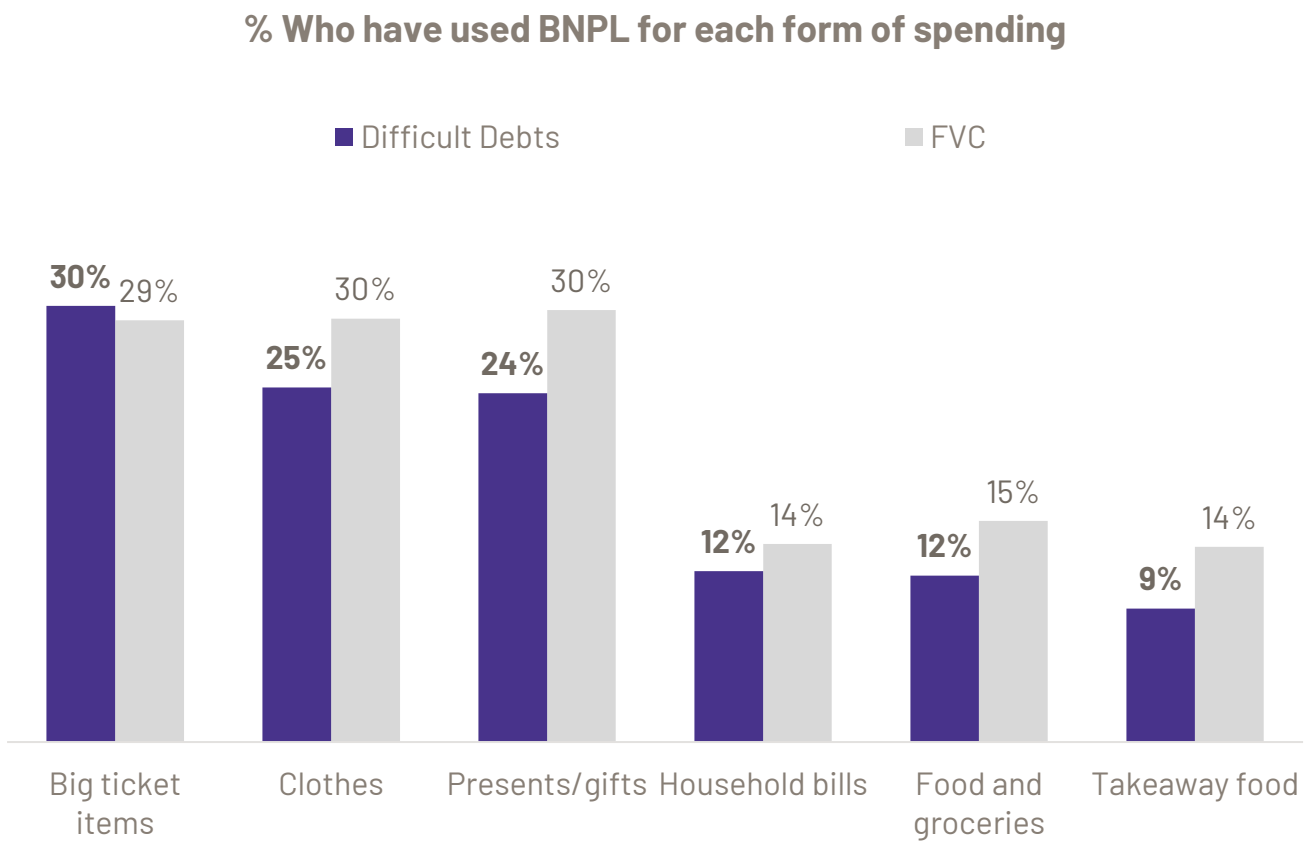
Their owed amounts are generally small, with 15% owing less than £50 and 32% owing less than £100.



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



Difficult Debts most likely to use BNPL for bigger items



Difficult Debts are less likely than average to use BNPL payments for everyday spending, instead using it for higher cost items.

This segment are also slightly less likely than other segments to have used BNPL to pay for household bills and for food and groceries, although 1 in 10 are still doing this.

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.

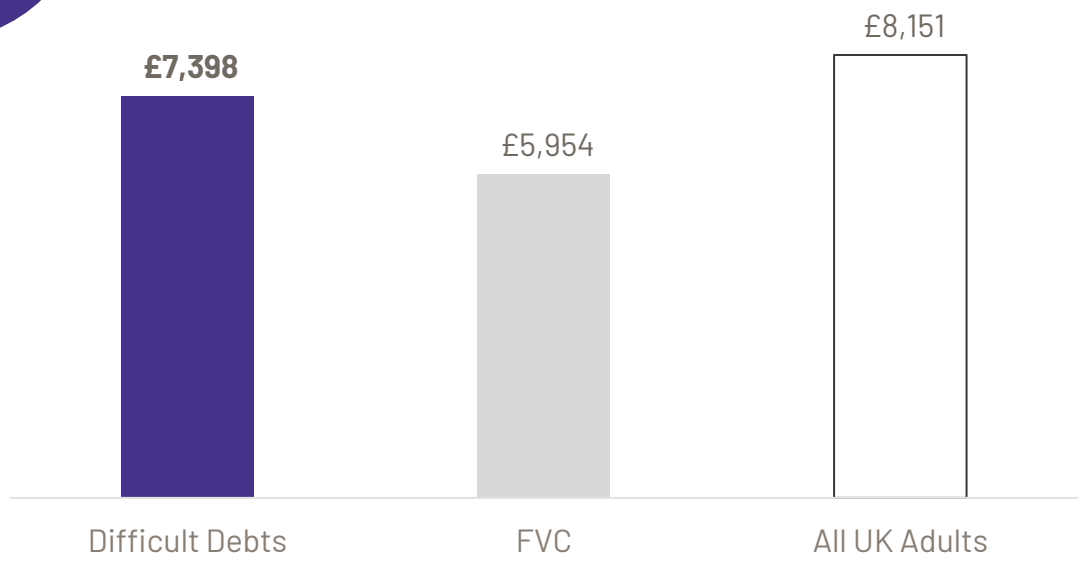
Difficult Debts

Debt

Higher debt levels than other segments, but still lower than the national average

£2,000
Median total debt

Average debt levels for Difficult Debts, total FVC and nationally representative sample (all those with debt)



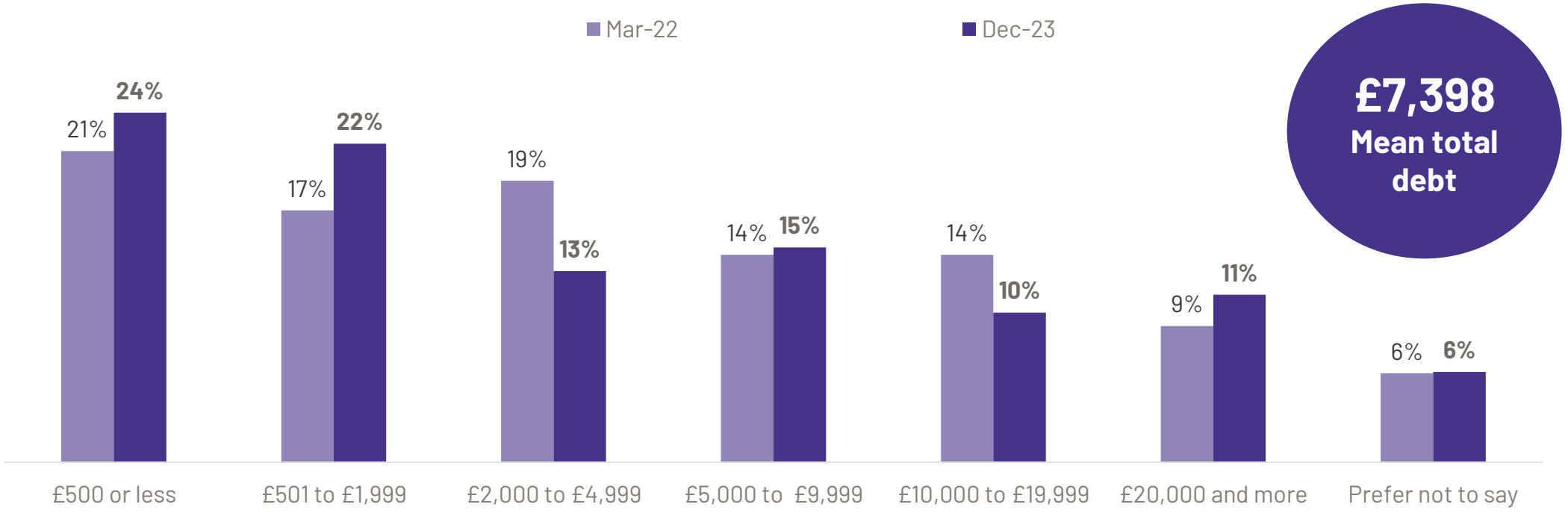
Difficult Debts are slightly more likely than the average FVC consumer to have debt (76% vs 72%). But their level of debt is much higher than the average.

They've not seen too much change in debt levels over the past year – it's possible that higher incomes are allowing many to absorb price rises without resorting to credit. We also know that their debt is longer term.

But at the same time, resilience is declining for some: savings are depleting and more of those with loans have missed payments.

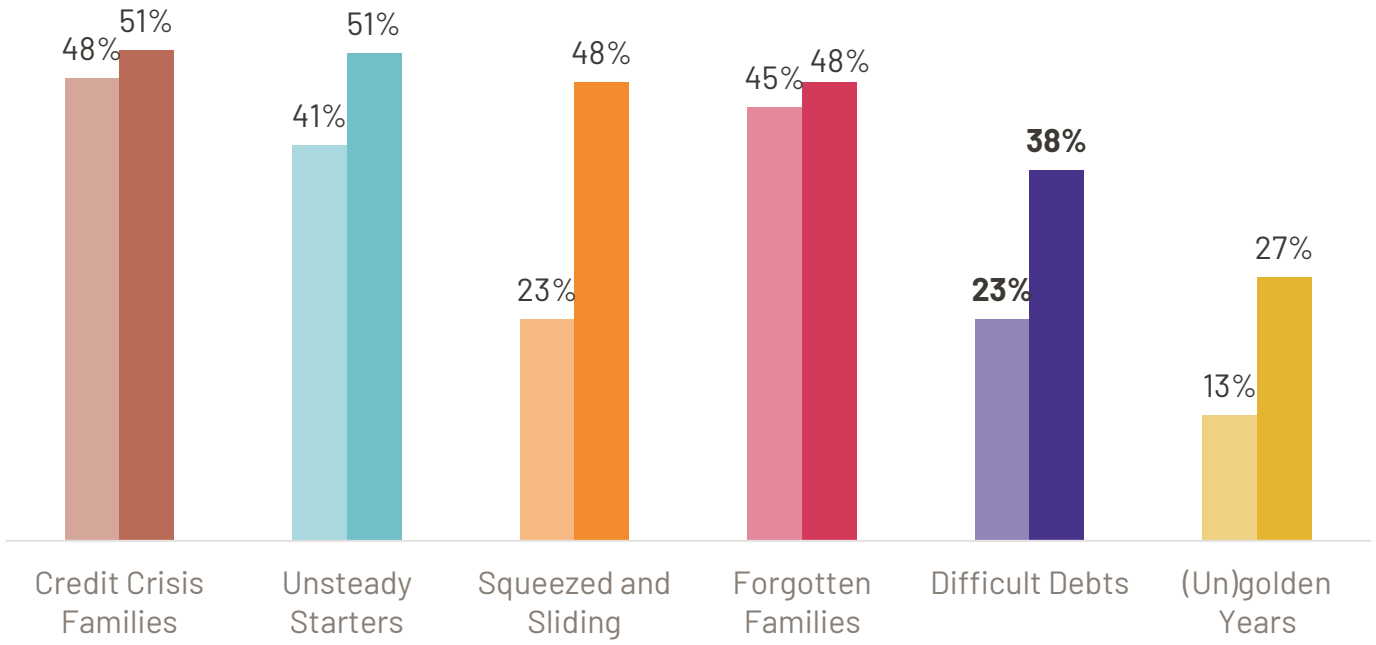
Little change in debt profiles overall – slight decrease in those owing £2k-£5k – but debt levels are generally quite high

What is your total level of debt (excluding any mortgage debt or student loans)?
[Only people who previously said they had debt]



Among those with loans, an increased proportion have missed payments

% 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]



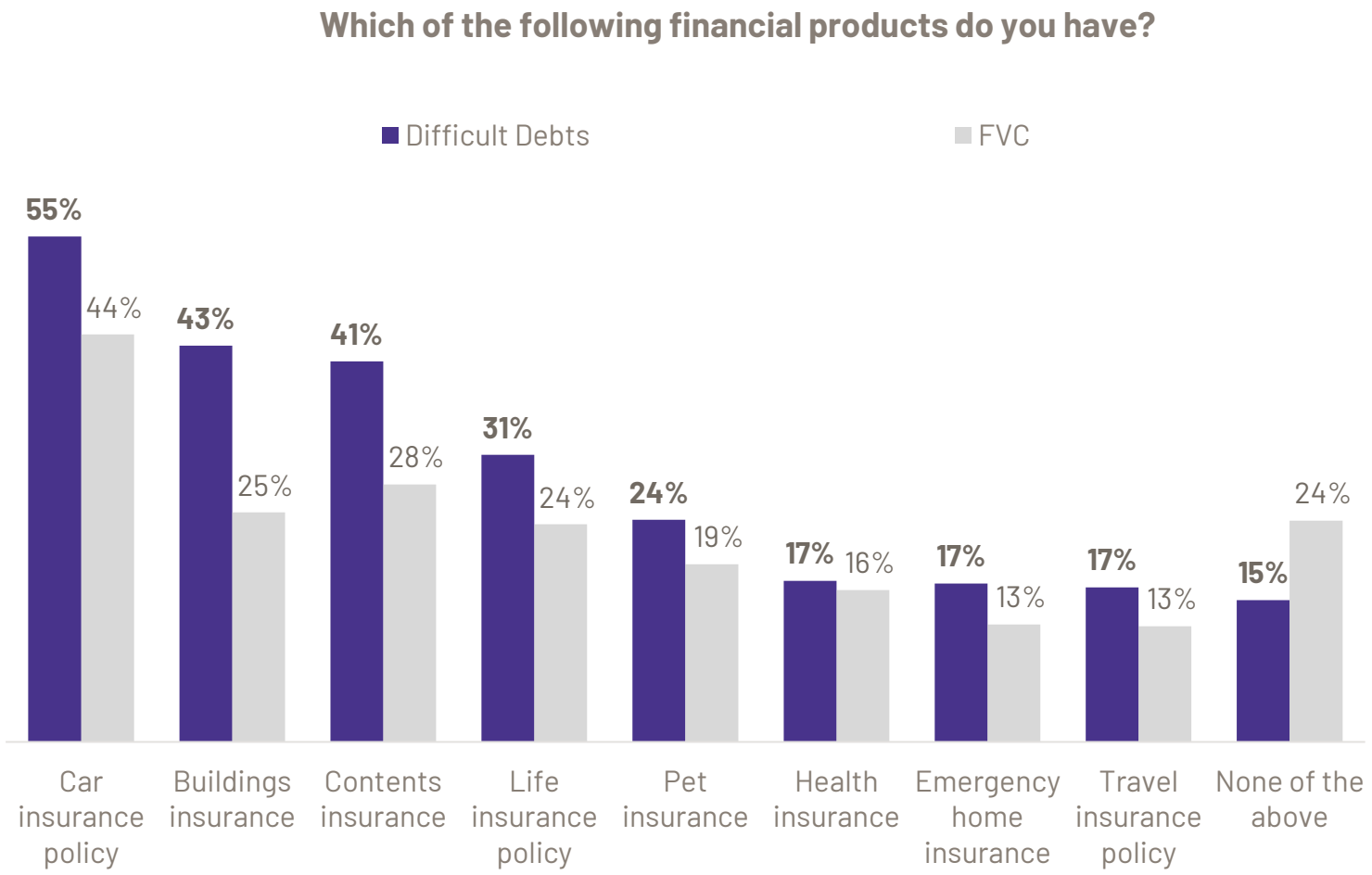
Those with a personal loan have seen a big jump, from 23% to 38%, in missing a full repayment on a personal loan.

However, in comparison to other segments, Difficult Debts remain among the least likely to be missing payments or making partial payments.

Difficult Debts

Insurance

Difficult Debts over-index in most types of insurance



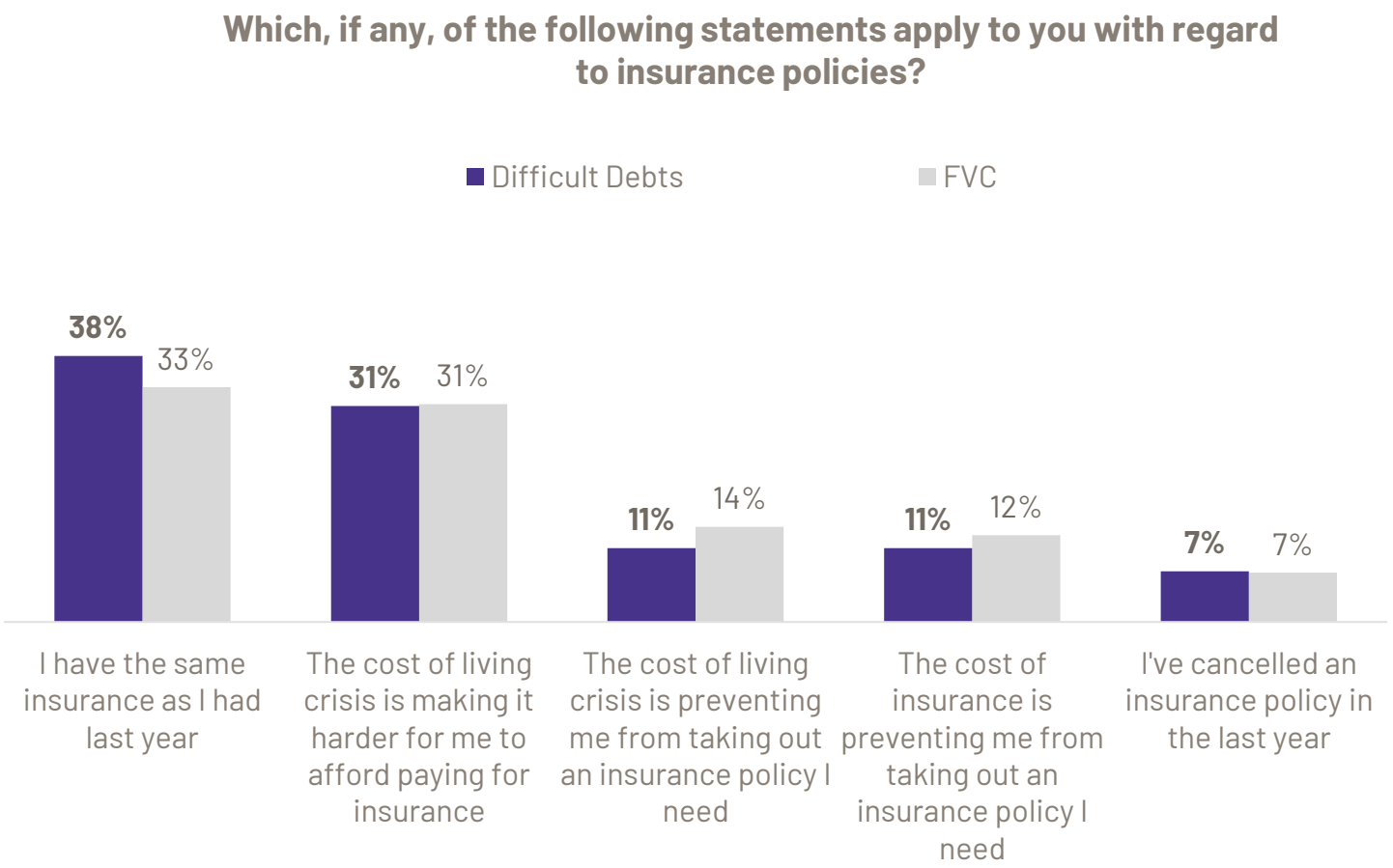
Difficult Debts, over-indexing in home ownership, are more likely than the average vulnerable consumer to have different forms of home insurance.

They are also more likely to have protection products, such as life insurance and income protection.

However, there are still big coverage gaps.

This segment also demonstrate differences in how they pay for insurance. For most forms of insurance, annual payments are more common than compared to the average FVC.

Almost a third feel that the cost of living is making insurance costs more difficult



31% of Difficult Debts say that the cost of living is making it difficult to afford insurance payments – in line with the FVC total. However, few are cancelling their policies.

8% are planning to cancel a health insurance policy in the next year despite NHS pressures.

Difficult Debts

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