Fair4All Finance Segmentation Model

Unsteady Starters: Deep Dive

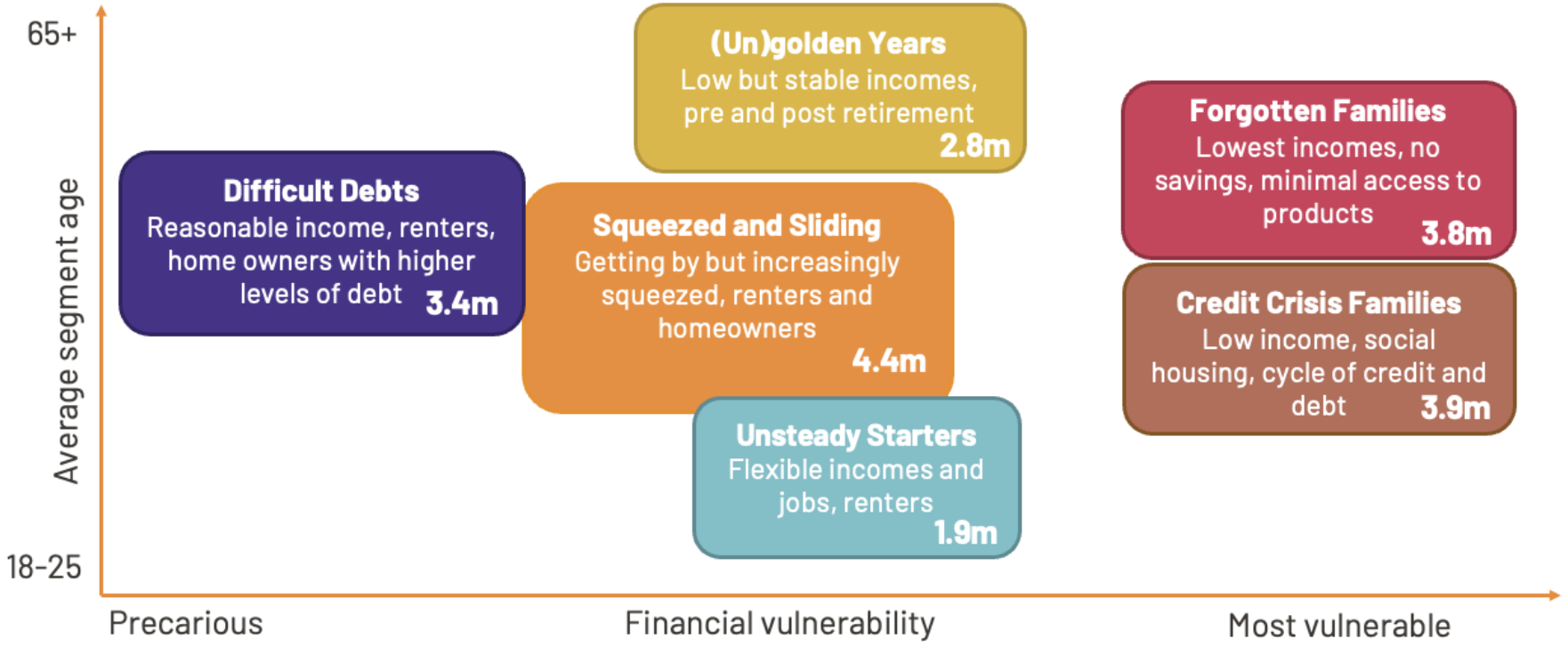
July 2024

Our purpose for segmentation

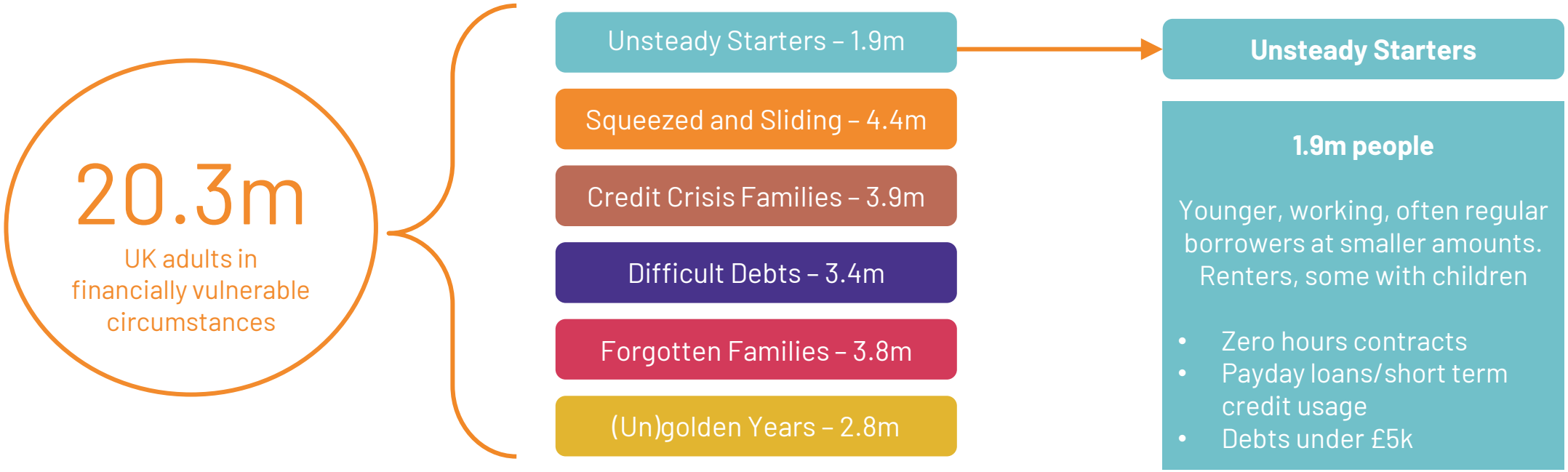
to support the design and development of more effective financial products and services that improve resilience for people in financially vulnerable circumstances

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

Unsteady Starters

Overview

Unsteady Starters use BNPL and short-term credit to help their variable incomes. Many are on zero-hours contracts, and struggling to build savings as rising costs put pressure on incomes

1.9m people

Unsteady Starters at a glance

9%
of the Financially Vulnerable Population

Age range
18-34

HH income
£25k+

Family
55% have children at home
24% are single parent families

Housing
Private renters

Type of work
1. Full time or part time
2. Zero hours contracts
3. Changes to job recently

Debt
Likely to have multiple, but smaller amounts of debts

Savings
19% = none
35% = £1-£1,000

Insurance
22% = none

Sam, 24, Kent

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

1.8m **9%**

Financially Vulnerable Population

- **Sam lives in rented accommodation near Kent**
- **Sam has previously struggled with his mental health, and this has had financial impacts**
- **Recently started a new business**
- **Relies on informal loans from his family to get by**

Meet Sam

Sam lives on his own in a flat that he rents. He's in the process of setting up a small business, looking for a stable income and the benefits of being self-employed, especially after a bad experience in a previous workplace. Currently he receives Universal Credit and PIP whilst setting up his business, giving him some income, but he often relies on his parents to help cover his rent.

In the past, Sam faced a challenging period with his mental health, which made it impossible for him to work. **During that time, he accumulated balances on credit cards, overdrafts, and used catalogue credit and Buy Now Pay Later to afford essentials**. Along with his parents' help with rent, he also relies on informal loans from his parents and his partner's parents.

Now that his mental health has improved, Sam is hopeful that his small business will provide a stable income, allowing him to start repaying the support his family has given him.

Paying off his main debts takes up nearly 20% of Sam's monthly expenses, leaving him to scramble for money to cover rent, bills, business setup costs, and any other spending. This financial strain is a constant worry for Sam, and he's worried that it might impact his mental health again. Unfortunately, it seems like his debt won't be decreasing anytime soon, as it might take a while for his new business to really take off.

Sam's new business is still in its early stages, so he finds himself living day to day. He'd love to be able to think more long-term about his savings and finances. **Being savvy with money is essential for Sam as he navigates applying for a mix of grants and loans to support his business, and his personal costs**. He diligently pays off a business loan, which is a personal liability, but juggling this with his other debts often leaves him with more month than money. Without the informal loans from his family, Sam would be struggling even more.

fair4all finance

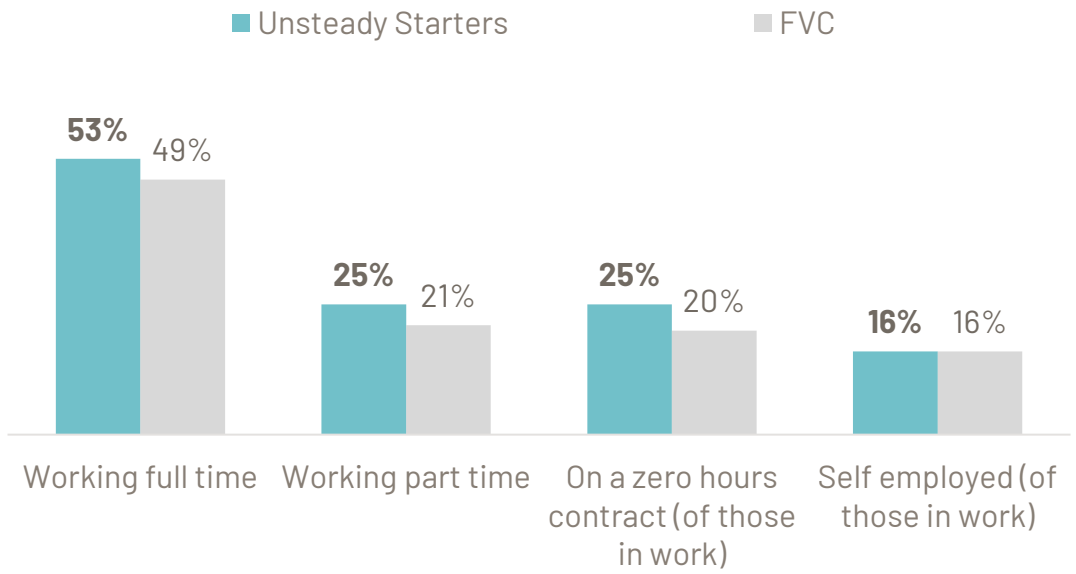
Summary: Unsteady Starters

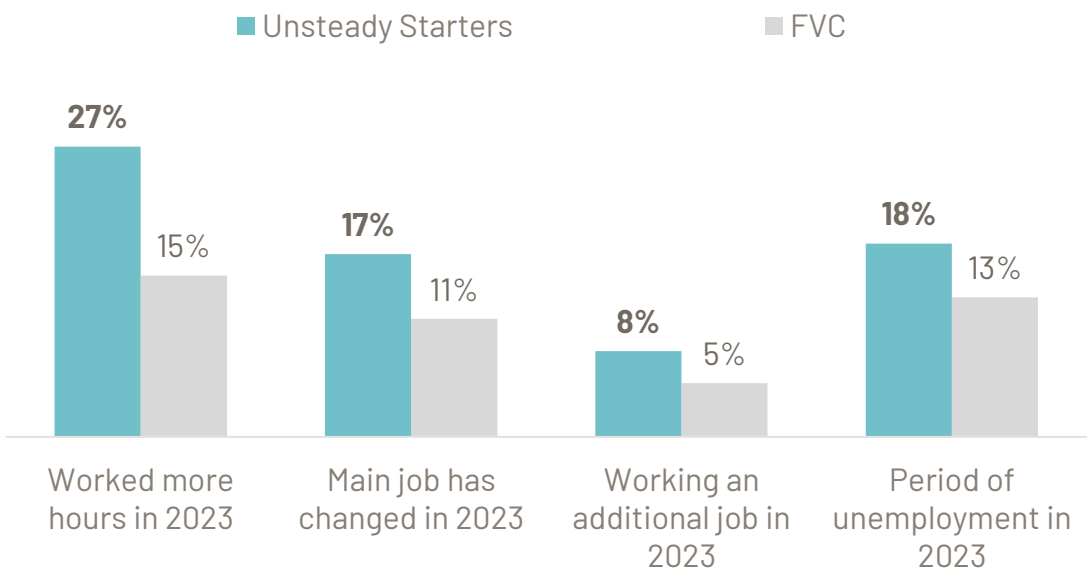
	Where were they in 2022?	Where are they now?	The future?
Lifestyle	Younger private renters with big ambitions, but struggling to save after costs are covered 75% already put plans on hold in 2023.	Many in this group are aiming to get on the housing ladder, and the increase in savings reflects this intention However, they know how challenging this will be, and savings are often used for other purposes	They're very optimistic about the future. Most (74%) think 2024 will be better for them than 2023, and 59% are optimistic about the long term
Credit and debt	Regularly borrow and use credit including short term credit to help smooth fluctuations in income	Debts have decreased but they are still not debt-free - 60% have less than 2k in debt	Increases in their monthly payments may have impacted them – with 51% missing a payment Borrowing for big-ticket items may mean large repayments in the future
Savings and insurance	Savings generally in lower amounts, especially driven by the cost-of-living crisis. Less likely to hold insurance.	19% have no savings at all, but for those that do have savings, 40% relied on them as a form of income over the past two years They under index on all insurance products, and 33% are worried about paying for insurance products because of the cost of living	With over half have missing payments on personal loans, and with lower saving amounts (over 50% have none of under £1,000), this may impact resilience

Unsteady Starters

Work and Lives

Unsteady Starters are in work – for many this is volatile and precarious



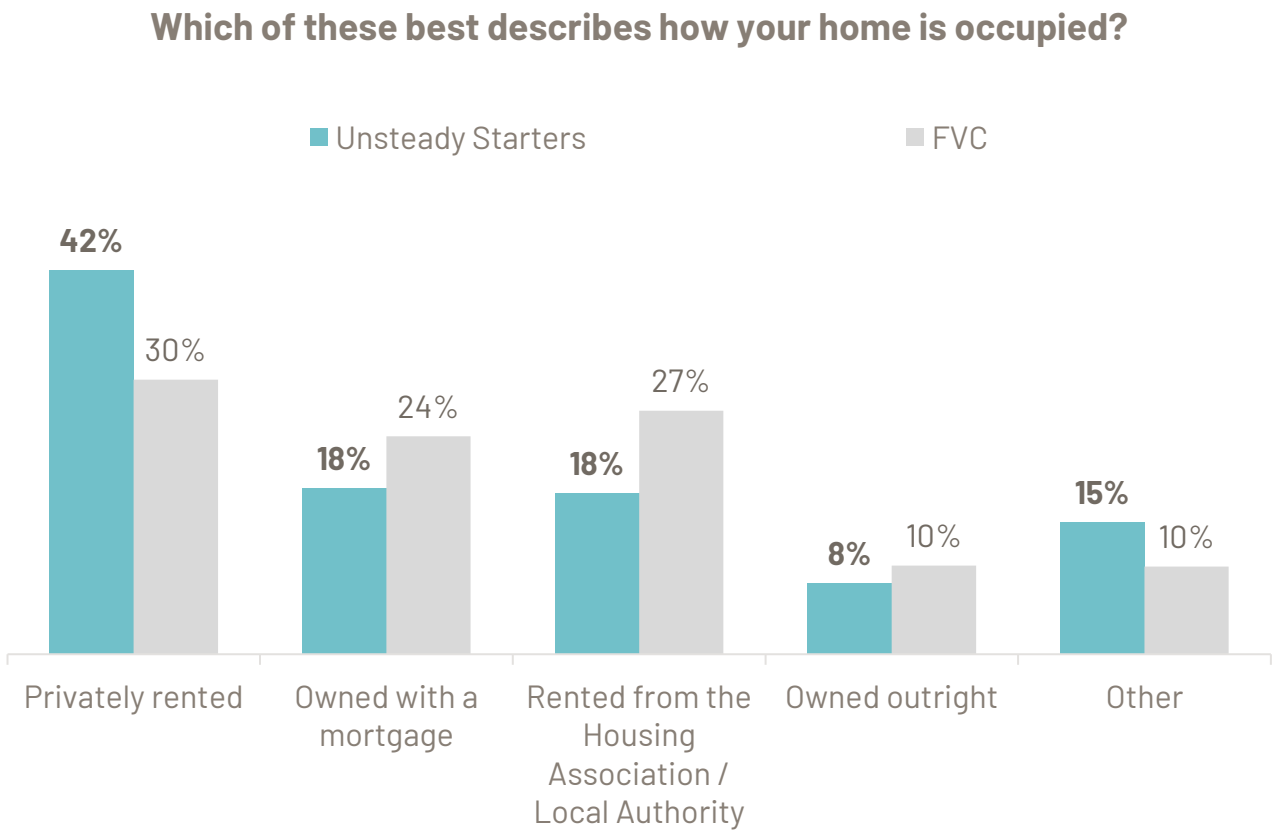


For Unsteady Starters, their work is a big driver of their financial circumstances. Most are employed, but their work is often unstable and unpredictable.

For some this is by choice after choosing to go self-employed, for many it isn't. A quarter of the segment have zero-hours contracts, leading to variable incomes and budgeting challenges.

There's also signs of flux and adaptation – more than a quarter took on more hours in 2023, and 17% changed their main job. And for many this work is precarious. 65% are worried about losing their job, compared to 52% on average average.

Private rental increases will impact their financial circumstances



This group are likely to be privately renting, with a notable minority paying a mortgage.

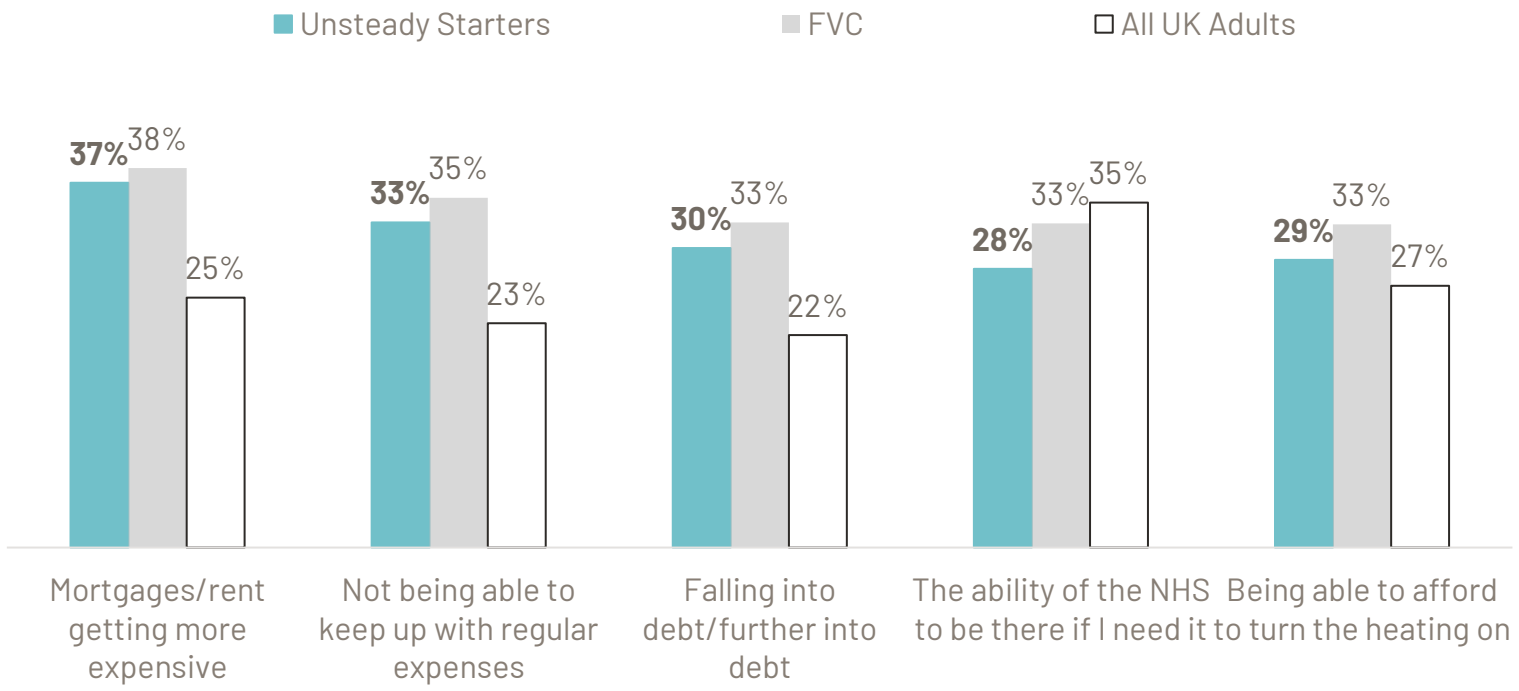
This makes them vulnerable to sharp rises in housing costs as rental supply decreases and mortgage rates go up, with three quarters of this segment being concerned about mortgages and rent becoming more expensive.

Those that are renting may also be working towards ownership – this makes saving a priority, but the changing market and wider pressure on incomes is making this difficult.

Over-indexing in private rent, this segment are more likely than the average FVC to prioritise taking out a mortgage in the next year (11% vs 8%).

Highest concerns about rising cost of mortgages and rent amongst Unsteady Starters

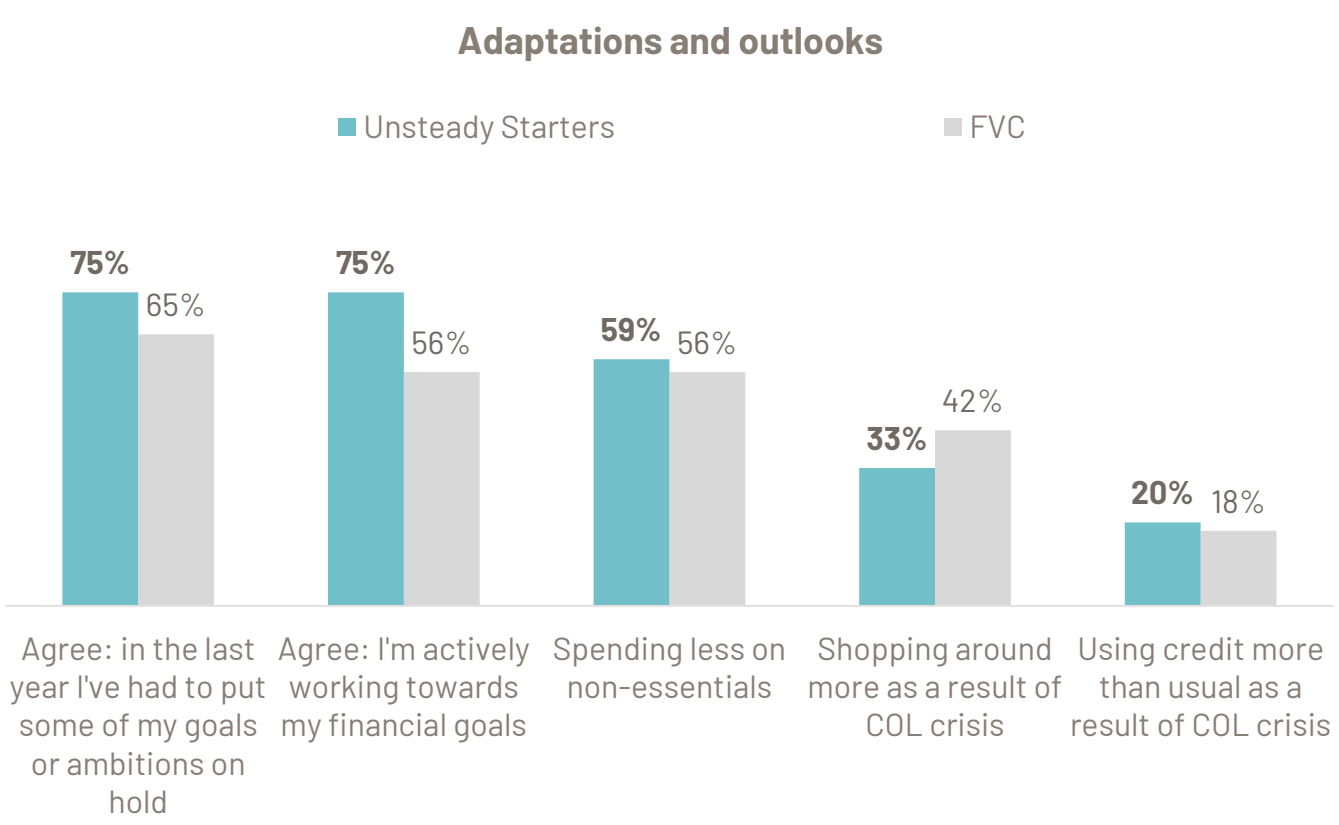
Below are a list of concerns relating to the cost-of-living crisis. Please state how worried you are about them when thinking about the next few months (all saying they are 'very' worried) – Top Five



37% of this segment are very worried about the prospect of rising mortgage and rental costs – in line with the FVC average and far higher than the average UK consumer.

They are slightly less worried than other segments across all categories.

Unsteady Starters remain ambitious even when they've had setbacks



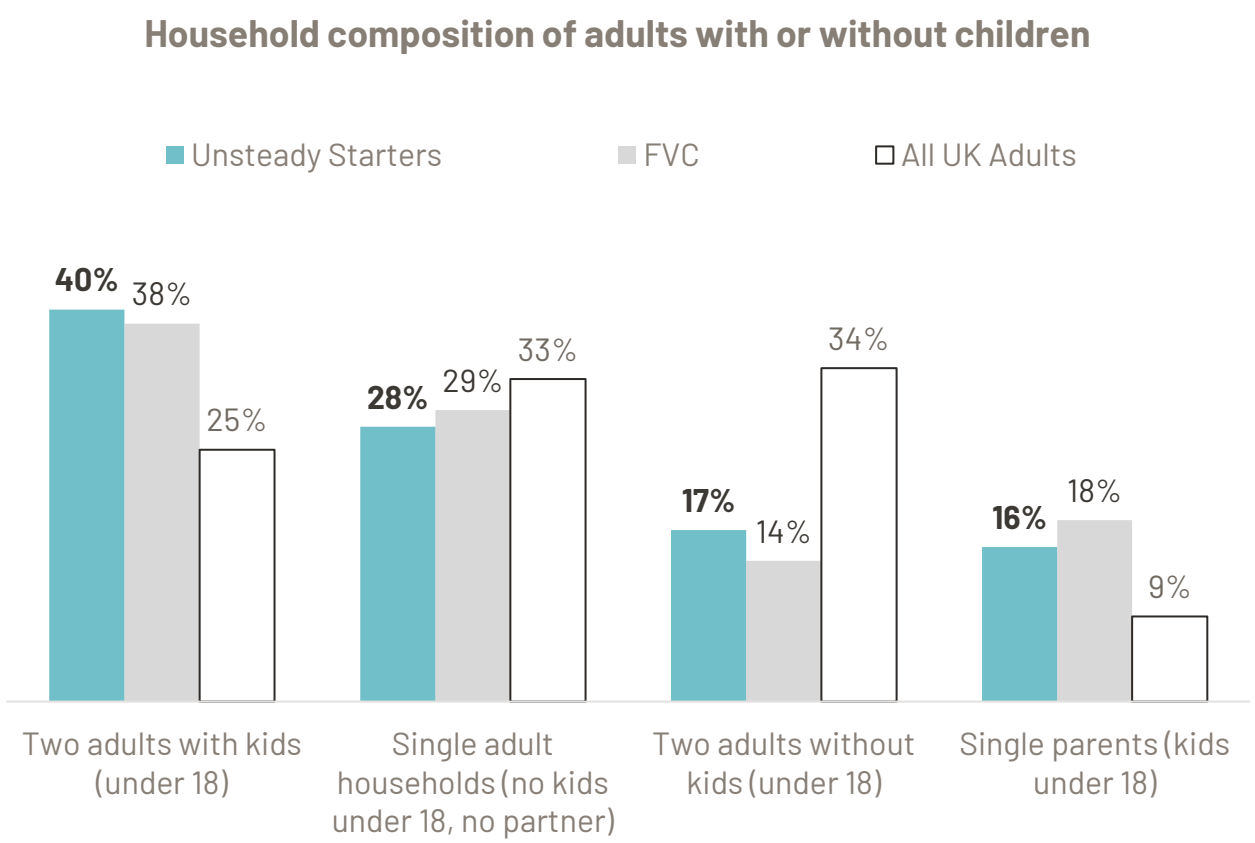
Compared to some other segments, Unsteady Starters aren't drastically changing their behaviour.

The proportion who say they're shopping around, or using credit more is high (33% and 20% respectively) but in line with (or lower) than the average.

Instead, the big impact is on their broader goals and ambitions. Equal amounts have put their goals on hold in the past year and are actively working towards them now.

Additionally, Unsteady Starters are slightly more likely to be cutting back on non-essentials.

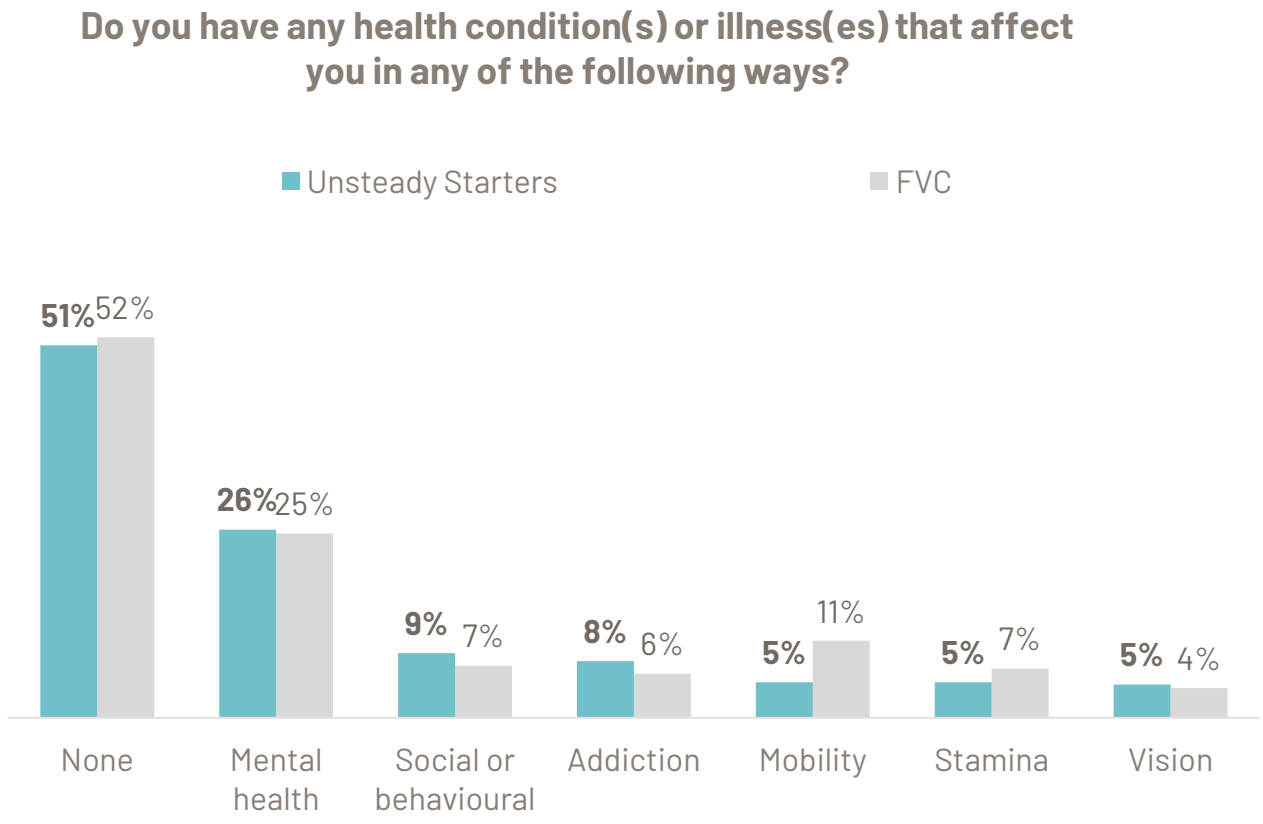
Unsteady Starters are younger than other segments, and over half have children



There is no dominant family type for this segment, and the distribution is very similar to the wider FVC population.

Although a high number (56%) have children in the household, there are slightly fewer single parent households. This may mean a dual income, or more support for caring responsibilities, which could result in higher household incomes and support.

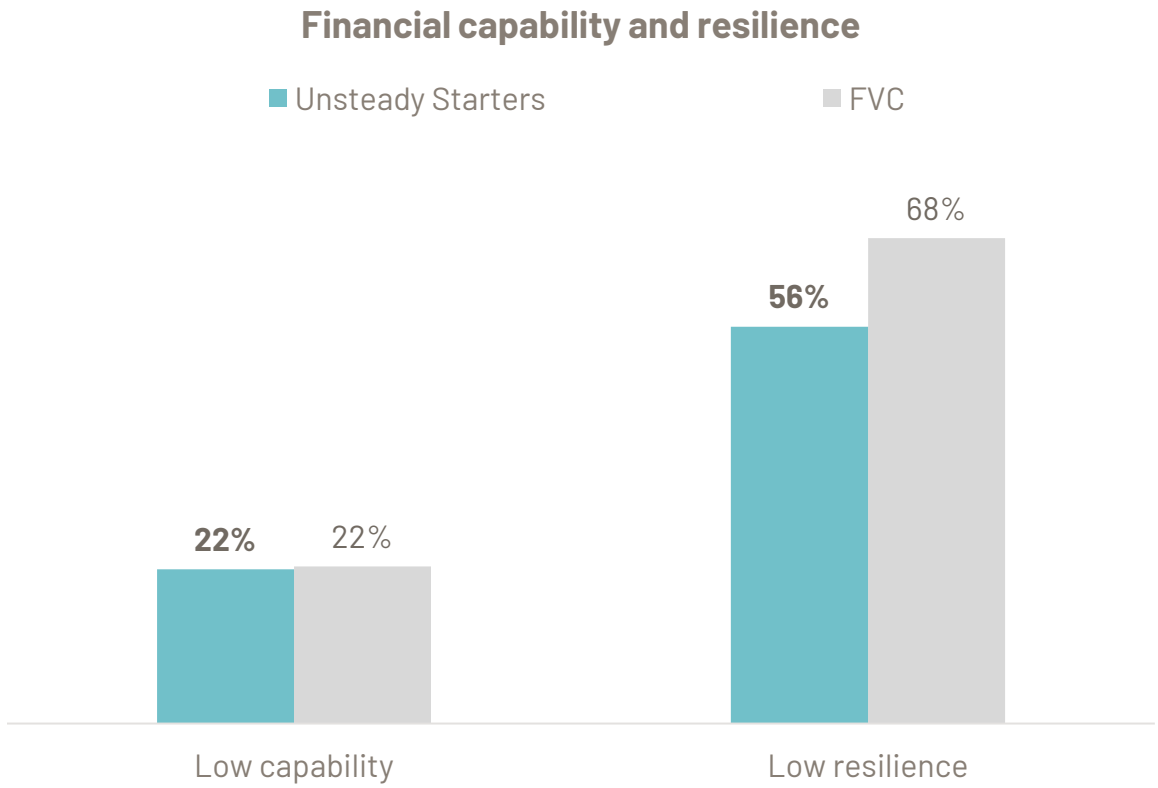
Unsteady Starters are very slightly less likely to have a health condition that the average



Health conditions and illnesses are slightly less common in Unsteady Starters than the total financially vulnerable population, possibly reflecting their younger age.

Where health conditions do exist, they are more likely to be mental than physical. 26% have a mental health condition and 9% a social or behavioural one.

Unsteady Starters are generally more resilient than the wider FVC population



Unsteady Starters financial capability (confidence managing money, knowledge of financial matters) is low, and in line with other segments.

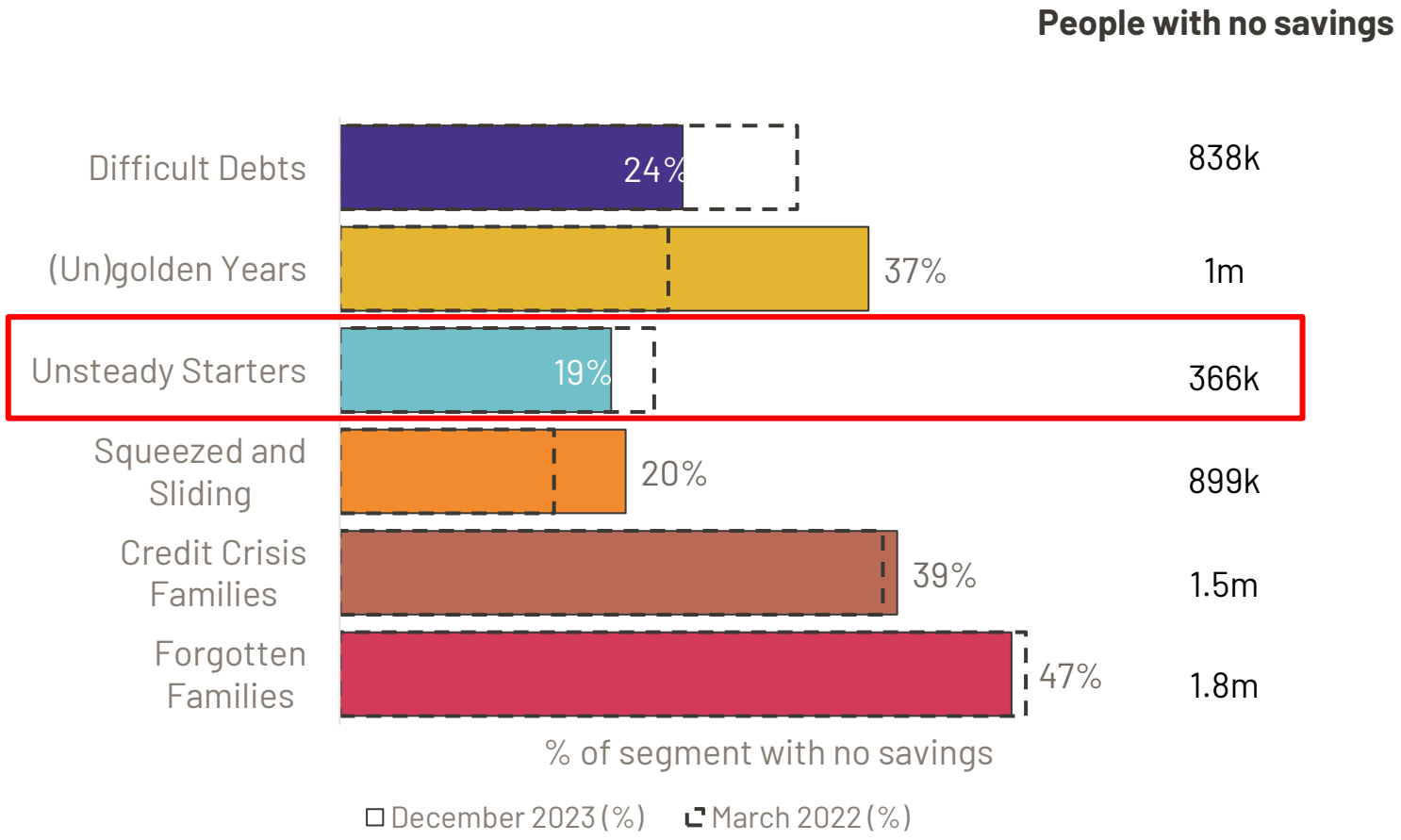
However, they are more financially resilient than average due to higher-than-average savings levels.

Unsteady Starters

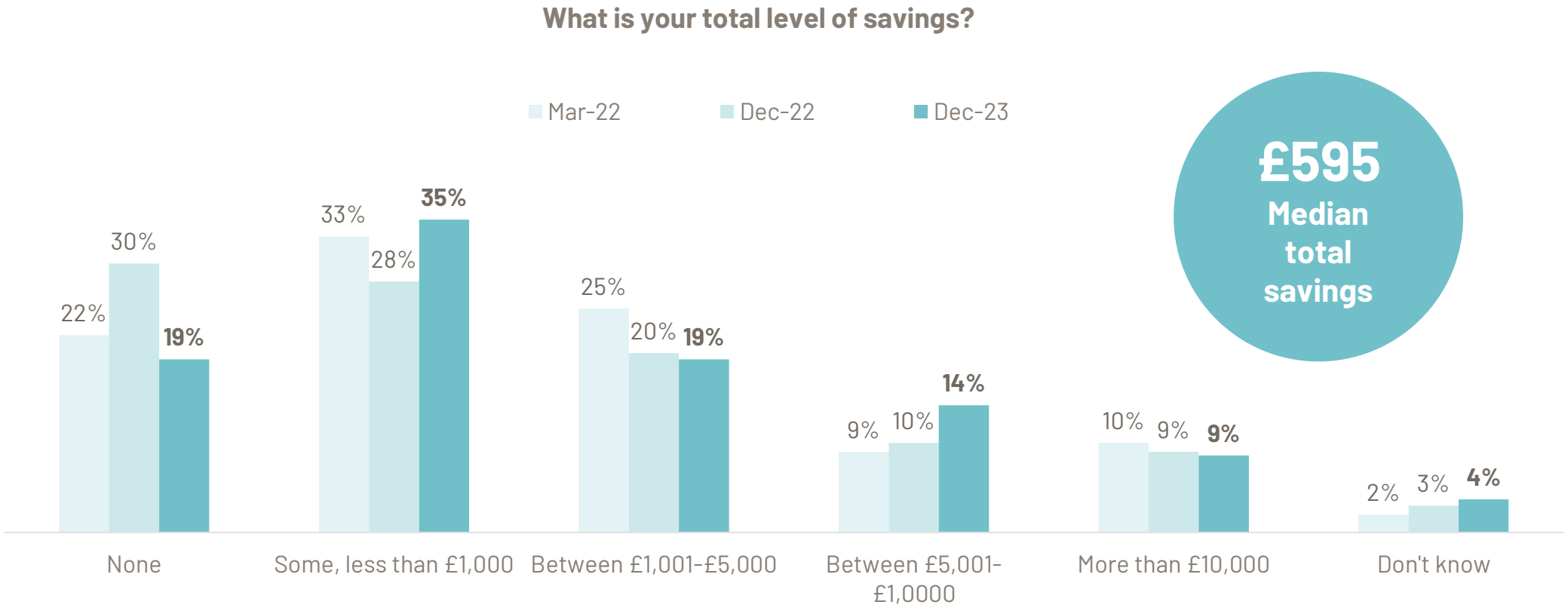
Savings

1 in 5 Unsteady Starters have no savings

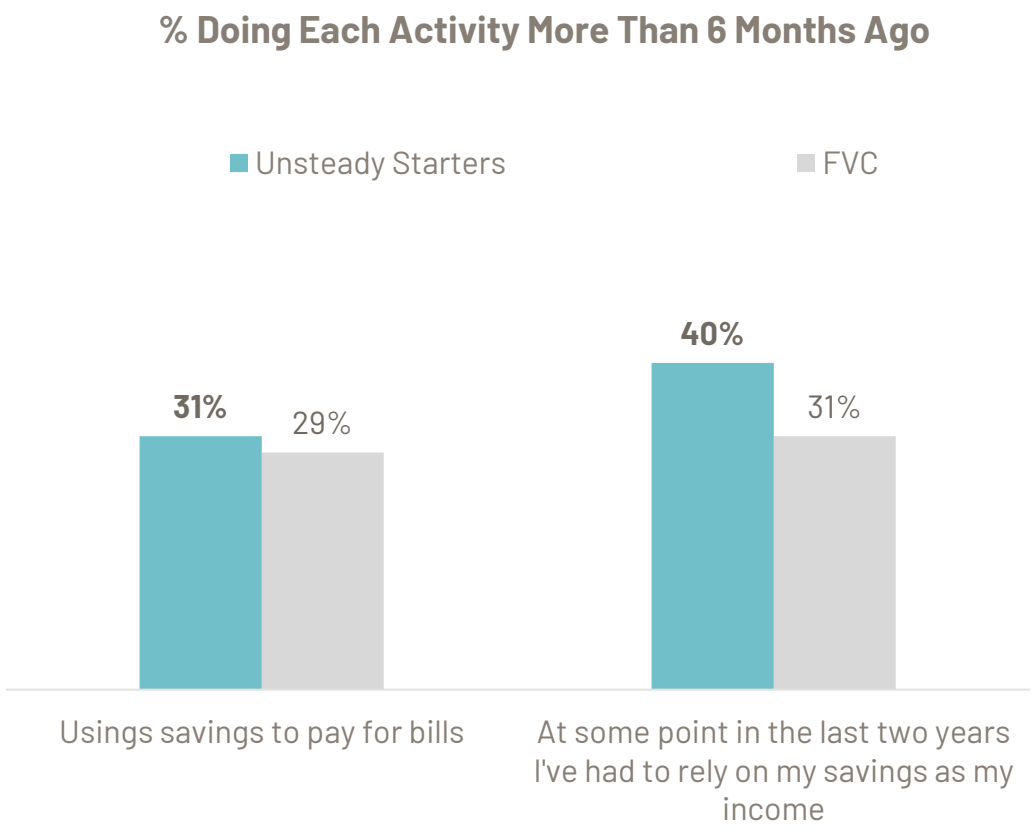
19% of this segment (about 366k people) have no savings, which is a 3% decline from March 2022. This is notably lower compared to other segments and is one of only three segments with a reduction in the proportion without savings.



Savings fell during the peak of the cost-of-living crisis, but has since returned to pre-crisis levels



Unsteady Starters have improved savings, but needed to use them sometimes



Unsteady Starters are more likely than the average FVC consumer to be saving at least monthly (62% vs 49%). This has increased since 2022.

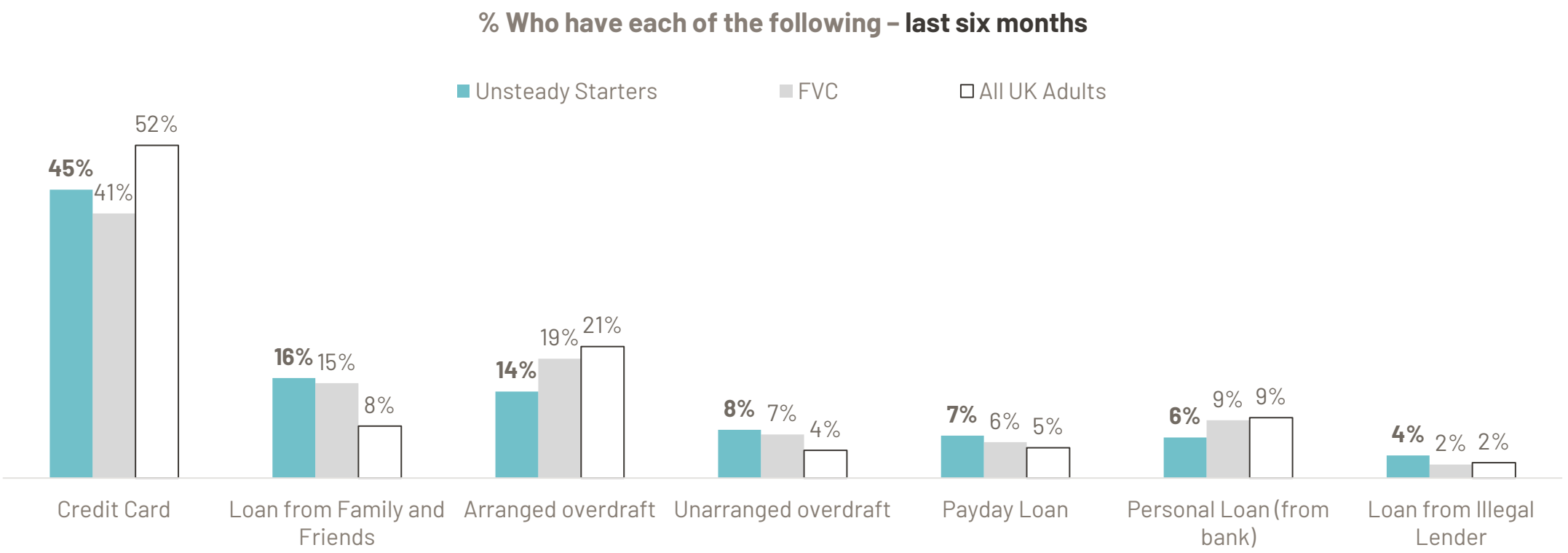
Recently, more Unsteady Starters have been able to save. 29% say they are saving more than they used to in the last six month, compared to 21% of the total FVC sample. They will have benefited from higher interest rates and savings, although more support could be offered here.

They have however, dipped into their savings and are still slightly more likely to be using savings to pay bills, but have been able to top them back up if they need.

Unsteady Starters

Credit

Credit use may indicate credit access problems



Unsteady Starters are often using short term credit to support with volatile incomes.

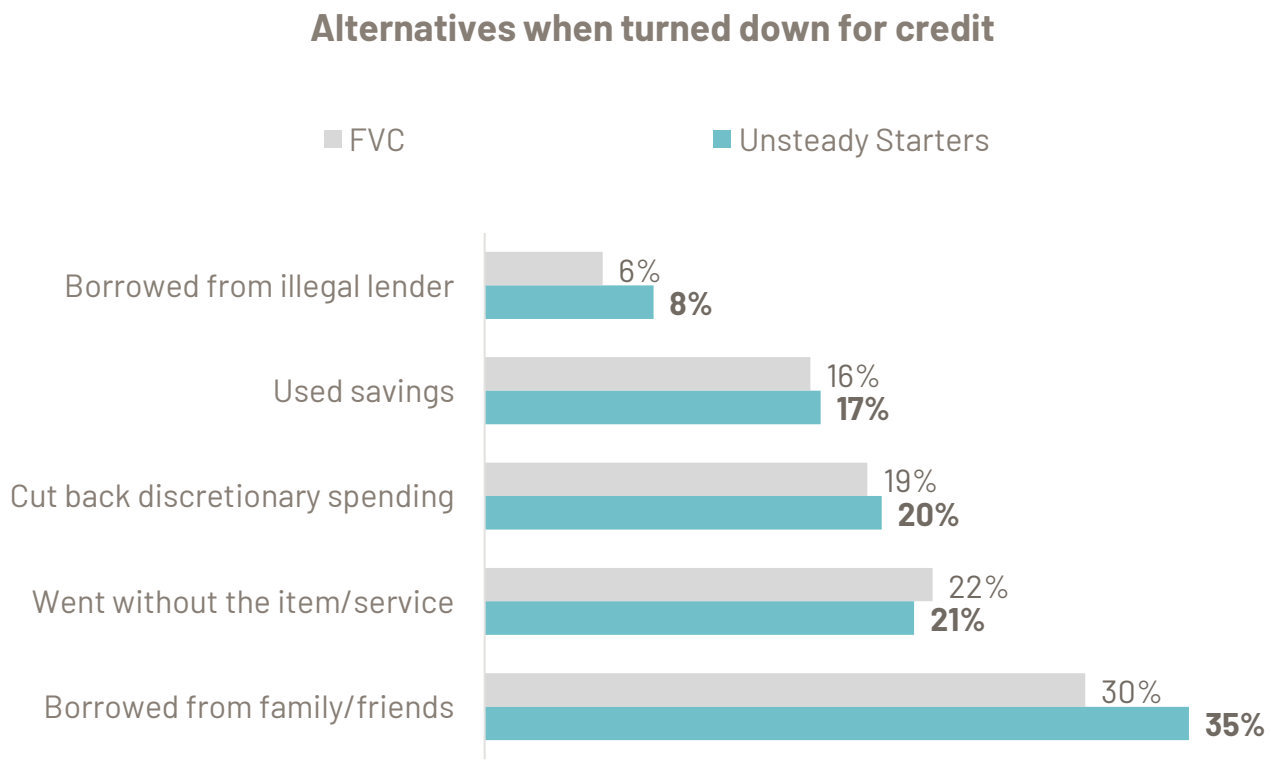
Worryingly, they are twice as likely to borrow from an illegal lender than the average segment. They are also reliant on loans from family and friends to get by.

Informal borrowing a common alternative to being turned down for credit

23%
Have been turned down for credit

Unsteady Starters over-index in borrowing from family and friends when turned down for credit.

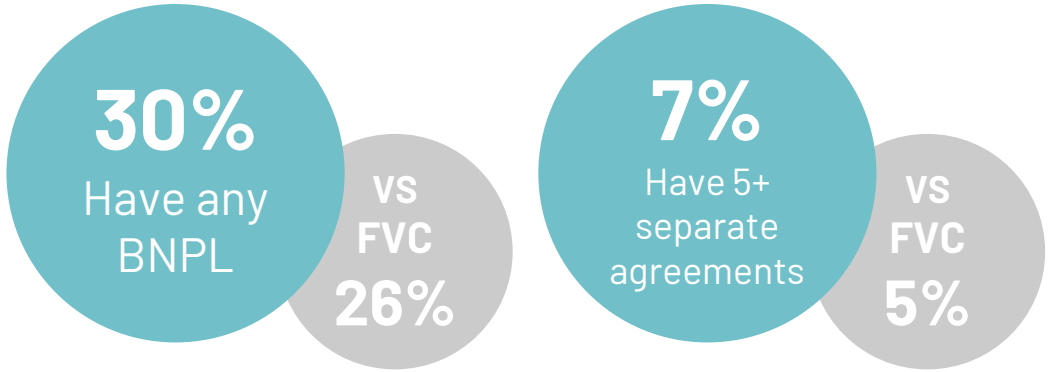
More concerning is their higher tendency to borrow from illegal lenders when turned down for a loan application.



Unsteady Starters are more likely to use BNPL than the average FVC

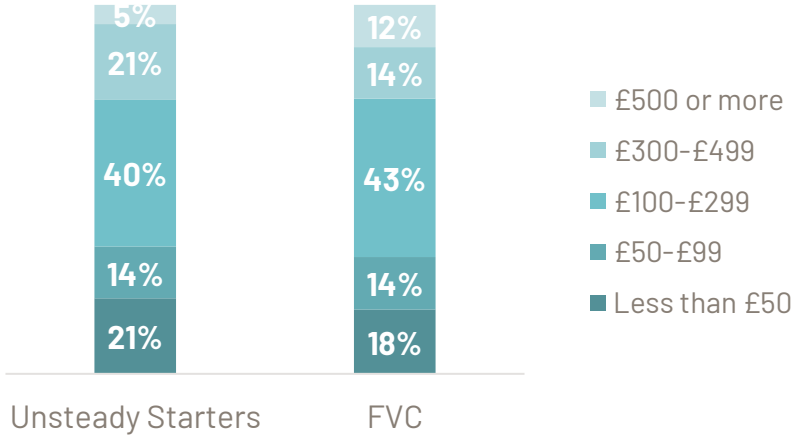
Unsteady Starters use Buy Now Pay Later products more than average and are more likely to have multiple agreements. When they do, they borrow slightly smaller amounts. About 35% of those with BNPL agreements owe less than £100.

Levels of BNPL debt show little difference depending on personal income levels. Those earning 20k to 50k are slightly more likely to owe between £150 and £600 in BNPL payments than compared to those earning less than 20k (46% vs 41%).

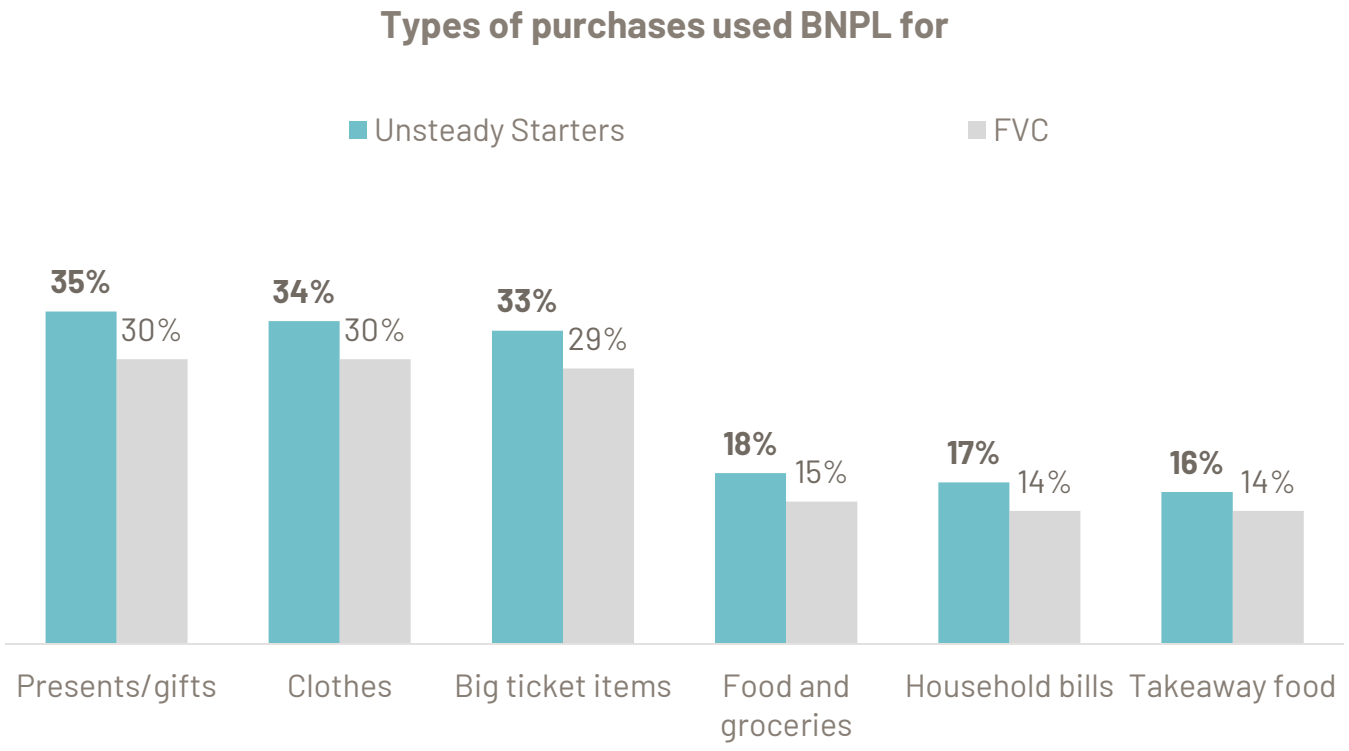


Amount owed on BNPL products (£)

[Only people who have used BNPL]



They use BNPL for every spending category – including essential spending like bills



BNPL is not only used for discretionary spending, but household bills and food too.

This could be causing them issues – **39% say they've incurred interest or late payment fees** – compared to 36% of the average.

There is a higher overlap between credit card usage and Buy Now, Pay Later usage among Unsteady Starters compared to the total FVC sample. Specifically, 37% of Unsteady Starters who use credit cards also use BNPL, compared to 31% in the total FVC sample.

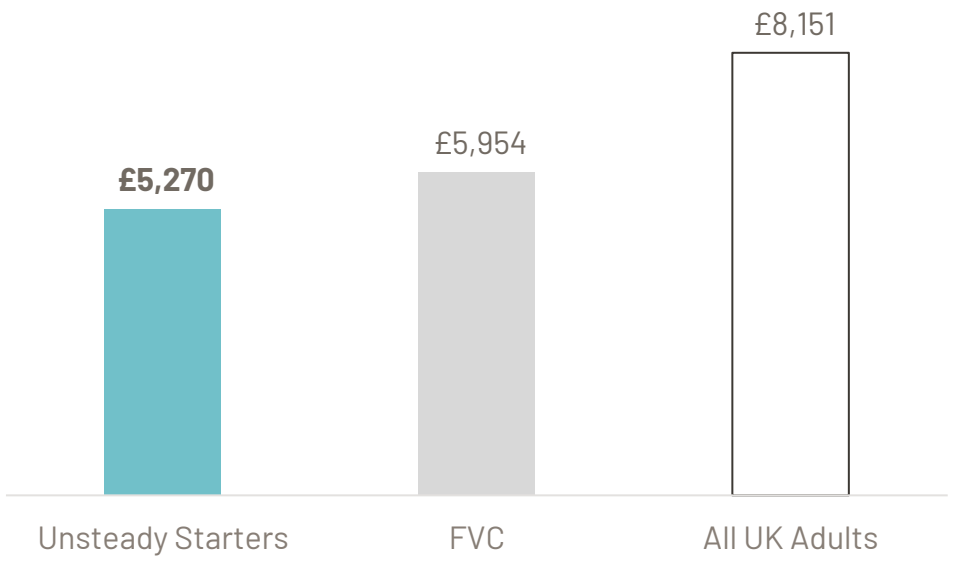
Unsteady Starters

Debt

Over two-thirds have some form of debt, at typically lower levels than the average

£1,920
Median total debt

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

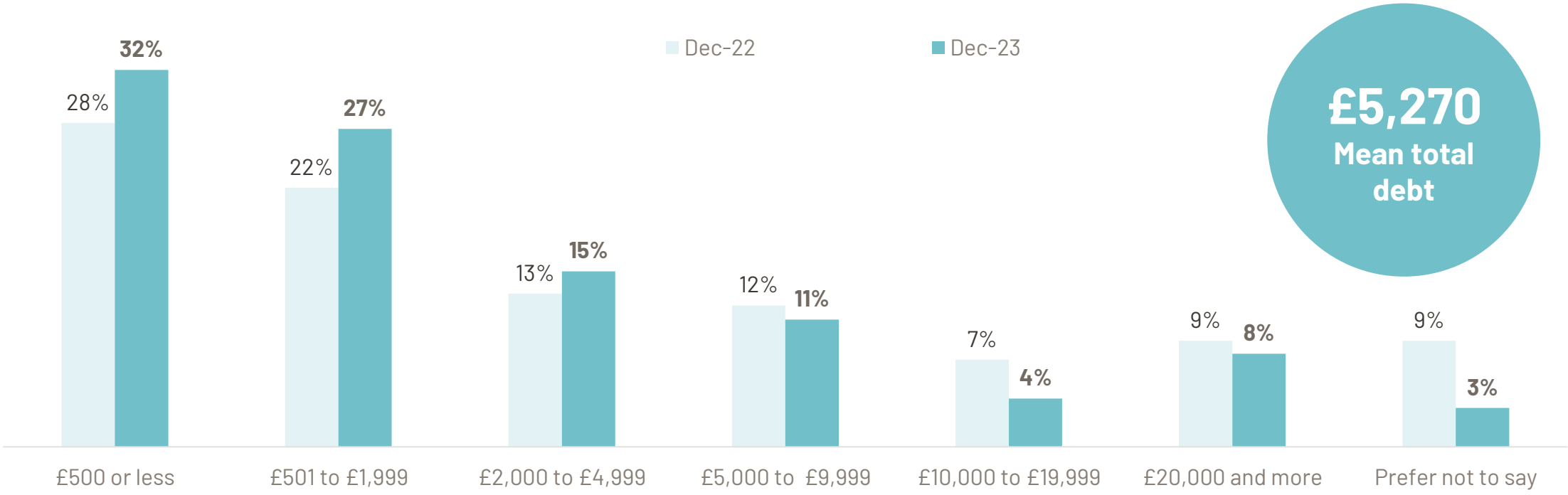


This group is just as likely as the total FVC population to have some form of debt (69%), but their average debt levels are lower. This aligns with their sources of credit, which tend to have lower values.

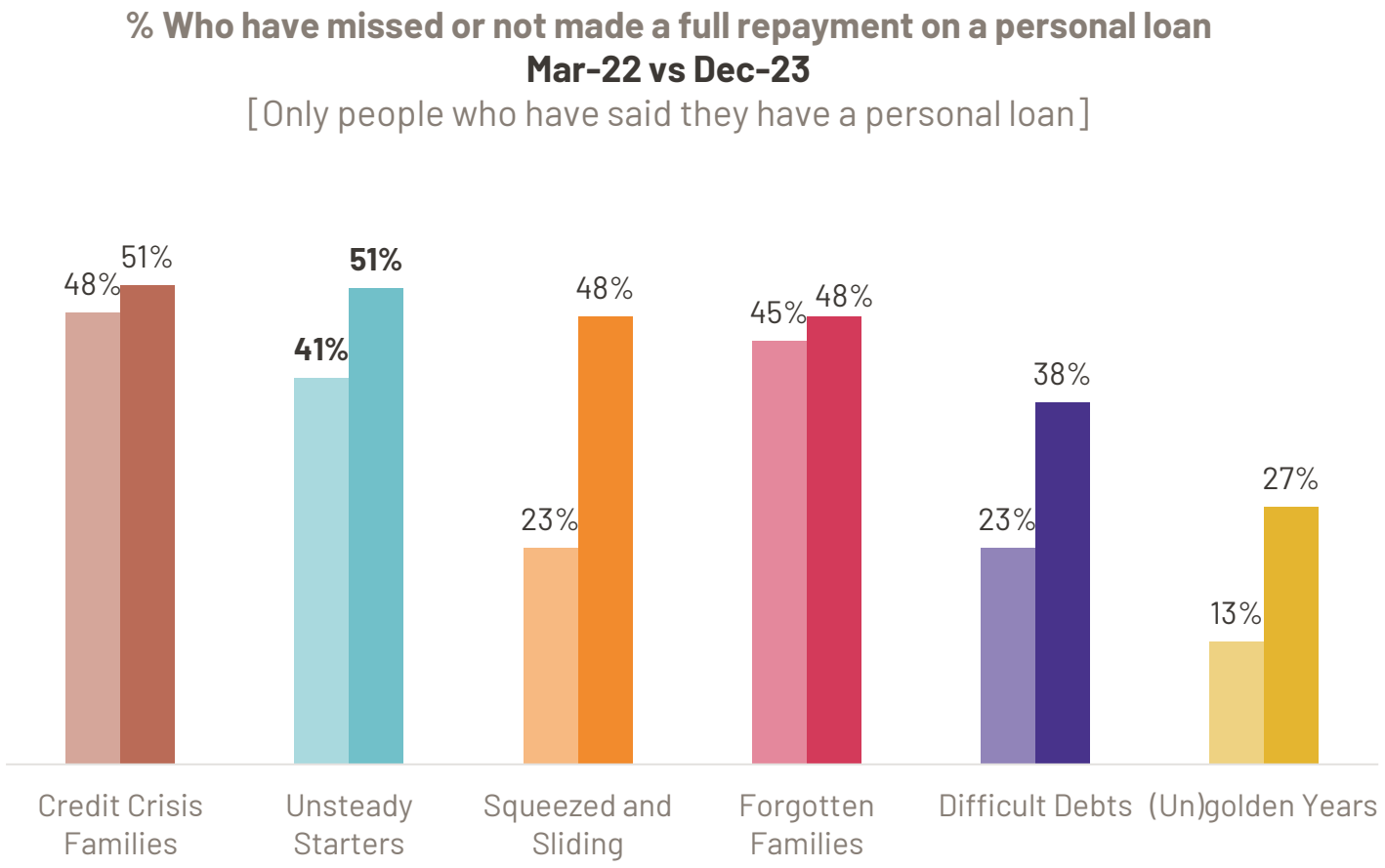
Average debt has also fallen by over £1k since December 2022 – potentially helping them to grow their savings pot at the same time.

Nearly 60% owe less than £2k, though this is likely under-reported as respondents often don't factor in fees and interest

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



Unsteady Starters are one of the most likely to have missed payments on a personal loan



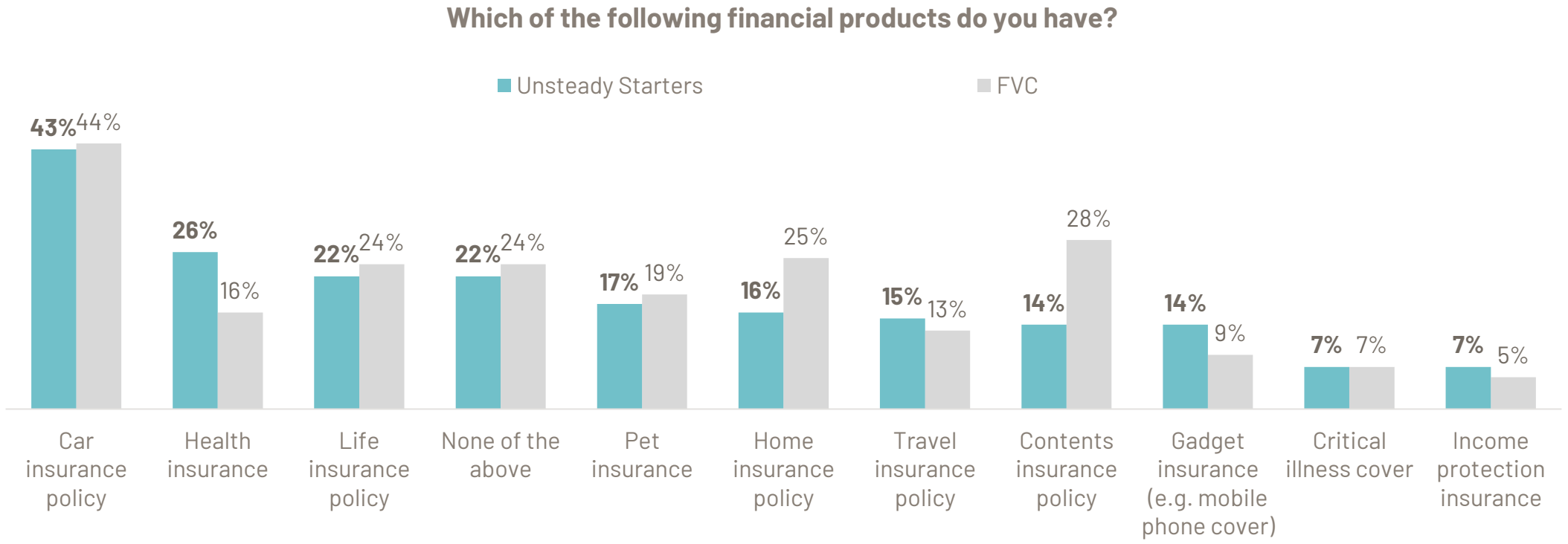
The proportion of Unsteady Starters with personal loans has increased since 2022, with many struggling to keep up with payments. Over half of this segment are missing repayments.

Many in this segment are hesitant to apply for future credit. Unsteady Starters are more likely to be concerned about their credit rating (31% vs 28%) or the risk of damaging future applications (21% vs 16%). This makes sense given they are focused on their future financial goals.

Unsteady Starters

Insurance

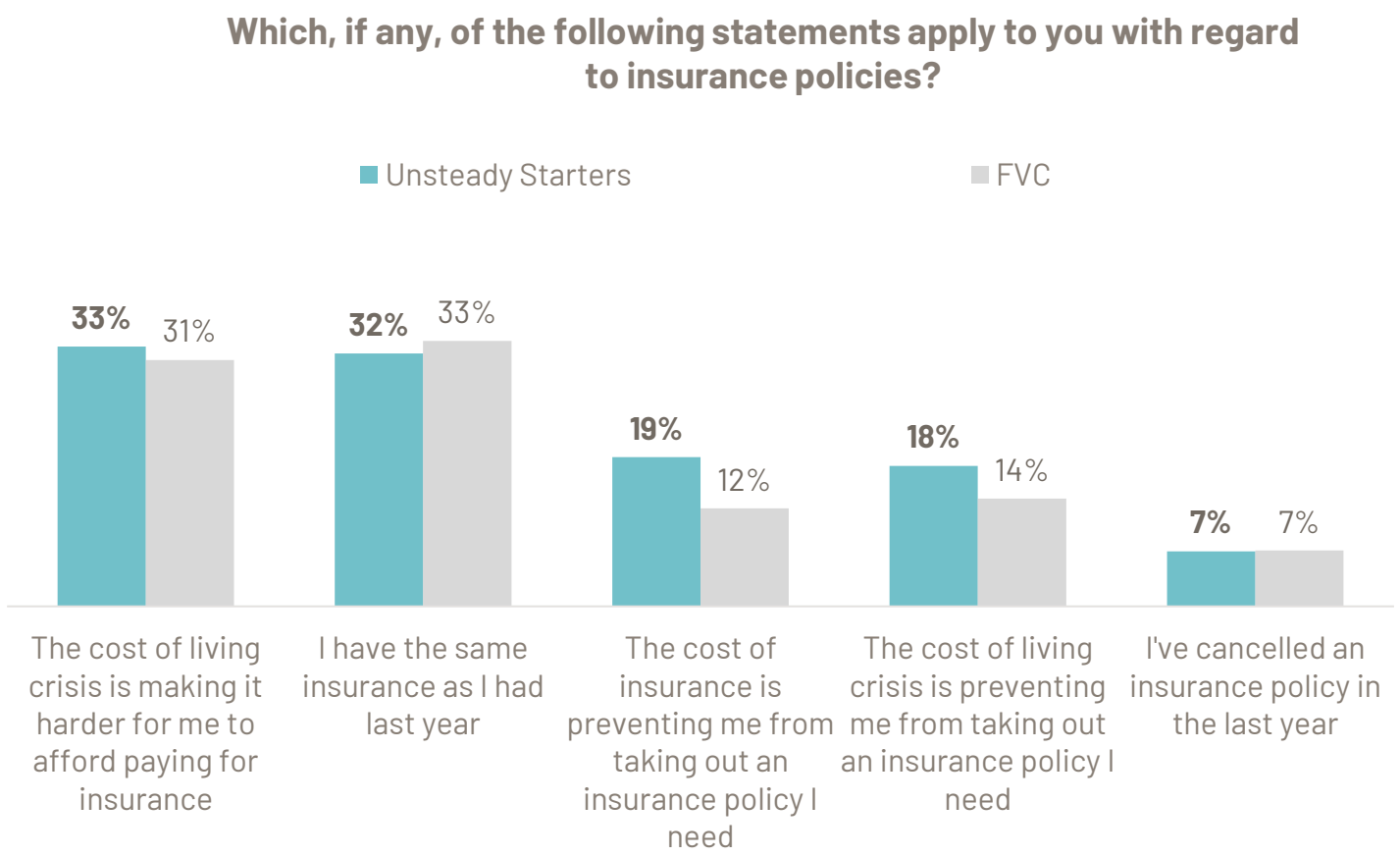
Unsteady Starters worryingly low on contents insurance



With the majority of Unsteady Starters renting, it is not surprising to see home insurance so low. However, the lack of contents insurance (14%) leaves them vulnerable to unforeseen events.

They over-index, however, on travel, gadget and health insurance. The latter may be a result of their working lifestyles (either policies accessed through their employer) or to provide a safety net for those self-employed or on zero hours contracts.

Cost of living limiting spending on insurance amongst this segment



19% of Unsteady Starters say that **the cost of insurance itself** is limiting their ability to take out insurance policies that they need - 7% higher than the FVC average.

Additionally, 18% of this segment say that the rising cost of living is preventing them from taking out insurance policies that they need - again higher than the average FVC consumer.

Unsteady Starters

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